CBI Retirement Benefits Plan

Statement of Investment Principles – September 2024

1. **Introduction**

The Trustee of the CBI Retirement Benefits Plan ("the Plan") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments.

The Plan's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document ("IPID") which can be found in **Appendix A.**

2. **Process for Choosing Investments**

In preparing this Statement the Trustee has consulted the CBI, to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan's investment arrangements.

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set;
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Plan the Trustee has obtained and considered the written advice of Isio, the Trustee's investment consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. **Investment Objectives**

The Trustee's objective is to invest the Plan's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide the strategic management of the assets and control of the various risks to which the Plan is exposed. The Trustee's primary objectives are as follows:

- To maintain the funding position of the Plan on an ongoing basis to at least 100%;
- To ensure that it can meet its obligation to the beneficiaries of the Plan;
- To achieve a return on the total Plan which is compatible with the level of risk considered appropriate;
- To pay due regard to the CBI's interest in the size and incidence of contribution payments;
- To ensure that sources of cash such as income and dividends are used in the first instance to meet benefit payments before assets are disinvested.

4. **Fund Governance**

The Trustee has appointed a firm of investment consultants to provide relevant advice. Advice is also taken as appropriate from the Scheme Actuary and other professional advisers.

The Trustee retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the Plan's strategic benchmark and investment manager structure. The Trustee also monitors the investment managers and other service providers.

The investment managers are responsible for day-to-day management of the Plan's assets in accordance with guidelines agreed with the Trustee. The investment managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The investment managers report to the Trustee regularly regarding performance.

The Scheme Actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Plan.

The investment consultant and Scheme Actuary's fees are determined in line with agreed hourly rates, with agreed fees for particular projects. The investment managers' fees are related to the value of assets invested with them and, in some instances, linked to the performance achieved by the investment manager.

5. **Risk and Return Targets**

The Trustee acknowledges that there is a link between the investment strategy, the expected return and the risk taken and the Trustee reviews the Plan's investment strategy on a regular basis. Since the implementation of the Plan' low-risk investment strategy in early 2019, the focus of the strategy has been on maintaining a low-risk profile focussed on a high degree of liability matching and achieving the required return through more contractual, credit assets. The portfolio that has been implemented has a target return of broadly gilts + 1.0% (p.a.) to gilts + 1.5% (p.a.). The investment strategy is kept under review.

Whilst setting the investment strategy the Trustee has considered carefully the following possible consequences:

- The assets might not achieve the excess return relative to the liabilities anticipated over the longer term. This would result in the deterioration of the Plan's financial position and consequently higher contributions from the CBI than are currently expected.

- The relative value of the assets and liabilities will be more volatile over the short term than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Plan. This consequence is particularly serious if it coincides with the CBI being unable to make good the shortfall.

- The remaining volatility in the relative value of assets and liabilities may also increase the short-term volatility of the CBI's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the CBI and its willingness to contribute appropriately to the Plan. The financial strength of the CBI and its perceived commitment to the Plan is monitored on an ongoing basis.

The degree of investment risk the Trustee is willing to take also depends on the financial health of the Plan and the Plan's liability profile. The Trustee will monitor these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

The Trustee recognises that, with the development of modern financial instruments, it is possible to select investments that are similar to the estimated liability cashflows. The Trustee has aimed to do this as far as practically possible via constructing a low risk investment strategy, which includes a credit-driven portfolio combined with a Liability Driven Investment mandate designed to hedge interest rate and inflation risk inherent in the Plan's liabilities. The Trustee is also taking steps to more closely align the Plan's funding basis to the investment strategy.

6. Diversification of Risks

In addition to targeting an appropriate overall level of investment risk, the Trustee seeks to spread risks across a range of different sources. The Trustee aims to take on those risks for which they expect to be rewarded over time, in the form of excess returns. The Trustee believes that diversification limits the impact of any single risk.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

<u>Investment</u> – the risk that the Plan's position deteriorates due to the assets underperforming. The Trustee's policy is to select an investment objective that is

achievable and is consistent with the Plan's funding basis and the sponsor's covenant strength. The Trustee also aims to mitigate this risk by investing in a diversified portfolio of assets.

Funding – the extent to which there are insufficient Plan assets available to cover ongoing and future liability cashflows. Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.

Covenant – The risk that the CBI becomes unable to continue providing the required financial support to the Plan. When developing the Plan's investment and funding objective, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Trustee has considered carefully the following possible risks:

Manager risk – The Trustee monitors the performance of each manager on a bi-annual basis, and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. The investment managers are invited, in person, to present to the Trustee on their performance. Circumstances for additional monitoring and engagement with investment managers include changes in strategy, underperformance and risk levels increasing beyond an acceptable level. The Trustee employs active management. The Trustee recognises that the use of active investment may involve additional risk (relative to index-tracking) but believes active management skills exist and can be identified.

Examples of such risk are:

- Active management within an asset category, defined as holding a combination of securities that differs from the asset class benchmark.

- Active management across asset categories, which arises when the combination of asset categories held differs from that of the benchmark.

- Manager selection risk, which arises due to the potential for selecting an active manager that underperforms its benchmark net of management and transaction fees.

Some of the investment managers employ derivatives for the purposes of efficient portfolio management and subject to agreed restrictions. To a large extent, the risks of using derivatives are the same as those of investing in the underlying asset categories.

Additionally:

Administrative risk may also be present depending on the terms of the contract governing the derivative.

Concentration risk – The Trustee has adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:

- by asset class (bonds, etc.);
- region (UK, overseas, etc.);
- within each asset class.

Currency risk – Some of the Plan's investments are exposed to foreign currency fluctuations as part of the investment strategy. The majority of the Plan's holdings are denominated or hedged to GBP.

The Trustee recognises custodian risk, which is measured by assessing the credit-worthiness of the custodian bank and the ability of organisations to settle trades on time and provide secure safekeeping of assets under custody. This is managed by monitoring the custodian's activities and reviewing the performance of the custodian.

Default risk – The Trustee has considered the risk that the issuers of the corporate bonds are unable to meet their obligations.

Environmental, Social and Governance ("ESG") risks – This is the risk that ESG factors, including but not limited to climate change, can impact the performance of the Plan's investments. The Trustee mitigates this risk by appointing managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy:

- The existence of a clear Responsible Investment ("RI") Policy / Framework;
- This Policy/Framework is implemented via a defined investment process;
- The manager has a track record of using engagement and any voting rights to manage ESG factors;
- The manager provides ESG specific reporting; and
- The manager is a signatory of UN Principles of Responsible Investment ("PRI").

The Trustee monitors the mangers on an ongoing basis against the above criteria.

Hedge mismatch risk – The Trustee has considered the risk that overtime as the shape of the liability cashflows for the Plan evolves, a level of mismatch could develop between the LDI mandate and the liabilities being hedged. The mismatch can be reduced through a review of the LDI mandate when an actuarial valuation takes place.

Leverage may be introduced if the economic exposure arising from investing in a derivative is greater than the capital committed to the investment.

Liquidity risk – The pooled funds through which the Trustee invests, make due allowance for the need for liquidity of the Plan's assets. The Trustee has invested a small amount of assets in long-term illiquid investments in order to take advantage of the illiquidity premium. The Trustee has considered the benefit of the additional return offered over comparable liquid investments, and sized the allocation appropriately to ensure that it should not impact the Plan's ability to meet its liquidity requirements. Liquidity risk attached to the LDI portfolio is managed via the LDI manager, who provides monthly or more regular updates on the liquidity available (including stress testing collateral). An established process exists within the LDI manager's Investment Management Agreement that allows it to manage liquidity in an efficient and low governance manner. The significant majority of the Plan's assets are held in daily traded assets which helps to manage this risk.

Reinvestment risk – The Plan invests in a portfolio of bonds that may be held until maturity. The return that can be gained when reinvesting in new bonds varies dependent on market conditions. The Trustee has considered the risk that reinvestment proceeds can achieve a lower yield and realised yield may be insufficient to meet the cost of liability cashflows as they fall due.

Sponsor risk – The Trustee has considered the risk that the CBI may be unwilling or unable to maintain the necessary level of contributions in future, and has concluded that this risk is acceptable and that no further action is necessary to mitigate this risk.

Across all of the Plan's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

The Trustee acknowledges that it is not possible to monitor all the risks listed above at all times. However, the objective is to seek to take on those risks that are expected to be rewarded for over time, in the form of excess returns, in a diversified manner. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objective, risk tolerance and return target detailed above.

7. Strategic Investment Benchmark and Investment Manager Structure

The Trustee has established a target strategic investment benchmark for the Plan taking into account the risks and potential returns identified above. Full details of the Plan's target benchmark are set out in the IPID.

8. Investment Managers

Day-to-day management of the assets is delegated to professional investment managers. The investment managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints. The IPID gives details of the investment managers' mandates.

When choosing investments, the Trustee and the investment managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (Regulation 4).

The Trustee has selected the investment managers based on the managers' ability to implement the investment strategy outlined in Appendix A to within the prescribed targets and ranges.

The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

The Trustee will review the appointment of the investment managers for any reason considered appropriate.

Further details on the Trustee's policy regarding investment manager arrangements is detailed in Appendix B.

9. Responsible Investment and Corporate Governance

The Trustee believes that good stewardship and ESG issues may have a material impact on investment returns.

The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments. All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attached to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

Similarly, the Plan's voting rights (where applicable) are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Below is a summary of how the Trustee seeks to engage on these matters with investment managers:

- The Trustee's investment managers provide periodic reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.

- The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.

- The Trustee will engage, via their investment adviser, with investment managers around relevant matters including investments in debt or equity (where relevant). This engagement will include performance, strategy, capital structure, management of actual or potential conflicts of interest, social and environmental impact, corporate governance, and other risks.

Circumstances for additional monitoring and engagement include but are not limited to the following:

- The manager has not acted in accordance with their policies and frameworks.

- The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

10. Funds

Under the terms of the Trust Deed the Trustee is responsible for the investment of Additional Voluntary Contributions ('AVCs') paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

11. Review of this Statement

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

For and on behalf of CBI Pension Trustee Limited as Trustee of the CBI Retirement Benefits Plan

September 2024

Appendix A

Investment Policy Implementation Document

A.1 Introduction

This document is supplemental to the Statement of Investment Principles (the "Statement") and outlines the investment policy and investment arrangements of the CBI Retirement Benefits Plan (the "Plan") in more detail.

The investment policy falls into two parts:

i. Investment strategy, the setting of which is one of the fundamental responsibilities of the Trustee;

ii. The day-to-day management of the assets, which has been delegated to professional investment managers.

A.2 Investment Strategy

Given the investment objectives in the Statement, the Trustee has implemented a low risk investment strategy. The portfolio focusses on achieving a low risk profile through a high degree of liability matching and achieving the required growth through more contractual, credit assets. The key components of the strategy include liability hedging through LDI, alongside Absolute Returns Bonds, Asset Backed Securities and Direct Lending. The Direct Lending portfolio is currently in its distribution phase.

There is no automatic rebalancing between asset classes. The Trustee intends to periodically rebalance the allocation at its discretion based on the relative allocation between assets classes, costs associated with rebalancing and taking cash flow requirements into account.

The Trustee does not intend to rebalance the LDI allocation due to the hedging objective taking precedence over physical allocation except for when additional cash is required to support the LDI mandate or when the LDI mandate generates excess cash that can be used in other parts of the portfolio.

Cash is not held as part of the benchmark but Schroder will hold cash as part of the Liability Driven Investment strategy. Additionally, some cash may be held from time to time for the purposes of meeting benefit payments.

The Direct Lending allocation is made via a closed-ended fund where the allocation is drawn down and will be distributed over time. As a result of this structure, it is not possible to increase or decrease the existing allocation at the Trustee's discretion without allocating money to a new fund or through a secondary market sale.

A.3 Day-to-Day Management of the Assets

Day-to-day management of the assets is delegated to professional investment managers. The Plan currently employs Schroder Investment Management, M&G Investments and Partners Group.

Schroder

The benchmarks used to assess Schroder's performance are as follows:

Liability Driven Investments (25-35% of total Plan assets)

Asset Class	Index	Benchmark Allocation (%)
Bonds		
Liability Driven Investments	Liability benchmark based on the Plan's cashflows	100
Total		**100**

Schroder LDI portfolio aims to hedge 100% of the Plan's interest rate and inflation exposure based on Technical Provisions liabilities..

Schroder AAA Flexible ABS Fund (30-40% of total Plan assets)

Asset Class	Index	Benchmark Allocation (%)
Asset Backed Securities	1/3 Barclays European ABS + 1/3 BofA US CABS + 1/3 JP Morgan CLOIE AAA	100

The objective of the AAA Flexible ABS Fund is to outperform 3-month Libor by 1% p.a. (gross of fees) over a cycle.

M&G Investments

The benchmark used to assess M&G's performance is as follows:

Sustainable Total Return Credit Investment Fund (30-40% of total Plan assets)

Asset Class	Index	Benchmark Allocation (%)
Absolute Return Bonds	1-month SONIA	100.0

The objective of the Sustainable Total Return Credit Investment Fund is to outperform 1-month SONIA by 3% to 5% p.a. (gross of fees) over a cycle.

Partners Group

The benchmark used to assess Partners Group's performance is as follows:

Private Market Credit Strategies Fund (0-10% of total Plan assets – the fund is now in its distribution phase and this is tending towards 0%)

Asset Class	Index	Benchmark Allocation (%)
Direct Lending	3-month SONIA	100.0

The objective of the Private Market Credit Strategies Fund is to outperform 3-month SONIA by 4% to 6% p.a. (net of fees) over the life cycle of the Fund (expected to be 5 – 7 years).

A.4 Fee Structure

Management fees paid to each organisation are detailed below:

Schroder

<u>LDI holdings</u>

Schroder charge fees based on the value of hedged liabilities adjusted for the corporate bond proxy: 0.1% p.a. on the first £30 million, 0.09% on the next £20 million and 0.08% thereafter.

Should the Trustee choose to amend the hedge benchmark, an execution fee of £5,000 will be payable to Schroder.

<u>Asset Backed Securities</u>

Schroder charge 0.20% p.a. on the first £250 million of assets under management.

M&G Investments

Absolute Return Bonds

M&G charge 0.35% p.a. based on assets under management.

Partners Group

Direct Lending

Partners Group charge 0.8% p.a. management charge, 0.1% organisational charge and 8% performance fees subject to the return hurdle of 4% p.a. Manager fees have been lowered due to extensions of the fund's term.

Appendix B

Investment Management Arrangement Policies

The Trustee has the following policies in relation to the investment management arrangements for the Plan:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	▪ As the Plan is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that is aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	▪ The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. ▪ The Trustee monitors the investment managers' engagement and voting activity on as part of their ESG monitoring process. ▪ The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	▪ The Trustee reviews the performance of all of the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. ▪ The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	▪ The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Plan's arrangements with the investment managers.	▪ The duration of the arrangements is considered in the context of the type of fund the Plan invests in. ▪ For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Plan's liquidity requirements. ▪ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'.	▪ The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf. ▪ The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually. ▪ Example stewardship activities that the Trustee has considered are listed below. o Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities. o Asset manager engagement and monitoring – on an annual basis, the Trustee assess the engagement activity of their asset managers. The results of this analysis feeds into the Trustee's investment decision making. o Collaborative investor initiatives – the Trustee will consider joining/ supporting collaborative investor initiatives.