Statement of Investment Principles – Northstone (NI) Limited Pension Scheme
(September 2024)

Introduction

1 This document is the Statement of Investment Principles ('SIP') made by the Trustees of the Northstone (NI) Limited Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees consulted the Scheme's Investment Consultant (WTW) and consulted the sponsoring employer. The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

Scheme objectives

3 The main investment objective of the Scheme is to be fully funded on the technical provisions basis by 30th September 2031. In seeking to achieve this objective, the Trustees are mindful of the need to:

– Take account of current market conditions when reviewing investment strategy.

– Limit the risk of the assets failing to meet the liabilities over the long term, noting that asset growth is expected to be made up of investment returns plus future contributions.

4 The Trustees will review these objectives regularly and amend as appropriate.

Investment strategy

5 The Trustees have received advice to determine an appropriate investment strategy for the Scheme. The Trustees have a desire to diversify its risk exposures and to manage its investments efficiently.

6 The investment strategy has a number of key elements which are as follows:

– A range of liability-matching assets, including bond and liability driven investment ('LDI') pooled funds that provide a reasonable match to changes in liability values.

– A range of return-seeking assets including equities, property, and infrastructure.

– Predominantly passively managed portfolios (although some mandates are actively managed).

7 These elements of the Scheme's investment strategy and the balance between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme's investment objectives. As at the date of this SIP, the strategic asset allocation is 40% growth assets / 60% liability-matching assets. As discussed with the sponsoring employer, the current position is subject to revision with the possibility of re-risking to achieve a benchmark of 50% growth assets / 50% liability-matching assets, should this be required to support the Scheme's funding and subject to agreement with the sponsoring employer.

8 The Trustees will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

9 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.

10 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. Sufficient cash will also be held to meet benefit and other payment obligations.

Arrangements with investment/asset managers

11 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment strategy, but will delegate the responsibility for selection of specific investments to appointed investment managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

12 The Scheme may use different managers and mandates to implement its investment policies. The Trustees will look to ensure that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also review the investment objectives and guidelines of any particular pooled vehicle for consistency with its policies, where relevant to the mandate in question.

13 The Trustees are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Trustees will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk.

14 Alignment between a manager's management of the Scheme's assets and the Trustees' policies and objectives are a fundamental part of the appointment process of a new manager. Before investing, the Trustees will seek to understand the manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement.

15 To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles and are required to explicitly confirm that the Scheme's assets are managed in line with the Trustees' policies.

16 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

17 For most of the Scheme's investments, the Trustees expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

18 The Trustees appoint its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

19 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

20 The Trustees review the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Environmental, social and governance ('ESG')

21 The Trustees recognise that financial factors, including (but not limited to) those arising from environmental, social and governance considerations (including climate change), can have a long-term impact on the risk / return of the Scheme's investments. Entities (for example companies / governments) that the Scheme invests in who fail to appropriately manage these risks could lead to a loss of capital for the Scheme.

22 However, given the size of the Scheme assets, the time and resources available to the Trustees to spend on investment matters and that the assets are predominantly passively managed, the Trustees have not imposed any particular policy or restrictions in relation to ESG factors on its investments.

23 The Trustees' policy is to delegate responsibility for exercising of ownership rights (including voting rights) to the Investment Managers. The extent to which ESG considerations are taken into account in this engagement policy is left to the discretion of the Investment Manager. When considering its policy in relation to stewardship including engagement and voting, the Trustees expects investment managers to address broad ESG considerations taking into account the nature of the assets held under the relevant investment mandate.

24 The Trustees believe ensuring good stewardship of assets by managers is an important part of the Trustees' fiduciary duty towards members, and ultimately the responsibility of the Trustees themselves, and therefore, intends to monitor the stewardship practices of its managers, with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, in order to understand how they exercise these duties on their behalf and receive reports on manager practices (covering engagement and voting).

25 The Investment Managers shall maintain a policy on the exercise of voting rights. They shall maintain a record of how voting rights have been exercised and shall affirm to the Trustees that they have complied with their voting rights policy. Where the managers have voted in a manner different from their voting rights policies, the managers shall provide the Trustees with an explanation regarding the rationale for departing from the policies.

Other matters

26 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

27 The Trustees have made a number of AVC providers available to members. In selecting appropriate investments, the Trustees are aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

28 The Trustees recognise a number of risks involved in the investment of the Scheme's assets:

- Deficit risk:
  - Is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
  - Is managed through assessing the progress of the actual growth of the liabilities relative to the growth of the assets.
- Manager risk:
  - Is measured by the expected deviation of the return relative to the benchmark set.
  - Is managed by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
- Liquidity risk:
  - Is the risk that either there will be insufficient short-term cash holdings to pay the Scheme's outgoings or that cash holdings are set at such a level they affect the overall investment performance of the Scheme. The Trustees, together with the Scheme's administrators, measure and manage the level of cash held in order to limit the impact of cashflow requirements on the investment policy.
  - Is also the risk that the level of collateral within the LDI portfolio is unable to support the Scheme's derivative-based exposures. The Trustees monitor the level of available collateral on a regular basis and ensure the Scheme's LDI manager has a prudent level of assets to support any derivative exposures.
- Currency risk:
  - Is measured by the level of exposure to non-Sterling denominated assets.
  - Is managed by investing predominantly in Sterling denominated instruments / through the use of currency hedging.
- Interest rate and inflation risk:
  - Is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
  - Is managed by investing some of the Scheme's assets in liability-matching assets that are designed to match movements in the value of the liabilities due to interest rate and inflation changes.
- Political risk:
  - Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - Is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.
- Sponsor risk:
  - Is measured by informally assessing the sponsoring employer covenant from time to time.
  - Is managed through an agreed contribution and funding schedule.
- Environmental, Social and Governance ("ESG") (including climate change) risk:
  - Is the potential for non-financial factors to adversely impact the value of the assets or overall funding position.

- Is managed as part of the regular monitoring of the portfolio to ensure ESG risks are being appropriately considered in ongoing investment decision

Appendix – Asset Allocation

The Trustees' strategic allocation as at the date of this SIP is shown in the table below.

Asset class	Investment managers	Strategic allocation %
Growth		**40%**
Global equities	Legal & General Investment Management	30%
Property	Colombia Threadneedle	5%
Infrastructure	Abrdn	5%
Matching		**60%**
LDI	Legal & General Investment Management	20.8%
Fixed-interest gilts	Legal & General Investment Management	30.3%
Index-linked gilts	Legal & General Investment Management	8.9%
Total		**100%**

** Allocation pending review as agreed with sponsoring employer (see paragraph 7).*