Hydro 1988 Pension Scheme

Statement of Investment Principles

June 2024

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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.

The Trustee Directors have purchased bulk annuity contracts (the “buy-in policies”) that are expected to meet members’ DB benefits in full, notwithstanding certain residual liabilities (for example, in relation to the equalisation of Guaranteed Minimum Pensions), which are currently uninsured but will be added to the buy-in policies where appropriate.

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.

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 (including buy-in policy providers), prior to the preparation of this Statement and have consulted the Sponsoring Employer.

This Statement also reflects the requirements and recommendations within The Pensions Regulator's general code of practice, in respect of the DB assets and any additional voluntary contribution (AVC) arrangements.

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.

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.

The benefits payable under the Scheme have been secured under the terms of the buy-in policies, notwithstanding the residual uninsured liabilities referred to earlier in this Statement.

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.

The Trustee Directors' agreed investment strategy for the non-insurance assets (the "Residual Assets") is based on an analysis of the estimated residual liability profile, the required investment return and the returns expected from the various asset classes over an appropriate time horizon.

The Trustee Directors have translated their objectives into a suitable strategic asset allocation for the Scheme.

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.

The appointed investment managers are expected to hold an appropriately diversified mix of investments consistent with their agreed investment mandates. All of the Scheme's investments are held in pooled investment vehicles, cash in the Trustee Bank Account or the buy-in policies.

2.2.3 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 consider this risk to be materially mitigated through the purchase of the buy-in policies. The Trustee Directors have assessed the likelihood of undesirable financial outcomes arising in the future.

The investment strategy for the Residual Assets 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 investment strategy, 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 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;
- of fraud, poor advice or acts of negligence;
- of the buy-in policies failing to provide the desired benefit payments; and
- there are insufficient assets to meet the "true-up" payment due to buy-in policy providers after the policy inception date in the event of material changes in the data or benefits insured.

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 Directors have 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.

2.2.4 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.

2.2.5 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).

The Trustee Directors have purchased the buy-in policies to mitigate the economic and longevity risks associated with the liabilities of members covered by the policies, with insurance companies that are financially strong.

In addition to the buy-in policies, the Scheme also holds a portfolio of assets that are invested taking into account the approximate nature and size of potential residual uninsured liabilities.

2.2.6 Realisation of investments

The buy-in policies are illiquid investment and cannot be surrendered, sold or "cashed-in" in the future. They are held in perpetuity until the last payment is made or such time as they are converted to individual buy-out policies for insured members.

With the exception of the Private Markets Credit fund, the Residual Assets are held in high quality investments that are considered liquid and readily-realisable under normal market conditions.

2.2.7 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.

2.2.8 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.

2.2.9 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.

As all the Scheme’s investments are held in pooled investment vehicles, cash in the Trustee Bank Account or the buy-in policies, the Trustee Directors do not envisage being directly involved with peer-to-peer engagement in investee companies. They expect the investment managers 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.

Given the nature of the Residual Assets, there is limited scope for voting.

2.2.10 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 Scheme’s Residual Assets are invested in pooled funds that have been selected on the basis of the alignment of their 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 and the Private Markets Credit fund also charges a performance-related fee.

- 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 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.

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 Private Markets Credit 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 Trustee Directors do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee Directors believe that the 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 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.

The Private Markets Credit fund in which the Scheme invests has a fixed term, albeit there is scope for the investment manager to extend the term (subject to investor approval).

The buy-in policies are expected to be held until the last benefit payment is made or such time as they are converted to individual buy-out policies for insured members.

2.2.11 Additional assets

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

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 2.2.9.

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’ latest asset allocation strategy are available at request. 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 details of the investment managers are available at request.

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 2.2.10. 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, as frequently as 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 and investment managers as necessary for the good stewardship of the Scheme's assets.

- Setting investment objectives for the investment consultant (and reviewing these as frequently as every three years, and following any significant change to investment strategy), and reviewing the investment consultant's performance against these objectives at least annually.

- 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).

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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.

- 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 Buy-in policy providers

The main responsibilities of the buy-in policy providers include:

- Updating Scheme data and benefits as agreed with the Trustee Directors under the terms of the policies.

- Providing monthly payments to the Trustee Directors of specified benefits in respect of insured beneficiaries and dependants covered under the terms of the policies.

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 James Cook 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 a quarterly investment monitoring report from their investment consultant.

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

Distribution: Trustee Directors, Sponsoring Employer, Investment Consultant, Scheme Actuary, Investment Managers