Greene King Pension Scheme

Statement of Investment Principles

June 2024

Statement of Investment Principles

The Trustee of Greene King Pension Scheme ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Pensions, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee invests the assets in the best interests of members and beneficiaries and in the event of a potential conflict of interest, in the sole interest of members and beneficiaries.

The Trustee has considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over all decisions made about the investments in which the Scheme invests. The Trustee invests in a way that it believes will ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Investment Managers are authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

Investment objective and strategy

Investment objective

The Trustee has set the following objective:

- To achieve a fully funded position on a Technical Provisions basis. In particular, the discount rate used in calculating the value of assets required underpinning that target is Gilts + 0.5% p.a. pre- and post-retirement.
- To implement an investment strategy focussed on minimising investment risk whilst targeting a return sufficient to reach and maintain full funding on the Technical Provisions basis.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Scheme.
- To ensure that the Scheme's assets have sufficiently liquidity and meet benefit payments as they fall due.
- To adhere to the provisions contained within this SIP.

The Trustee believes the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Range of assets

The Trustee considers that the combination of the investment policy detailed and the specific manager mandates detailed in the Appendix will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustee or governing the pooled funds in which the Scheme is invested.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail below, the Trustee also requires the Investment Managers to take environmental, social and corporate governance ("ESG") factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk.

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP and invests the assets in what is deemed to be a low-risk manner by the Trustee.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustee may need to disinvest assets of the Scheme from time to time, in order to have sufficient assets within the Trustee's bank account to pay Scheme members' benefits. The Trustee will seek advice from the Investment Consultant regarding the appropriate source of disinvestments for the Scheme.

Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes, an assessment of the diversification of the assets held by the Investment Manager and the Investment Manager's ability to manage risk in accordance with the expectations of the Trustee. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies.

The Trustee receives quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection / Deselection Criteria

The criteria by which the Trustee will select (or deselect) the Investment Managers include:
> Ownership of the business;
> Leadership/team managing the strategy and client service;
> Key features of the investment and the role it performs in a portfolio;
> Philosophy and approach to selecting underlying investments including operational risk management and systems;
> Current and historical asset allocation of the fund;
> Past performance and track record;
> The underlying cost structure of the strategy;
> Consistency and extent to which ESG analysis is incorporated into the selection and stewardship of underlying investments.

Portfolio turnover

The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Responsible investment

The Trustee has considered its approach to ESG factors for the long term time horizon of the Scheme and believes there can be financially material risks relating to them. The Trustee is also mindful of the importance placed on ESG factors by the employer. The Trustee aims for its ESG policies to be consistent with those of the employer where possible. Having considered these risks, the Trustee has decided that it is most able to engage with and defend against such risks by delegating the ongoing monitoring and management of those ESG risks, including those related to climate change to the Scheme's Investment Managers.

The Trustee will seek advice from the Investment Consultant on the extent to which its views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Consultant, will monitor ESG and stewardship related activity and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

Monitoring asset managers and engagement

In pooled funds, the Trustee has limited influence over the managers' investment practices, particularly in relation to those pooled funds which are designed to track an index (passive funds) where the choice of the index dictates the assets held by the manager. The Trustee accepts that the role of the passive manager is to deliver returns in line with the index and this approach is in line with the basis on which their current strategy has been set. However, the Trustee will periodically review the indices employed for this purpose.

In relation to funds where the manager is permitted to make active decisions about the selection, retention and realisation of investments, the Trustee requires that the managers will consider all financially material factors, including ESG-related issues where permissible within applicable guidelines and restrictions. This will continue to be monitored through reports from Trustee's Investment Consultant.

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourages them to vote whenever it is practical to do so on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest policies and ESG considerations as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

In order to ensure sufficient oversight of the engagement and voting practices of its managers, the Trustee may periodically meet with its Investment Managers to discuss engagement which has taken place. The Trustee will also expect its Investment Consultant to engage with the managers from time to time as needed and report back to the Trustee on the stewardship credentials of its managers. The Trustee will then discuss the findings with the Investment Consultant, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustee recognises the Code as an indication of a manager's compliance with best practice stewardship standards.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation, then the Trustee may consider terminating the relationship with that Investment Manager.

The Trustee does not currently take account of non-financial matters in the selection, retention and realisation of investments.

Adopted on behalf of the Trustee in June 2024

Appendix Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below.

Asset class	Allocation (31 Dec 2023)	Manager and fund	Objective
Credit	36%	Insight Segregated Buy & Maintain Portfolio	Meet liability cashflows whilst providing efficient interest rate hedging through investment grade credit.
LDI	27%	Insight Segregated LDI Portfolio	Provide leveraged exposure to changes in real and fixed interest rates with the aim of liability matching.
Secured Finance	23%	Insight Secured Finance II	To provide an annual interest based return from investment grade public and private structured credit assets.
ABS	1%	Insight Global ABS Fund	Generate returns from income and capital appreciation in excess of a cash benchmark.
	1%	Insight High Grade ABS Fund	
	2%	Insight Liquid ABS Fund	Deliver absolute positive returns in excess of cash benchmark.
	11%	TwentyFour Sustainable Enhanced Income Fund	To provide a level of income relative to prevailing interest rates whilst maintaining a strong focus on capital preservation and sustainable investment opportunities.
Cash	Allocated within Insight Segregated Buy & Maintain and LDI portfolios	Insight Liquidity Fund	To provide stability of capital and daily liquidity with returns comparable to short-term sterling interest rates.
Total	100%*		

*Totals may not sum due to rounding. The above allocation is as at 31 December 2023, but cashflows and general market movements may mean the actual allocation deviates materially from this over time.

Liability hedging

This strategy is designed to achieve liability hedging of:

- c106% of the interest rate risk of the total liabilities, as measured under the Technical Provisions* basis, and
- c106% of the inflation risk of the total liabilities, as measured under the Technical Provisions* basis.

*These figures are based on liability calculations as at 30 June 2022.

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place.

Instead, the Trustee will review the allocation regularly and instruct the Investment Managers to rebalance the allocation on the advice of the investment consultant.

AVCs

The Trustee has made the following AVC investment options available to members of the Scheme:

- Utmost Life & Pensions;
- Clerical Medical funds held within Equitable Life;
- Prudential Assurance funds;
- Aviva funds.

The Trustee will review the AVC providers, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustee is aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

The Trustee consider that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.