STATEMENT OF INVESTMENT PRINCIPLES

For

THE COLT LIFE ASSURANCE AND RETIREMENT SCHEME

1. Introduction

The purpose of this Statement of Investment Principles (“SIP”) is to set out the Trustees’ policy on various matters in connection with the investment of The Colt Life Assurance and Retirement Scheme’s (“the Scheme’s”) assets. This SIP has been prepared by the Trustees of the Scheme and is designed to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- 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; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

The Trustees are responsible for setting the Scheme’s investment objectives, asset allocation and appointing the bulk annuity policy provider (“the policy provider”). The Trustees consider they have the skills to perform this role in light of the expert advice they receive from their actuary and investment consultant before making decisions.

The Trustees have taken appropriate written advice in preparing this statement, as required by legislation. Also as required by legislation, the Trustees have consulted the Employer during the preparation of this statement.

The Trustees regularly monitor all investment decisions affecting the Scheme with the assistance of their investment consultant.

The Trustees have appointed a number of agents and advisers to assist them in carrying out their duties. Such parties are typically remunerated on the basis of agreed set fees. No ongoing management fees are charged by the policy provider.

2. Investment objectives

The Trustees' ultimate objective is to invest the assets of the Scheme to meet member's benefits as and when they fall due.

3. Investment strategy

The investment strategy has been determined with respect to the Scheme's ultimate objective. To this end, the Scheme's portfolio comprises solely of a bulk annuity policy. Under this policy, the Scheme retains responsibility for meeting the benefit payments due to members; however, the cashflows from the bulk annuity policy are expected to match the cashflows due in respect of the benefit payments.

The policy provider has discretion over the assets underlying the bulk annuity policy and the Trustees have no ability to influence these decisions. As such, the policy provider has complete discretion over all aspects of the selection, retention or realisation of the underlying investments.

As the Scheme's investments consist solely of the bulk annuity policy, there are no direct employer-related investments. The bulk annuity provider may provide details of employer-related investment within the underlying portfolio upon request.

Whilst benefit payments are expected to be covered by the bulk annuity policy, the costs of running the Scheme will be funded from the Scheme bank account (as supported by the Employer). The Trustees determine, in conjunction with the Employer, the amount of cash that will be held in the Scheme bank account in order to cover such costs.

The Trustees will consult with the Employer before amending the investment strategy.

4. Additional voluntary contributions (AVCs)

The Trustees closed the AVC Scheme to new members with effect from April 2006 and to all additional contributions from April 2013. Those that have contributed are permitted to continue within the AVC Scheme and their cumulative funds are invested either within the Scheme as a fixed interest security or with Utmost Life and Pensions Limited.

5. Investment risk

The Trustees invest in assets that are expected to achieve the Scheme's ultimate objective.

The Scheme is permitted to invest in a wide range of assets including (but not limited to) equities, bonds, property, alternatives, cash and annuity policies.

The Trustees have considered the following key risks to the Scheme regarding their investment policy and the Scheme's liabilities. Consideration has been given to ways of managing and monitoring these risks. The Trustees discuss these risks with their investment consultant as necessary.

Risk versus the liabilities	The risk of the assets behaving differently from the Scheme's liabilities has been mitigated by purchasing a bulk annuity policy that is expected to exactly match the benefit payments due.
Loss of investment	In the event of the policy provider becoming insolvent, the Scheme could suffer losses but would still retain the liability to pay members' benefits. This risk is partially mitigated through the strict solvency requirements placed on the policy provider by the Prudential Regulation Authority. Moreover, the Trustees understand that the bulk annuity policy is insured by the Financial Services Compensation Scheme in the event of Rothesay's insolvency.
Underlying asset risk	In relation to the bulk annuity policy, the policy provider has discretion over how the underlying assets are invested and therefore bears the risks relating to the assets' performance (including, but not limited to, interest rate risk, inflation risk, credit risk, currency risk, concentration risk, volatility risk and liquidity risk).
Liquidity risk	Responsibility for paying member benefits lies with the policy provider, which mitigates the majority of the Scheme's liquidity risk. The Trustees are responsible for determining, in conjunction with the Employer, the amount of cash that will be held in the Scheme bank account in order to cover additional costs.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored from time-to-time. The Scheme will remain responsible for paying member benefits until it completes a buy-out and will therefore remain exposed to the risk that the Employer is unable to support the Scheme over this period. However, the impact of this on members has been significantly reduced by securing a bulk annuity policy, transferring some the covenant risk to the insurer. In future, should the Scheme complete a buy-out of the liabilities, the covenant risk will be transferred wholly to the insurer.

The Trustees' views relating to environmental, social and governance ("ESG") risks (including climate risk) and stewardship are considered in the following section of this statement.

6. Policies on ESG and stewardship considerations, non-financial matters and arrangements with asset managers

Policy on ESG and stewardship considerations

The Trustees believe that ESG factors (including, but not limited to, climate change) have the potential to be financially material and these factors were considered in their selection of the bulk annuity policy provider. In addition, the Trustees believe that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

However, the policy provider has discretion over the assets underlying the bulk annuity policy and the Trustees have no ability to influence these decisions. As such, it is the Trustees' view that ESG and stewardship considerations cannot be meaningfully applied to this investment going forward.

The extent to which the policy provider choses to exercise rights (including voting rights) and undertake engagement activities in relation to the assets underlying the bulk annuity policy is at their discretion.

The Scheme's investment consultant (Barnett Waddingham) is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the recommendations they make are free from conflict of interest.

The Trustees expect the policy provider to have a conflict-of-interest policy in relation to their ongoing operations. In doing so the Trustees believe they have appropriately managed the potential for conflicts of interest in the appointment of the policy provider.

The Trustees will continue to review their policy on these matters (in a proportionate manner) in light of industry developments.

Policy on non-financial matters

The Trustees do not consider any non-financial matters when setting the investment strategy or in their selection of the policy provider.

Policy on arrangements with asset managers

The Scheme's portfolio comprises solely of a bulk annuity policy, purchased from a UK insurance company. Therefore, the Scheme has no arrangements with asset managers and no longer has policies covering the following matters:

- Aligning the investment strategy and decisions of the asset managers with the Trustees' investment policies.

- Incentivising investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies.

- How the Trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.

- The duration of the arrangements with the asset managers.

7. Review of the SIP

The Trustees 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 in order to ensure that these principles remain appropriate to the Scheme.

8. Agreement

This statement was agreed by the Trustees and replaces any previous statements. Copies of this statement and any subsequent amendments will be made published on a publicly accessible website.

Date of agreement: 18 April 2023