Hydro 1988 Pension Scheme

Statement of Investment Principles

February 2023

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1. Introduction

1.1 Scheme Background

This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Hydro 1988 Pension Scheme (the “Scheme”).

The Scheme:

- operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
- provides benefits calculated on a defined benefit basis; and
- closed to new entrants on 31 December 2006 but remains open to future accrual for existing active members of the Scheme.

Some members have previously paid in additional voluntary contributions; however, this option is no longer available.

The investment consultant to the Trustee Directors is Buck.

1.2 Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Scheme’s compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that is set out in the Myners Principles and now included in a strengthened Statement.

2. Statutory Information

2.1 Introduction

This section of the Statement covers the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005 (the "Investment Regulations"). In accordance with the Act, the Trustee Directors have reviewed and considered written advice from the investment consultant and taken inputs from the Scheme Actuary and investment managers, prior to the preparation of this Statement and have consulted the Sponsoring Employer.

The Trustee Directors have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

The investment managers prepare detailed regular reports on their activities and the Trustee Directors will meet with them periodically. The Custodian also produces detailed monthly reports.

This Statement will be reviewed periodically or whenever there is a significant change in investment policy. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal or appointment of the investment managers.

All of the Scheme's investment decisions are under the control of the Trustee Directors, with no constraint by the sponsoring employer. All significant investment decisions are taken by the board as a whole. However, the Trustee Directors have appointed an Investment Committee ("IC") with responsibilities as outlined in the IC's Terms of Reference. The Trustee Directors will examine regularly whether additional investment training is desirable for any individual Trustee Director.

2.2 Statutory requirements

This section of the Statement details the Trustee Directors' policies in compliance with the Act and subsequent legislation, principally the Investment Regulations, that requires the Trustee Directors to secure that there is prepared, maintained and from time to time revised a written statement of the principles governing decisions on investments for the purposes of the Scheme.

2.2.1 Investment objectives and suitability of investments

The Scheme's investment strategy has been agreed by the Trustee Directors having taken advice from the investment consultant in relation to the suitability of investments and the need to diversify and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit.

The Trustee Directors' primary objective is to operate an investment strategy that is consistent with the size and incidence of the Scheme's expected cash flows and that provides appropriate security for all beneficiaries. In addition, the Trustee Directors seek to maintain stability in the Scheme's funding level using an appropriate calculation basis, taking account of the Scheme's funding position as measured on a number of different calculation bases.

The Trustee Directors' agreed investment strategy is based on an analysis of the liability profile of the Scheme, the required investment return and the returns expected from the various asset classes over the long-term.

The Trustee Directors have translated their objectives into a suitable strategic asset allocation for the Scheme, details of which are included in the Appendix.

In accordance with the Financial Services & Markets Act 2000, the Trustee Directors are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act.

The Trustee Directors consider their current strategic asset allocation to be consistent with the current financial position of the Scheme.

2.2.2 Diversification

The Trustee Directors have agreed an investment strategy after taking appropriate investment advice.

Subject to their respective benchmarks and guidelines, the investment managers are given full discretion over the choice of securities and are expected to maintain appropriately diversified portfolios.

The Trustee Directors are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

Given the size and nature of the Scheme, the Trustee Directors have decided to invest predominantly in a portfolio of segregated assets, with a small residual holding in an illiquid pooled fund.

2.2.3 Balance between different kinds of investments

The appointed investment managers are expected to hold an appropriately diversified mix of investments consistent with their agreed investment mandates. The overall strategic allocation is set out in the Appendix.

2.2.4 Risk

The Trustee Directors consider the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee Directors have assessed the likelihood of undesirable financial outcomes arising in the future.

The investment strategy has been designed with the aim of mitigating the risk of a material deviation between the value of the assets and that placed on the liabilities. In determining the Scheme's investment strategy (as outlined in the Appendix), the Trustee Directors received advice from their investment consultant regarding its suitability relative to the Scheme's liability profile, along with the expected returns required to meet the Trustee Directors return requirements.

The Trustee Directors acknowledge that the major risk is that the Scheme will have insufficient assets to meet its liabilities. As a result, the Trustee Directors recognise the following contributory factors that may cause such an event to occur. The risk:

- associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;
- of the Scheme having insufficient liquid assets to meet its immediate liabilities;
- of asset classes failing to meet the required rate of return under section 2.2.5;
- of the investment managers failing to achieve specified return targets;
- that the strategic asset allocation fails to meet the required rate of return;
- of failure of the Scheme's Sponsoring Employer to meet its obligations; and
- of fraud, poor advice or acts of negligence.

The Trustee Directors manage and measure these risks on a regular basis with actuarial and investment reviews, and in the setting of investment objectives and strategy.

The Trustee Directors undertake monitoring of the investment managers' performance against their targets and objectives on a regular basis.

The Trustee Directors, based on advice received from their investment consultant, monitor the progression of the Scheme's asset allocation against that expected and will adjust the portfolio as appropriate.

The Trustee has signed a legal agreement with each of their investment managers, which details the specific investment objectives. Within each asset class, the investment managers are expected to maintain a portfolio of securities that ensures that the risk being accepted in each asset class is appropriately diversified.

2.2.5 Expected return on investments

The investment strategy is believed to be capable of exceeding, in the long-run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

2.2.6 Kind of investments to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, fixed interest and index linked bonds, derivatives, insurance policies and cash. The Trustee Directors have considered the attributes of the various asset classes, these attributes being:

- security (or quality) of the investment;
- yield (expected long-term return);

- spread (or volatility) of returns;
- term (or duration) of the investment;
- exchange rate risk; and
- marketability/liquidity (i.e., the tradability on regulated markets).

2.2.7 Realisation of investments

In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustee Directors require the investment managers to be able to realise the Scheme's investments within a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

2.2.8 Financially material considerations

The Trustee Directors expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance ("ESG") factors as part of their investment analysis and decision-making process.

The Trustee Directors will take into account the way that financially material considerations are incorporated into the investment managers' investment approaches when deciding whether to select or retain an investment manager.

The Trustee Directors review the investment managers' policies in respect of financially material considerations from time to time.

2.2.9 Non-financial matters

The financial interests of the Scheme members are the Trustee Directors' first priority when choosing investments. The Trustee Directors have decided not to take Scheme members' preferences into account.

2.2.10 Stewardship in relation to the Scheme's assets

The Trustee Directors have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of Scheme members and their beneficiaries over the long term. The Trustee Directors will promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

For direct and pooled investments, the Trustee Directors do not envisage being directly involved with peer-to-peer engagement in investee companies.

The Trustee Directors have appointed a segregated investment manager to manage the majority of the Scheme's assets. They expect the manager to engage with and monitor investee companies and, where appropriate, exercise rights (including voting rights) attaching to these investments using their discretion to maximise financial returns for Scheme members over the long term.

However, the Trustee Directors recognise that the ultimate responsibility for stewardship of the assets rests with themselves and not the investment managers and they meet with the managers periodically to review their performance, including stewardship policies and how those have been implemented.

2.2.11 Policy in relation to investment managers

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustee Directors is to select investment managers that meet the primary objectives of the Trustee Directors. As part of the selection process and the ongoing review of the investment managers, the Trustee Directors consider how well each investment manager meets the Trustee Directors' policies and provides value for money over a suitable timeframe.

- Incentive arrangements for the investment manager to align its investment strategy and decisions with the Trustee Directors' policies

The Trustee Directors have delegated the day to day management of the Scheme's assets to various investment managers. The majority of the Scheme's assets are invested via a segregated mandate, where the investment objectives, constraints and incentive arrangements are set out in an Investment Management Agreement established between the Trustee Directors and the investment manager to align with the Trustee Directors' policies. In addition, the Scheme invests in a pooled fund that has been selected on the basis of the alignment of its policies and objectives with those of the Trustee Directors. All investment managers charge an annual management fee that incentivises them to adhere to their stated policies and objectives.

- Incentive arrangement for the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

The Trustee Directors, following advice received from their investment consultant, appoint their investment managers and where investment is via pooled funds choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon. In relation to the segregated mandate, which constitutes the majority of the Scheme's assets, the Trustee Directors have agreed appropriate arrangements to incentivise the investment manager to take into account certain financial matters in its investment decision making.

The Trustee Directors have decided not to take non-financial matters into account when considering their policy objectives.

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

The Trustee Directors expect their investment managers to invest the assets within their portfolios in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustee Directors review the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

If the Trustee Directors determine that an investment manager is no longer managing the assets in line with the Trustee Directors' policies, they will make their concerns known to the investment manager and may ultimately disinvest.

The Trustee Directors pay their investment managers a management fee which is a fixed percentage of assets under management. The pooled fund in which the Scheme invests also charges a performance related fee.

Prior to agreeing a fee structure, the Trustee Directors, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar mandates and in terms of the degree to which it will incentivise the investment manager.

- How the Trustee Directors monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee Directors, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustee Directors receive a report which includes the turnover costs incurred by the investment managers used by the Scheme.

The Trustee Directors expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by each investment manager, the asset class invested in and prevailing market conditions.

The segregated investment mandate includes an explicit portfolio turnover target consistent with the mandate's objective that is monitored via the investment manager's regular reports. The Trustee Directors do not explicitly monitor turnover, set target turnover or turnover ranges for the pooled fund investments. The Trustee Directors believe that the pooled fund investment managers should follow their stated approaches with a focus on risk and net return, rather than on turnover. In addition, the Trustee Directors recognise the potential for portfolio turnover to vary depending on market conditions.

- The duration of arrangements with investment managers

The remaining pooled fund in which the Scheme invests has a fixed term, albeit there is scope for the investment manager to extend the term by up to one year.

For the segregated investment manager, the Trustee Directors retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee Directors' policies. However, the Trustee Directors expect the investment manager's appointment to have a relatively long duration, subject to the investment manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

2.2.12 Additional assets

Some members have previously paid in additional voluntary contributions; however, this option is no longer available.

3. Myners Principles

The Myners review of “Institutional Investing in the UK” was published in March 2001. It included a set of 10 Principles that pension scheme trustee directors were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications on 2 October 2001. Pension scheme trustee directors were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues are included in the Statement.

The Myners Principles were subsequently reviewed in October 2008. The explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for trustee directors to act in a transparent and responsible manner. In making the following statements the Trustee Directors believe that they are complying with the spirit of these Principles.

3.1 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Scheme’s investments are included in Section 2.2.10.

3.2 Transparency & reporting

The Trustee Directors have discretion over the form of reporting they wish to undertake. This Statement provides the following details of the Trustee Directors’ investment approach:

Who is taking which decisions and why has the structure been selected?

- Details of the Trustee Directors’ decision-making structure are included in Section 2.1.

What is the Trustee Directors’ investment objective?

- Details of the Trustee Directors’ investment objectives are included in Section 2.2.1.

What is the Trustee Directors’ asset allocation strategy, including projected investment returns in each asset class, and how has the strategy been selected?

- Details of the Trustee Directors’ asset allocation strategy are included in the Appendix. The strategy was determined after taking advice from the investment consultant and consultation with the Sponsoring Employer and the Scheme Actuary.

What are the mandates given to all advisers and investment managers?

- The responsibilities of the Trustee Directors, the investment consultant and the investment managers are outlined in Section 3.3, while the nature of the investment mandates are summarised in the Appendix.

What is the nature of the fee structures in place for all advisers and investment managers; and why has this set of structures been selected?

- The approach to investment manager fees is detailed in section 2.2.11. Investment consulting fees are based on time-cost, which is translated into a fixed fee for material projects.

3.3 Appointments & responsibilities

3.3.1 Trustee Directors

The Trustee Directors' primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment policy. Once agreed, and after consultation with the Sponsoring Employer, a copy of this Statement will be given to the Scheme Actuary, will be made available on a publicly available website and will be made available to Scheme members on request.

- Appointing investment consultants, investment managers and a custodian bank as necessary for the good stewardship of the Scheme's assets.

- Reviewing the investment strategy alongside each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant and the Scheme Actuary.

- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).

- Monitoring compliance of the investment arrangements with this Statement on a regular basis.

- Monitoring compliance of the investment managers with their stated policies on ESG investment.

- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustee Directors in respect of the Scheme's equity holdings (monitoring of voting has been delegated to the investment consultant).

- Undertaking periodic reviews to assess the continuing suitability of the appointed custodian bank.

3.3.2 Investment consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustee Directors in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer.

- Undertaking project work including reviews of the long-term investment strategy, de-risking strategies, investment manager structure and the performance of the investment managers as required by the Trustee Directors.

- Advising the Trustee Directors on the selection and review of investment managers and custodian bank.

- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

- Monitoring the investment managers with regards to their policies on financially material considerations and advising the Trustee Directors on this as required.

3.3.3 Investment managers

The investment managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.

- Ensuring that investment of the Scheme's assets is in compliance with prevailing legislation and the constraints detailed in this Statement.

- Providing the Trustee Directors with regular (at least quarterly) reports including any changes to their investment process and a review of the investment performance.

- Attending meetings with the Trustee Directors as and when required.

- Informing the Trustee Directors of any changes to key investment personnel, fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur.

- Exercising voting rights on shareholdings in accordance with their general policy.

3.3.4 Custodian

The custodianship arrangements are a combination of a) those operated by the investment manager for all clients investing in the pooled fund and b) a direct custodian appointment (the global custodian) relating to the assets held on a segregated basis.

The custodians' main responsibilities include:

- The safe-keeping of the Scheme's assets for which they are responsible.

3.3.5 Administrator

The administrator's main responsibilities in respect of investment matters include:

- The day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustee Directors.

The Scheme's administrator is Buck.

3.3.6 Scheme Actuary

The Scheme Actuary’s main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme’s funding level and therefore the appropriate level of contributions in order to aid the Trustee Directors in balancing short-term and long-term investment objectives.

The Scheme Actuary is Vishal Makkar of Buck.

3.4 Performance monitoring

The Myners Principles recommend the following actions in respect of investment monitoring:

- Each of the vehicles in which the Scheme invests has a stated performance objective against which the performance is measured.

- The investment managers are expected to provide written reports to the Trustee Directors on a quarterly basis.

- The Trustee Directors will review the performance of the appointed investment managers from time to time, along with reasons for this performance.

The Trustee Directors receive an independent investment performance report from their global custodian on a monthly basis. In addition, they receive a monthly investment dashboard report and a quarterly investment monitoring report from their investment consultant.

This SIP supersedes all others and was approved by the Trustee Directors.

4. Appendix – Scheme's asset allocation

The Scheme follows a Cashflow Centred Investment strategy implemented primarily via a segregated portfolio consisting predominantly of investment grade corporate bonds and gilts. The portfolio is intended to meet the Scheme's projected net cash flows as they fall due, while minimising the volatility of the funding level as far as possible. This is achieved by holding investments that are expected to hedge a material portion of the Scheme's interest rate and inflation exposure as calibrated on a gilts flat basis.