Airsprung Retirement & Death Benefits Plan

Statement of Investment Principles

Contents

1. Introduction

This is the Statement of Investment Principles (the "Statement") for the Airsprung Retirement & Death Benefits Plan (the "Plan") as required by section 35 of the Pensions Act 1995 (the "Act"), as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (the Investment Regulations).

The Trustees will review this Statement at least every three years to ensure it remains accurate. The Statement will be amended more frequently and as soon as possible should any changes be made to the Plan's investment strategy. The Trustees are committed to maintaining the accuracy of this Statement on an ongoing basis.

As required under the Act, the Trustees have consulted a suitably qualified person by obtaining written advice from Deloitte Total Reward and Benefits Limited ("DTRB") on the suitability of the investments and the principles contained in this Statement. The Trustees comply with the requirements to maintain and take advice on the Statement and consult with Airsprung Group PLC (the "Principal Employer"). The Principal Employer has been consulted on the contents of this Statement and will be consulted should the Trustees wish to make any amendments to this Statement.

The investment powers of the Trustees are set out in Clause 6 of the Consolidated Trust Deed and Rules, dated 29 February 2000. This statement is consistent with those powers.

2. Investment Objectives

The Trustees' overall investment policy is guided by the following objectives:

- to ensure that they can meet the members' entitlements under the Consolidated Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels and to meet the required benefit payments;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with the contributions of the Principal Employer, the cost of benefits which the Plan provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

3. Choosing Investments

The Trustees' policy is to set the overall investment target and then monitor the performance of their investment managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

The day-to-day management of the Plan's assets is delegated to one or more investment managers. The investment managers are authorised and regulated by the Financial Conduct Authority.

The Trustees review the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

4. Investment Strategy

When deciding on an appropriate investment strategy, the Trustees take into account the Plan's liabilities as at the latest Actuarial Valuation and the covenant strength of the Principal Employer. The Plan's assets are invested in a diversified portfolio of investments. The Trustees have agreed on the target strategic benchmark asset allocation as set out in the table below.

	Asset Class	Benchmark (%)
Partners Group	Private Markets	20.0
Legal & General	Buy and Maintain Credit	30.0
	Liability Driven Investments*	50.0
	Cash	0.0
	Total Fund	**100.0**

*The Plan will use a combination of leveraged and physical gilt and index-linked gilt investment funds to achieve the target hedge ratios. The amount invested in leveraged funds is set and monitored by the Trustees to manage the level of collateral sufficiency risk.

While there is no strategic asset allocation to cash the Trustees can use the Legal & General Sterling Liquidity Fund from time to time to manage the cashflow requirements of the Plan.

The Plan's allocation to private markets is via the Partners Group Generations Fund and is accessed through Legal & General's platform. The Trustees invest in pooled fund arrangements.

The Trustees recognise that the asset allocation will deviate from the benchmark due to market movements, in particular as the LDI strategy responds to movements in bond yields with the aim to match changes in the value of the Plan's liabilities. The Trustees will review the asset allocation of the Plan relative to the strategic benchmark on a regular basis and update where appropriate.

When choosing the Plan's asset allocation strategy the Trustees considered written advice from their investment consultant and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- The need for liquidity.

The Trustees are aware that the appropriate balance of different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

5. Expected Return

In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

The Trustees expect that over the long-term, the investment strategy selected will deliver a return that meets the return assumptions used by the Scheme Actuary in the Actuarial Valuation.

Over the long-term, the investment strategy of the Plan is intended to deliver a return that will allow sufficient asset growth such that, in combination with the agreed schedule of contributions from the Principal Employer, the benefit payments can be met.

6. Realisation of Investments

The Trustees' policy in relation to the retention and realisation of investments is that:

- Investments should be retained and realised at a time considered by the Trustees after obtaining proper advice, unless earlier realisation is required or considered advisable as part of the overall risk management of the Plan or is otherwise required to be realised to meet benefit payments or transfer values.
- The Plan invests in open-ended pooled funds with no fixed end date and the Trustees seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate.
- In retaining any investment, it is the Trustees' policy to review periodically whether the continued retention of that investment is appropriate and to obtain proper advice on whether retention is satisfactory given the matters referred to in this Statement.

The Plan's cashflow requirements are initially met using the contributions which are paid in by the Principal Employer. However, these are insufficient to meet benefit payments in full and the Trustees utilise income payments from the investments to support the payment of benefits, only disinvesting from the Plan's investments if necessary.

7. Risk Measurement and Management

The Trustees recognise that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of risks, which have the potential to adversely impact the funding level of the Plan and, therefore, contribute to funding risk. These are as follows:

- **Solvency risk –** Solvency levels are monitored through ongoing triennial actuarial and accounting valuations, with appropriate action to prevent undue deterioration of the funding position.

  The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility of the Plan's funding basis.

- **Mismatching risk -** The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustees and their advisers considered this risk when setting the investment strategy. In particular, the risk that a fall in the level of interest rates or a rise in the level of inflation expectations could result in the Plan's liabilities to increase to a greater extent than the Plan's assets.

  The Trustees have implemented a high degree of interest rate and inflation hedging by investing in a leveraged liability hedging portfolio consisting of physical and derivative exposure to gilts and index-linked gilts. The aim is to hedge the majority of the interest rate and inflation exposure (c. 90%) of the Plan's liabilities on the technical provisions funding basis.

- **Currency risk –** the risk that a change in foreign exchange rates causes the value of the Scheme's assets to move differently to the estimated value of the Scheme's liabilities. The Trustees mitigate this risk by investing predominantly in sterling denominated assets.

- **Manager risk –** The failure by the fund managers to achieve the rate of investment return assumed by the Trustees. The Trustees monitor the performance of the managers' biannually and compare the investment returns with the appropriate performance objectives to ensure continuing acceptable performance.

- **Liquidity risk –** The risk of a shortfall of liquid assets relative to the Plan's immediate liability cashflow requirements. The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cash flow requirements.

- **Concentration risk –** The failure to spread investment risk. This risk is to some extent mitigated through the use of pooled funds to gain investment exposure to the asset classes the Plan invests in. In respect of diversification between asset classes, the Trustees and their advisors considered this risk when setting the Plan's investment strategy and invested in a range of asset classes diversified by sector and region.

- **Covenant risk –** The risk of failure of the Principal Employer. The Trustees have considered the risk that the Principal Employer may be unwilling or unable to maintain the necessary level of contributions in future. The Plan's funding position relative to the strength of the Principal Employer is monitored on a regular basis. The Trustees consider this when assessing the appropriate level of investment risk to have within the investment strategy.

- **Market risk –** The value of securities, including private market investments and interest bearing assets, can go down as well as up. The Plan may not get back the amount invested. However, the Trustees realise that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash in order to achieve the level of return required within the Plan's Actuarial Valuation assumptions.

- **Counterparty Risk** – The risk that a counterparty is unable to honour its obligation under a contract agreement causing the Plan to suffer a loss. Examples of which include derivative contracts within the Plan's liability driven investment funds.

  This is managed by the fund manager diversifying exposure across a number of counterparties, using central clearing, collateralising with high-quality collateral (cash or gilts), and ongoing monthly monitoring of counterparty creditworthiness.

- **Leverage Risk** – The Plan's liability driven investments are leveraged which will multiply the exposure of these funds to certain assets, therefore amplifying the consequences of a move in the value of these assets. These funds may incur transaction costs associated with re-balancing the level of collateral held within the funds. There is a risk that the Plan will be required to pay additional collateral into these funds in order to maintain the level of interest rate and inflation hedging.

  Should such an event arise then the Trustees have instructed Legal & General to take these additional assets from the Plan's cash holding or, if insufficient, from the Plan's physical gilt and index-linked gilt holdings then credit holdings. Should this still be insufficient to meet the required top up amount, the Plan's level of hedging from the leveraged funds will be reduced.

8. Annuity Policies

The Trustees hold insurance policies in respect of pensioner members which provide annuity income to cover the pensions of certain members. These insurance policies are held with Sun Life, Unum and Phoenix Life.

9. Additional Voluntary Contributions

The Trustees have a contract with Standard Life Assurance Limited in respect of members' Additional Voluntary Contributions ("AVCs"). These assets are invested on a money purchase basis for those members who elect to pay AVCs. This arrangement is reviewed by the Trustees from time to time.

10. Policy on ESG and Stewardship

The Trustees have considered the financial materiality of environmental, social and governance issues, including climate change ("ESG" factors) in relation to the selection, retention and realisation of the Plan's investments.

When setting investment strategy and selecting investments, the Trustees' first priority is the financial interests of the members. Trustees are satisfied that all existing fund investments fulfil the needs of their target investment strategy and by extension, that the chosen investment managers are managing the Plan's assets in a manner which is consistent with the objective to provide members' benefits.

The Trustees acknowledge that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Plan's investments and the likelihood that the Plan's objectives will be achieved. To confirm, the Trustees' policy is not to take into account non-financial matters in the selection, retention, and realisation of investments. Therefore, no consideration has been given to non-financial matters, nor has the Plan's membership been consulted on such issues.

The Trustees' policy is to invest in pooled investment vehicles. It is the investment manager that is responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments.

The Trustees expect the investment managers to use any voting rights and to actively engage with the senior management of the companies in which it invests on aspects including firm performance, strategy, capital structure, management of actual and potential conflicts of interest, risks and ESG issues. The Trustees also expect the investment managers to engage with other relevant persons including issuers and holders of debt and equity and other stakeholders. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.

The Trustees' policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Plan's interests in the investments, having regard to appropriate advice.

The Trustees expect the Plan's investment managers to integrate ESG factors into the decision making process when selecting, retaining and realising investments and for this to be reported to the Trustees. The Trustees also expect the Plan's investment managers to provide regular updates on how it exercises voting rights and actively engages with the companies in which it invests, including how often it votes against company proposals. The Trustees will review this on a regular basis in line with its monitoring policy.

11. Asset Manager Arrangements

The Trustees recognise the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustees have set an appropriate monitoring framework to ensure the Plan's investment managers are regularly reviewed. Regular monitoring, with specific reference to ESG factors should incentivise the Plan's investment managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.

The Trustees recognise the importance of regular monitoring of the investment managers' performance, remuneration and compliance against their ESG policy to ensure that the Plan's assets are being managed appropriately. The Trustees will meet the Plan's fund managers as frequently as is appropriate in order to review performance.

In addition to performance measures, the Trustees will review the engagement activity of the investment managers on at least an annual basis to ensure that active engagement is taking place. The Trustees will also monitor the voting activity of the investment managers to ensure votes are being used and are aligned to their views on ESG. This will be reported in an annual implementation statement.

The remuneration of the investment managers is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustees will review and replace the investment managers if net of fees investment performance and ESG practices are not in line with the Trustees' expectations and views. This incentivises the investment manager to act responsibly.

The Trustees review the fees charged by the investment managers on a regular basis as part of the Plan's monitoring framework to ensure fees remain reasonable in the context of the Plan's size and complexity. The Trustees review investment manager costs and charges (including portfolio turnover costs incurred as a result of buying, selling, lending or borrowing of investments) on a regular basis to ensure that they are appropriate and competitive for the service being provided. By monitoring performance net of costs on at least an annual basis, the Trustees are incentivising the investment managers to consider the impact of portfolio turnover on investment performance.

If the Trustees believe that an investment manager is no longer acting in accordance with the Trustees' policies (as set out in this Statement), including those regarding ESG and engagement with investee organisations, then the Trustees will either consider a different fund or appoint a replacement investment manager which is more closely aligned with the Trustees' policies and views.

12. Compliance with this Statement

In accordance with legislation, the Trustees will monitor compliance with this Statement on a regular basis and will review the Statement in response to any material change to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustees and Principal Employer, which they judge to have a bearing on the stated policy.

Signed: *Bob Hymas*

Name: Bob Hymas, for BESTrustees Limited

Date: 7 July 2021

Signed on behalf of the Trustees of the Airsprung Retirement & Death Benefits Plan

July 2021