

Merlin Pension Scheme

Statement of Investment Principles

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1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee (AAA Trustee Limited) of the Merlin Pension Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustee has consulted Coveris Flexibles (Gainsborough) UK Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.4. The investment powers of the Trustee are set out in Clause 5.5 of the Definitive Trust Deed & Rules, dated 8 August 1995. This statement is consistent with those powers.
- 1.5. The Trustee completed a bulk annuity insurance transaction with Aviva Life & Pensions UK Limited (the "Insurer") in the contract dated 23 November 2022 to secure the benefits under the Scheme.
- 1.6. The asset switch to the insurer was completed on the settlement date 30 November 2022 from the Scheme bank account following a disinvestment of most of the holdings held with Legal & General Investment Management ("LGIM"). The Scheme retains some holdings with LGIM in the Sterling Liquidity Fund.

2. Choosing investments

- 2.1. The Trustee's policy is to set the overall investment target expected to meet the Scheme's financial and non-financial objectives. In doing so, the Trustee considers the advice of its professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. Effective from 23 November 2022, the Trustee entered into a bulk annuity insurance contract with the Insurer, which is expected to match all defined benefits due to members of the Scheme. All investment management decisions are delegated to the Insurer who may, in turn, outsource investment management arrangements to third parties.
- 2.3. The Insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
- 2.4. The Trustee holds no other investments beyond cash in the Scheme's bank account and a small holding in the LGIM Sterling Liquidity Fund.
- 2.5. The Trustee continues to review the appropriateness of the Scheme's investment strategy on an ongoing basis but would consider it unlikely that any material future changes will be made prior to the Aviva insurance policy being assigned to individual members and the Scheme then being wound up.

2.6. The Trustee will consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to hold assets that provide a high likelihood that members' entitlements under the Trust Deed and Rules will be met in full as they fall due;
- to manage the expected volatility in the Scheme's funding level in order to control the level of volatility in contribution levels;
- to invest in assets of appropriate liquidity to meet potential remaining liabilities that are not covered by the bulk annuity policy; and
- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that it expects will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property alternatives and annuity policies.
- 4.2. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 4.3. As the Scheme's only investment not held for immediate liquidity purposes is a bulk annuity insurance contract, the Scheme does not hold any employer-related investments.

5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives.
- 5.2. The Scheme holds a bulk annuity policy expected to produce cashflows that exactly match the benefit entitlements of each of the Scheme's members. The remainder of the Scheme's assets are held in the Trustee bank account and the LGIM Sterling Liquidity Fund.

6. Risks

- 6.1. The various types of investment risk which may affect the Scheme's liabilities are covered under the bulk annuity purchase with the Insurer. Therefore, the vast majority of the risks set out below are effectively delegated to the Insurer to manage as part of the buy-in policy and are therefore judged to have minimal impact on the Fund's ability to meet the liabilities of the Scheme as they fall due.

However, the Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

Risk versus the liabilities	The Trustee notes that by securing the Scheme's benefits with an insurer, the risk of benefits not being met is now limited.
Covenant risk	The Scheme is less reliant on the strength of the Employer's covenant as the Scheme's benefits have largely been secured with an insurer. When converting the buy-in policy into a buy-out policy with the Insurer, the Scheme will be reliant on the Employer to make good any shortfall in excess of the small amount of assets held outside of the insurance contract, although an Escrow account has already been set up for this purpose.
Insurer counter party risk	The risk of the insurer defaulting has been managed through the selection of a reputable UK regulated insurer backed by strong levels of solvency capital and supported by the insurance compensation regime in place should an insurer fail.
Investment manager risk	The Trustee monitors the performance of the residual assets (i.e. those held in cash outside the bulk annuity policy) as necessary. The Trustee has a written agreement with the investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	The investment manager and the Insurer are expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the practices in their annual Implementation Statement where possible.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme and ESG factors (as well as climate risk). While the Trustee considers these factors to be potentially financially material, management of these risks over the lifetime of the contract are delegated to the Insurer.
Concentration risk	The investment manager and the Insurer are expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. The Insurer invests the assets supporting the bulk annuity contract in a way that reflects UK insurance regulatory requirements, allowing for the need for appropriate diversification and quality of assets.
Liquidity risk	The Scheme invests in assets, including cash, such that there is a sufficient allocation to liquid investments to meet the Scheme's remaining cashflow requirements that are not covered by the bulk annuity insurance contract. The Scheme's administrators monitor the level of cash available in the Scheme's bank account.
Currency risk	The Scheme's liabilities and the income produced by the bulk annuity contract are both denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed within some of the Scheme's assets to manage the impact of exchange rate fluctuations.
Loss of investment	In the event of the Insurer becoming insolvent, the Scheme could, in theory, suffer losses on the contract, but would still retain the liability to pay members' benefits. This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The Trustee has carried out due diligence on the Insurer and also understands that the Financial Services Compensation Scheme would apply in the event of insolvency. The risk of loss of investment by the investment manager is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

- 7.1. The Trustee has chosen to invest the vast majority of assets in a bulk annuity policy to match the Scheme's projected benefit payments with income from the policy. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme that are not covered by the policy, and ongoing expenses.
- 7.2. The Trustee has not set an expected return on the bulk annuity policy, given that its primary purpose is as an insurance contract rather than a return-seeking investment.

8. Realisation of investments

- 8.1. The annuity policy with the Insurer is not readily realisable and the Trustee does not expect to need to surrender or realise the contract given its nature and purpose. The income from the bulk annuity policy will be used to pay benefits covered by the policy.
- 8.2. The remaining assets of the Scheme are held in assets that can be realised at short notice.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

- 9.1. Setting policies with respect to these matters are fully delegated to the Insurer. This is reflected in the Trustee's own policies, as summarised in Appendix 2.

10. Policy on arrangements with investment manager

Incentivising alignment with the Trustee's investment policies

- 10.1. Arrangements for incentivising the investment managers of the assets underlying the bulk annuity policy are fully delegated to the Insurer.

Incentivising assessments based on medium to long term, financial and non-financial considerations

- 10.2. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself.
- 10.3. The Trustee expects the investment manager and the Insurer to be voting and engaging on behalf of the Scheme's holdings and the Trustee monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts, where applicable.

Method and time horizon for assessing performance

- 10.4. The Trustee does not undertake regular formal monitoring of the investment managers due to the limited benefit of this activity given the bulk annuity policy held with the insurer for the majority of liabilities. However, the Trustee would undertake such monitoring if it was deemed necessary.

- 10.5. The Scheme invests exclusively in a pooled fund and an annuity policy. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the fund grows, due to successful investment by the investment manager, they receive more and as the value falls they receive less.
- 10.6. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered as frequently as the Trustee considers appropriate in light of the prevailing circumstances.

Portfolio turnover costs and duration of arrangement

- 10.7. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. However, given the annuity policy and liquidity holdings of the Scheme, the Trustee notes that the impact of portfolio turnover costs and the duration of arrangement with the investment manager are expected to have limited impact.
- 10.8. For the open-ended pooled fund in which the Scheme invests, there are no predetermined terms of agreement with the investment manager. That being said, these arrangements will cease at the point that a buy-out policy is entered into.
- 10.9. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed as deemed necessary by the Trustee.

11. Agreement

- 11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment manager, the actuary and the Scheme auditor upon request.

Agreed by AAA Trustee Limited, Trustee to the Merlin Pension Scheme on 12 September 2023

Appendix 1 Note on investment policy of the Scheme as at June 2023 in relation to the current Statement of Investment Principles

1. Choosing investments

The Trustee has appointed the following investment manager/ insurer to carry out the day-to-day investment of the Scheme:

- Legal & General Investment Management (Sterling Liquidity Fund)
- Aviva Life & Pensions UK Limited (Annuity policy)

The Trustee has an AVC contract with Utmost Life and Pensions for the receipt of members' Additional Voluntary Contributions. The arrangement is reviewed from time to time.

2. The balance between different kinds of investment

Most of the Scheme's assets are held in a bulk annuity policy. The remaining assets are held in the Scheme's bank account and in the LGIM Sterling Liquidity Fund, bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme that are not covered by the policy.

Fund	Benchmark	Objective
LGIM Sterling Liquidity Fund	Sterling Overnight Index Average ("SONIA")	Performance in line with the benchmark

3. Investments and disinvestments

The Scheme's cashflow requirements are expected to be met by the Scheme's residuals assets and the annuity policy.

Appendix 2 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially Material Considerations

The Trustee considers that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material – that is, they have the potential to impact the value of the Fund's investments from time-to-time. However, as the Trustee has completed a purchase of a bulk annuity policy intended to match the majority of the Scheme's liabilities, the Trustee has delegated the management of ESG-related risks to the Insurer. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme and are not covered by the policy.

The Trustee has an expectation that the Insurer will consider ESG-related issues in selecting securities and other investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is appropriate for the nature of the assets under consideration.

2. Policy on the exercise of voting rights and engagement activities

The Trustee notes that by securing the Scheme's benefits with an insurer, they have limited ability to influence the voting and engagement activities undertaken on behalf of the Insurer. Responsibility for engagement with the issuers of investments underlying the bulk annuity policy, including voting policy (where applicable), is fully delegated to the Insurer.

The Scheme retains cash and liquidity holdings but the Trustee notes that the ability to engage and the effect of engaging with investment managers and counterparties is limited for these holdings. The Trustee therefore has not set stewardship priorities.

3. Conflicts of interest

The Scheme's investment adviser is independent and no arm of their business provides asset management services. This, and their FCA-regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflicts of interest.

The Trustee expects all investment managers and insurers to have conflicts of interest policies in relation to their engagement and ongoing operations.

The Trustee therefore believes it has managed the potential for conflicts of interest in the appointment of the investment managers, insurers, and investment adviser, and conflicts of interest between the Trustee, investment adviser, the investment managers, the insurers, and any underlying investee companies.

4. Non-financially material considerations

When constructing the investment strategy and selecting investment managers, the Trustee does not prioritise non-financial matters. Given the bulk annuity purchase, the Trustee has limited ability to address non-financial matters.