

Statement of Investment Principles – Northern Foods Pension Scheme (November 2022)

Introduction

- 1 This document is the Statement of Investment Principles (the “SIP”) made by the Trustee of the Northern Foods Pension Scheme (the “Scheme”) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took advice from a suitably qualified firm and consulted 2 Sisters Food Group (the “Company”). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Investment objectives

- 3 The Trustee has the following investment objectives:
 - The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Company, the cost of current and future benefits which the Scheme provides, and to ensure the security, quality and profitability of the portfolio as a whole.
 - To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.
 - To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under the points above.

Investment strategy

- 4 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify risk exposures and to manage its investments effectively.
- 5 The investment strategy makes use of four key types of investments:
 - a range of instruments that provide a broad match to changes in liability values;
 - a portfolio of secure income assets;
 - a portfolio of opportunistic private markets, including distressed debt, private equity, infrastructure, UK real estate and global real estate; and
 - a diversified portfolio of return-seeking assets.
- 6 The Trustee has appointed an investment manager to manage the Scheme’s assets on a discretionary basis and to provide investment advisory services to the Trustee (the “Fiduciary

Manager”). The balance within and between these investments will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme’s investment objective set by the Trustee. The Fiduciary Manager’s discretion is subject to guidelines set by the Trustee in the Fiduciary Management Agreement between the parties as amended from time to time (the “FMA”). In exercising investment discretion, the Fiduciary Manager is required to act in accordance with its obligations in the FMA, including the guidelines and any investment restrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in this SIP. This ensures appropriate incentivisation and alignment of decision-making with the Trustee’s overall objectives, strategy and policies.

- 7 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.
- 8 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.
- 9 The expected return of all the Scheme’s investments will be monitored regularly and will be directly related to the Scheme’s investment objective.
- 10 The Trustee’s policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the allocation of the Scheme’s overall investments, where possible.

Investment managers

- 11 The Trustee has delegated investment selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustee in the FMA. Investments will be made by the Fiduciary Manager on behalf and in the name of the Trustee, either directly in pooled vehicles or by the appointment of third party investment managers to provide discretionary investment management services to the Trustee.
- 12 The Trustee considers the Fiduciary Manager’s performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that the Scheme’s investment portfolio, in aggregate, is consistent with the policies set out in this SIP, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee expects the Fiduciary Manager to:
 - check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee’s policies contained in the SIP;
 - set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the Trustee’s policies contained in the SIP.
- 13 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

- 14 The Trustee and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to the investment managers of certain pooled funds appointed where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.
- 15 The Trustee expects the Fiduciary Manager to select investment managers with an expectation of a long-term partnership with the Trustee, which encourages active ownership of the Scheme's assets. When assessing an investment manager's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment based purely on short-term performance but recognises that an investment may be terminated within a short timeframe due to other factors such as a significant change in the relevant manager's business structure or investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the Fiduciary Manager.
- 16 For most of the Scheme's investments, the Trustee expects the Fiduciary Manager to select investment managers with a medium to long time horizon, consistent with that of the Scheme. In particular areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.
- 17 The Trustee recognises that an investment's long-term financial success is influenced by a range of financially material factors including environmental, social and governance ("ESG") issues.
- 18 Consequently the Trustee (through the selection of the Fiduciary Manager with its approach to ESG issues as set out in paragraphs 20 and 21 below) seeks to be an active long-term investor. The Trustee's focus is explicitly on financially material factors. The Trustee's focus is explicitly on financially material considerations. The Trustee's policy is that non financially material or ethical considerations should be applied in instances where these do not impact the Scheme's ability to achieve long term growth in line with its overall objective.
- 19 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations, but has identified climate and human and labour rights as two of the biggest ESG risks facing the Scheme, and consequently, these are key areas of focus for the Trustee. The Trustee assesses that ESG risks, and in particular climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. Whilst the Trustee's policy is to delegate a number of stewardship activities to the Fiduciary Manager and its investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee incorporates an assessment of how well the Fiduciary Manager and investment managers exercise these responsibilities as part of its overall assessment of their performance.
- 20 The Fiduciary Manager has a dedicated sustainable investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment

manager selection and portfolio management process, with oversight undertaken on a periodic basis. The Trustee expects the Fiduciary Manager to assess the alignment of each investment manager's approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustee expects the Fiduciary Manager to engage with the Scheme's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the investment managers' approach to sustainable investment (including engagement) on a periodic basis and engage with the investment managers to encourage further alignment as appropriate.

- 21 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.
- 22 The Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable stewardship codes, in keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment and the UK Stewardship Code and is actively involved in external collaborations and initiatives.
- 23 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to its investment managers. The Fiduciary Manager assesses the voting policies of the investment managers that it appoints on the Trustee's behalf, for consistency with the Trustee's policies and objectives, as appropriate. The Fiduciary Manager has also appointed EOS at Federated Hermes to undertake public policy engagement and company-level engagement on its behalf. EOS at Federated Hermes also assists the Trustee's equity and corporate debt managers with voting recommendations.
- 24 The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial selection of an investment manager and on an ongoing basis. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Other matters

- 25 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 26 The Scheme previously provided the facility for members to pay AVCs into various funds managed by Clerical Medical in order to enhance their benefits at retirement.
- 27 The Trustee controls within the Scheme the investment arrangements of the former members of the Cavaghan and Gray Pension Scheme 1996. This is a defined contribution pension arrangement with no active members. Assets are invested with BlackRock, principally in the DC Balanced Growth Fund and with small allocations to the Cash and Pre-Retirement Funds. At

present, as former members approach retirement, no transfers are made between these funds because annuities are provided within the Northern Foods Pension Scheme. The Trustee will review this policy if it ceases to provide annuities within the Scheme.

- 28 It is the policy of the Trustee to review the performance of, and arrangements for, these assets annually.
- 29 The Trustee recognises a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager.

Solvency risk and mismatch risk:

- are measured through a qualitative and quantitative assessment of the expected development of the Scheme's funding level.
- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

Investment Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Scheme's assets to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the investment managers' investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Scheme over a specified period.
- is managed by the Scheme's administrator assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme (carried out within some of the pooled investment vehicles) which reduces the impact of exchange rate movements on the Scheme's asset value.

Custodial risk:

- is addressed through investment in pooled vehicles, with the pooled fund managers being responsible for selection of suitable custodians. In addition the Scheme's global custodian is responsible for sweeping un-invested cash balances into pooled cash funds, which are managed by a pooled fund manager who, in line with the Scheme's other pooled fund managers, is responsible for selecting the custodian for the cash funds.

Interest rate and inflation risk:

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.

- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives)) that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing monitoring and consideration of risks (such as derivatives risk) of this portfolio is undertaken by the Fiduciary Manager.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of country diversification within the policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Company and periodic independent covenant assessments.
- is managed through an agreed contribution and funding schedule.

Legal and operational risk:

- represents the risk that legal documents are inappropriate or that operational tasks are not completed correctly.
- is managed through the choice of investment managers and the appointment of legal advisors as appropriate.