Everards Brewery Ltd Pension Fund

Statement of Investment Principles – June 2023

1. Introduction

The Trustees of the Everards Brewery Ltd Pension Fund (“the Fund”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation.

The Statement is intended to document the investment principles that govern decisions about the Fund’s investments. The Trustees consult the Statement when making investment decisions to ensure, as far as is practical, that their decisions are consistent with the Statement. A separate document detailing the specifics of the Fund’s investment arrangements is available upon request.

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Limited (“Mercer"), the Investment Consultant, which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services. In preparing this Statement, the Trustees have consulted the Sponsoring Company, Everards Brewery Ltd, to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Fund’s investment arrangements.

Our investment responsibilities are governed by the Fund’s Trust Deed, of which this Statement takes full regard. A copy of the Deed is available for inspection upon request.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Set an investment strategy based on a level of risk that is consistent with meeting the Fund’s objectives.

In considering the appropriate investments for the Fund, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received, decisions taken, and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees’ main priority is to invest the Fund’s assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest with the Sponsoring Company, in the sole interests of the members and beneficiaries.

Within the above framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' primary objectives are as follows:

- To ensure that they can meet their obligations to the beneficiaries of the Fund.
- To pay due regard to Everards Brewery Ltd's interest in the size and incidence of contribution payments, to maintain the Company's support and to help remove the deficit that currently exists.
- To achieve a favourable return against the Fund's specified benchmark.
- To ensure that, overall, there is a high level of security of benefits payable to the Fund's beneficiaries.

4. Investment Risk

The Trustees recognise that, with the development of modern financial instruments, it would be possible to select investments that broadly match the estimated liability cash flows and sensitivities. However, in order to meet the long-term funding objective with an acceptable level of Sponsoring Company contributions, the Trustees have agreed to take investment risk relative to the liabilities. This is to target a greater return than the matching assets are expected to provide.

Before deciding to take investment risk relative to the liabilities, the Trustees received advice from the Investment Consultant (as per section 36 of the Pensions Act 1995) and held discussions with the Sponsor. In particular, the Trustees 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 a deterioration of the Fund's financial position and consequently higher contributions 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. As a result, any improvement or decline in the Fund's funding position is likely to be of greater magnitude than if no investment risk had been taken. This consequence is particularly serious if it coincides with the Sponsoring Company being unable to make good a shortfall in the event of discontinuance of the Fund.
- The volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsoring Company's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Fund, as required. The financial strength of the Sponsoring Company and its perceived commitment to the Fund is monitored and the Trustees will keep the investment risk relative to the liabilities under review.

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

5. Diversification of Risks

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

There are various risks to which any pension scheme is exposed, including the strength of the covenant of the Sponsoring Company. The Trustees believe the risks set out below may be financially material to the Fund, and have therefore adopted various policies in order to manage these risks over the Fund's anticipated lifetime:

- Interest rate risk - the risk that the assets do not move in line with the value placed on the Fund's liabilities in response to changes in interest rates.

- Inflation risk - similar to interest rate risk but concerning inflation.

- Credit risk - the risk that payments due to bond investors might not be made.

- Currency risk - the risk that the value of the overseas assets changes relative to the Sterling based liabilities due to exchange rate fluctuations.

- Property market risk - the risk that property values fluctuate. The Trustees are aware that valuation is generally a matter of a valuer's opinion, rather than fact.

Arrangements are in place to monitor the Fund's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, and to review the manager's ability with regard to actively managed funds, the Trustees meet with the Fund's investment manager from time to time and receives reports from both the investment manager and Mercer. These reports include an analysis of the overall return, along with their component parts, to ensure the returns achieved are consistent with those expected.

The Fund's assets are predominantly managed on a passive basis. However, the Trustees have chosen to employ active management for part of the corporate bond allocation and a property fund. For these assets the Trustees have selected an investment manager whom they believe has the skills and judgement to add value on a net of fees basis. Active management gives rise to *active risk*, which arises due to an investment manager holding a combination of securities that differs from the asset class benchmark.

The Trustees have put in place a liability driven investment ("LDI") strategy to reduce interest rate and inflation risk by increasing the exposure to assets that broadly match a proportion of the interest rate and inflation characteristics of the liabilities. The Trustees have considered the risks that specifically arise from the instruments used in the Fund's LDI portfolio, such as leveraged derivative instruments. These include (but are not limited to):

- *Leverage risk* (the use of leverage magnifies the gain or loss the assets will experience due to movements in interest and inflation rates);

- *Roll risk* (inability to re-establish leveraged exposure at a reasonable price when a derivative contract expires); and

- *Counterparty risk* (potential for loss as a result of a counterparty default).

The Trustees have appointed an investment manager whom they believe is capable of managing these risks on a day-to-day basis.

The Fund has exposure to counterparties in a number of areas including in respect of derivative positions in the LDI portfolio. The management of this risk is delegated to the investment manager.

Across all of the Fund's investments, the Trustees are 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.

Liquidity risk refers to the ease with which assets are marketable and realisable. The Trustees recognise that there is *liquidity risk* in holding assets that are not readily marketable and realisable. Given the Trustees' long-term investment horizon, the Trustees believe that a degree of liquidity risk is acceptable because they expect to be rewarded for assuming it.

The Trustees are also aware of *concentration risk* which arises when a high proportion of the Fund's assets are invested in securities of the same or related issuers or markets. The overall investment arrangements are intended to provide an appropriate spread of assets by type and by the individual securities within each asset class.

The Trustees also recognise the risk that the returns of certain asset classes and sectors may be significantly affected by climate change. The Trustees take *climate risk* into account in the selection, retention and realisation of the Fund's investment manager.

Should there be a material change in the Fund's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

6. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Fund’s investments:

- At the total Fund level, and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- Investment in illiquid investments, such as property or pooled property funds, may be held as long as the total amount of the Fund’s assets invested in such asset classes is not deemed excessive by the Trustees under the advice of the Investment Consultant as and when required.

- Investment in derivatives is permitted within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing the Fund’s mismatch risk relative to its liabilities, or to facilitate efficient portfolio management. In any event, the Trustees will ensure that the assets of the Fund are predominantly invested on regulated markets.

- No investment in securities issued by the Fund’s Sponsoring Company or affiliated companies (other than any such securities held within a pooled Fund in which the Trustees invest).

- No investment by an appointed investment manager in the securities issued by the relevant manager’s company or any affiliated companies (other than where such securities form part of indices that the manager’s passively managed pooled funds are designed to track).

- Borrowing is not permitted except to cover short term liquidity requirements.

7. Investment Strategy

Since the Fund was estimated to have achieved full funding on the Technical Provisions (“TP”) basis, the Trustees, in consultation with the Sponsoring Company, agreed to adopt a new investment strategy with the aim of reducing the likelihood (and magnitude) of any future TP deficits materialising, and improving the security of members’ benefits in the event of adverse investment returns. The investment strategy also takes account of the expected strength of covenant of the Sponsoring Company.

The investment strategy is comprised of a combination of corporate bonds and liability hedging assets designed to broadly match the movements in the value of a proportion of the estimated TP liabilities in respect of changes in long term interest rate and inflation expectations.

Further details of the Fund’s investment strategy can be found in a separate document produced by the Trustees entitled “Summary of Investment Arrangements”, which is available to members upon request.

8. Day–to-Day Management of the Assets

The Trustees delegate the day to day management of the assets to an investment manager. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Fund's investments and the manager is carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which the manager must operate.

The Trustees regularly review the continuing suitability of the Fund's investments, including the appointed manager. Details of the appointed manager can be found in the "Summary of Investment Arrangements".

9. Expected Return

The Trustees believe that the Fund's asset mix will generate a return, over the long term, consistent with their long-term objectives of meeting their obligation to the beneficiaries of the Fund.

10. Additional Assets

Under the terms of the Trust Deed the Trustees are responsible for the investment of Additional Voluntary Contributions paid by members. The Trustees review the investment performance of the chosen providers from time to time and take advice as to the providers' continued suitability.

11. Selection, Retention and Realisation of Investments

The investment manager has discretion in the timing of the selection, retention and realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees monitor the allocation between asset classes and rebalance the portfolio as set out in the "Summary of Investment Arrangements".

12. Socially Responsible, Environmental and Ethical Investment and Corporate Governance

The Trustees believe that environmental, social and governance ("ESG") factors have a material impact on investment risk and return outcomes (and so are considered to be financially material), and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The assets of the Fund are invested in pooled vehicles and the Trustees accept that pooled investments will be governed by the individual policies of the investment manager. These policies are reviewed as part of the consideration of pooled investments. As such, the Trustees have given the appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees increasingly consider how ESG, climate change and stewardship are integrated within investment processes and align with the Trustees' policies in appointing new investment managers and monitoring the existing investment manager. The manager is expected to provide a summary of their ESG policies and to comment on these issues as part of any meeting with the Trustees.

The Trustees also consider the investment consultant's assessment of how the investment manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment manager's policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees can regularly review the decisions made by their manager, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to ensure the best performance over the medium to long term. In addition, the Trustees carry out regular reviews of the manager's ESG policies and actively engage with them to better understand their processes.

Monitoring is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually.

Non-financial considerations, including member views are not explicitly taken into account in the selection, retention and realisation of investments at the current time.

The Trustees have not set any investment restrictions on the appointed investment manager in relation to particular products or activities, but may re-consider this in the future.

13. Investment Manager Appointment, Engagement and Monitoring

The investment manager is appointed based on the strength of its capabilities and, therefore, its perceived likelihood of achieving the expected return and risk characteristics required for the asset classes in which the Fund invests.

The Trustees look to their investment consultant for their forward looking assessment of the manager's ability to deliver upon its stated objectives over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management (amongst other things), in relation to the particular strategies that the Fund invests in. The consultant's manager research ratings assist with due diligence and (where available) are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a manager's fund changes, the Trustees will review the manager's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

As the Fund invests in pooled investment vehicles, the Trustees accept that they have no ability to specify the risk profile and return targets of the manager, but that appropriate mandates can be selected to align with the overall investment strategy.

The investment manager is aware that its continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will look to review the appointment.

The performance of the investment manager is not measured independently at present. However, sense checks are used to calculate whether the performance is reasonable.

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over various time periods. The Trustees review the absolute performance of the relevant funds, as well as their relative performance versus a suitable benchmark index (where appropriate) and against the manager's stated performance targets (over the relevant time period). The Trustees' focus is on long term performance. However, as noted above, they may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager of a fund;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees instead of terminating the appointment.

The Trustees do not actively monitor portfolio turnover costs. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In the future, the Trustees may ask the manager to report on portfolio turnover and turnover costs in their presentations and reports to the Trustees and engage with them if portfolio turnover is higher than expected. This may be assessed by comparing portfolio turnover across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where available).

The Trustees are long term investors and are not seeking to change investment arrangements on a frequent basis. As the Trustees are invested in open-ended pooled funds, there is no set duration for the appointment of the investment manager. The Trustees will therefore retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to a particular asset class or manager, or the Trustees decide to terminate a mandate following a review of the manager's performance.

Mercer assists the Trustees in fulfilling their responsibility for monitoring the investment manager.

From time to time the Trustees will review their advisers and the effectiveness of their own decision making.

14. Fee Structures

The investment manager levies fees based on a percentage of the value of the assets under management. Details of the investment manager's fees can be found in the "Summary of Investment Arrangements".

The Fund Actuary and the Investment Consultant typically work on the basis of time cost; however in certain circumstances a fixed fee will be agreed.

15. Compliance with this Statement

The Trustees will monitor compliance with this Statement on a regular basis.

16. Review of this Statement

The Trustees 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 Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension fund investments.

For and on behalf of the Trustees of the Everards Brewery Ltd Pension Fund