

# The Paragon Pension Plan

## Statement of Investment Principles

### 1. Introduction

The purpose of the Statement of Investment Principles (“**the Statement**”) is to document the principles and policies governing decisions about the investment of the assets of The Paragon Pension Plan (“**the Plan**”). This Statement has been prepared by the Trustee of The Paragon Pension Plan (“**the Trustee**”) and is adopted with effect from February 2024. It replaces the Statement of Investment Principles dated September 2022.

The Statement sets out the Trustee’s policy for complying with the Pensions Act 1995, the Occupational Pension Scheme (Investment) Regulations 2005 and subsequent legislation and associated requirements. The Trustee consults this statement when making investment decisions to ensure that, where possible, their decisions are consistent with it.

The Trustee has consulted Paragon Banking Group plc (“**the Company**”), to seek the views of the Company on the Statement, and in preparing this Statement the Trustee has received written advice from the Plan’s investment consultant, Mercer Ltd, which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services.

The Trustee seeks to maintain a good working relationship with the Company and will discuss any proposed changes to the Statement with the Company. However, the Trustee’s fiduciary obligations are to the Plan’s members and will take precedence over the Company’s wishes.

The Plan’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document (“IPID”).

The Plan is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement.

Mercer has confirmed in writing to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005.

The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. The Trustee will review it at least once every three years and without delay upon a material change to the Plan or the Company.

## 2. Decision Making Structure

### 2.1 Overall investment policy falls into two parts:

- a) The *strategic management* of the assets is fundamentally the responsibility of the Trustee, acting on expert advice, and is driven by the investment objectives as set out below. The Trustee reviews the investment policy on a regular basis, although it is not expected to change frequently. Details are set out in Sections 3 and 4.
- b) The *implementation* of the investment policy occurs through the day to day management of the assets which is largely delegated to the Trustee's selected investment managers ("**the Managers**"). Details are outlined in Section 5 with full details in the IPID which the Trustee reviews annually or when required.

## 3. Strategic Management

### 3.1 Process for Choosing Investments

The Trustee has considered its investment and funding objectives together and in light of the strength of the Company covenant to ensure that all three are compatible and supportable. The Trustee has then constructed a portfolio of investments consistent with these objectives and which it hopes will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

The Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which will include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Plan. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Plan the Trustee has obtained and considered the written advice of Mercer Ltd, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### 3.2 Investment Objectives

The objectives set out here, and the risks and other factors referenced, are those that the Trustee determines to be financially material considerations relating to the Plan.

To guide the Trustee in its strategic management of the assets and control of the various risks to which the Plan is exposed, the Trustee has considered its objectives and adopted the following:

- The Trustee's overall investment policy is guided by an objective of achieving, over the long term, a return on the investments that is consistent with the contribution framework agreed with the Company to eliminate the ongoing (i.e. Technical Provisions "TP") funding deficit by 30 November 2023, to ensure that it can meet its obligations to the beneficiaries of the Plan.
- To operate funding and investment strategies in a coordinated approach. Variation in the funding position (in particular improvements) may be reflected in the level of risk in the investment strategy.

- The Trustee appreciates that the Company wishes to avoid significant volatility in their contribution rate, but some volatility will be tolerated if it is deemed necessary in the achievement of other objectives.

The Trustee regards the likelihood of failing to meet the objectives above as a major risk. The Trustee's policy for measuring and managing risk is outlined below.

Given the nature of the liabilities, the investment time horizon of the Plan is potentially very long-term, i.e. several decades. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Plan's investment horizon significantly.

### 3.3 Investment Risk Measurement and Management

There are various risks to which any pension plan is exposed, which the Trustee believes may be financially material to the Plan.

Overall, the Trustee primarily measures and manages investment risk through review and implementation of the Plan's investment strategy (outlined in Section 3.4 and in the Plan's IPID). The Trustee reviews the appropriateness of this strategy on a regular basis.

The primary investment risk faced by the Plan is a deterioration in the value of assets relative to the value of the liabilities, as assessed on the Trustee's funding basis, beyond the level that the Company is comfortable rectifying through additional payments. This has therefore been the Trustee's primary focus when setting investment strategy.

Key strategic investment risks that impact on the above primary risk are as follows:

- Interest rate risk - the risk that the assets do not move in line with the value placed on the Plan's liabilities in response to changes in interest rates.
- Inflation risk - similar to interest rate risk but concerning inflation.
- Credit risk - the risk that one party to a financial instrument will cause a financial loss to the Plan by failing to discharge an obligation.
- Currency risk - the risk that the value of the overseas assets changes relative to the Sterling based liabilities due to exchange rate fluctuations.
- Equity market risk - the risk that equity values fluctuate.
- Liquidity Risk - the ease with which assets are marketable and realisable.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 6.

The Trustee recognises that whilst increasing risk increases potential returns over the longer term, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the Plan's funding position.

To manage investment risks the Trustee has established an investment policy designed to reduce risk, without damaging the Plan's long term return prospects, using asset-liability modelling conducted by its professional advisors, which measures the contribution of different risk factors to overall Value at Risk ("VaR").

In particular:

- To control interest rate and inflation risk the Trustee has developed a Liability Driven Investment (“LDI”) framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The LDI portfolio is expected to hedge c82 % of interest rate and inflation risk, relative to liabilities on a gilts + 0.6% p.a. basis (where the hedge ratio is monitored and managed within tolerances by the Plan’s LDI manager). The Trustee recognises that the target LDI portfolio will not produce a perfect match for the liability values.
- The Plan’s LDI portfolio is invested on a pooled fund basis. However, the underlying investments include derivative exposures that introduce other specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:
  - basis risk (the risk that the derivative invested in does not perfectly match the physical asset that the derivative has replaced);
  - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);
  - recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);
  - collateral and counterparty risk (the risk that the party with whom the LDI manager has contracted defaults and that any collateral is insufficient to make good any resulting loss);

These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks materialising is low and/or the impact of them is low.

- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds that are predominantly of investment grade quality.
- Currency risk is managed through the total allocation to overseas markets and consideration of currency hedging.
- Equity market risk is managed via the strategic allocation and by holding a diversified portfolio of companies globally by stock, sector and market region. Overseas currency risk resulting from equity investment is partially hedged back into Sterling.
- Regarding liquidity risk, the Trustee believes that the majority of the Plan’s investments are realisable at short notice in most prevailing market conditions.

The Trustee also recognises the following risks and takes the following steps to manage risk:

- The risk of the Plan winding up with insufficient assets to secure accrued liabilities in full with an insurance company.
- Risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan’s assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The risk that the day-to-day management of the assets will not achieve the rate of return expected by the Trustee. As well as having exposure to the market risks outlined above, the Trustee recognises that the use of active management involves such a risk. The Trustee believes that this risk is outweighed by the potential gains from successful active management.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.
- Arrangements are in place to monitor the Plan's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. The Trustee meets periodically with the Plan's active managers and receives regular reports from all the investment managers and Mercer.
- Across all of the Plan's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Trustee will consider these risks when setting its investment strategy.
- The Trustee's willingness to take on investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute to the Plan. The strength of the Company and its perceived commitment to the Plan is monitored by the Trustee and risk will be reviewed if either of these deteriorates.
- The degree of investment risk the Trustee is willing to take also depends on other circumstances, including the financial health of the Plan, the Plan's liability profile and any change to the investment time horizon (for example, in the event of the Plan winding up). The Trustee will monitor these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in these factors.

### 3.4 Investment Strategy and Expected Return

The Trustee has agreed, based on expert advice, an investment strategy that is consistent with the Trustee's funding and investment objectives. The investment strategy is outlined in the table below. Full details are set out in the IPID.

<b>Asset Class</b>	<b>Strategic Guide (%)</b>
Equities	21.0
Diversified Growth	10.0
Mult-Asset Credit	15.0
Absolute Return Bonds	4.0
Buy & Maintain Credit	8.0
Liability Driven Investments ("LDI")*	42.0
<b>Total</b>	<b>100.0</b>

\*LDI may include physical gilt and index-linked gilt holdings, as well as partially funded exposure to changes in interest rates and inflation through pooled vehicles with underlying exposure to derivative contracts including interest rate and inflation swaps, total return swaps and gilt repo. It may also include cash/liquidity.

The Trustee expects to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Plan's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.

The investment strategy is reviewed regularly by the Trustee to ensure that it remains appropriate for meeting the objectives set out in 3.2 and for controlling the risks identified in 3.3.

### 3.5 Pension Funding Partnership ("PFP")

The Trustee also has a holding in a PFP arrangement. This is not considered to form part of the Plan's formal investment strategy due to the unique structure and illiquid nature of the asset. The value of the PFP is, however, included in the overall value of the assets when assessing the funding level including on a Technical Provisions basis. As such, the PFP provides additional security to the Plan's financial status and this factor is considered by the Trustee when assessing the overall level of investment risk that is deemed acceptable. Further details are set out in the IPID.

### 3.6 Consultation with the Participating Employer

As required by the Pensions Act 1995 and as a matter of good practice, the Trustee has consulted with the Company concerning the Plan's investment arrangements set out above.

## 4. Asset Allocation Strategy

### 4.1 Main Assets

The Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that it will achieve its investment objectives. In deciding the asset allocation strategy, the Trustee has taken advice from Mercer and has made decisions in consultation with the Company.

The Trustee monitors the continued appropriateness of the strategy on an ongoing basis with the help of its advisors. However, the strategy will be reviewed in depth after each triennial actuarial valuation, though if there is a significant change in the capital markets, the circumstances of the Plan and/or the Company, or governing legislation between valuations, then an earlier review will be conducted.

The overall investment strategy and manager structure is outlined in Schedule B of the Plan's IPID. In addition, the Trustee's policy is to endeavour to secure the safety of the Plan's assets from a custody perspective. Custodial arrangements are outsourced to the preferred custodian of the Managers.

### 4.2 Selection, Retention and Realisation of Investments, Rebalancing Policy and Cashflow Policy

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Plan's overall strategic allocation and consistent with the overall principles set out in this Statement.

In order to maintain the strategic asset allocation policy, the Trustee has established a formal rebalancing mechanism which is implemented by the Managers. More details are provided in Schedule C of the IPID.

In general, the Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, subject to the relevant appointment documentation and pooled fund prospectuses, but would be

responsible for generating any cash required for benefit outgo and other expenditure on the instruction of the Trustee.

The current cashflow policy for new contributions and disinvestments is provided in Schedule C of the IPID.

## 5. Investment Management Structure and Portfolio Construction

### 5.1 Investment Managers

The Trustee delegates the day-to-day management of the assets, including selection, retention and realisation, to a number of investment managers across a range of mandates. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate. The Trustee regularly reviews the continuing suitability of the Plan's investments, including the appointed managers. It does so via regular reports and presentations from the appointed managers with the assistance of the Plan's appointed investment advisor. Any adjustment would be done with the aim of ensuring consistency with this Statement.

Details of the appointed managers and their mandates are outlined in the IPID.

The Trustee is satisfied that the spread of assets by type and the Managers' policies on investing in individual securities within each type should provide adequate diversification of investments.

Section 8 of this Statement sets out how the Trustee incentivises investment managers, where applicable, to operate in line with the Trustee's objectives.

### 5.2 Portfolio Construction

The Trustee has adopted the following control framework in structuring the Plan's investments:

- There is a role for both **active and passive management**. Passive management involves employing investment managers to track the return of a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with the risk that they will underperform. By employing both, the Trustee aims to take advantage of active management where it believes it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.

Approximately 29% of the Plan's total assets will be managed actively across a number of alternative asset and bond mandates. The remaining 71% will be invested in a combination of passive equities, a Plan specific LDI portfolio and a "Buy and Maintain" credit mandate.

- The Trustee recognises that active management gives rise to active risk, examples of which are:
  - Active management within an asset category, defined as holding a combination of securities that differs from the asset class benchmark.
  - Active management across asset categories, which arises when the combination of asset categories held differs from that of the benchmark.

- Skill-based investment strategies, e.g. market-neutral and arbitrage strategies, which are usually largely made up of active risk.
  - Manager selection risk arises due to the potential for selecting an active manager that underperforms its benchmark on a net of management and transaction fees basis.
- To help **diversify** manager specific risk, more than one manager has been appointed.
  - At the total Plan level and within individual manager appointments investments should be **broadly diversified** to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.
  - As noted in Section 3.3, due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via **pooled vehicles**.
  - **Specialist managers** are preferred over generalists because of the potential to access a higher level of expertise.
  - The amount invested in **highly concentrated portfolios** will take into account the level of risk this represents. In any event concentrated investments are expected to form an insignificant or small proportion of total Plan assets.
  - The Trustee recognises that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Given the long-term investment horizon of the Plan, it believes that a degree of liquidity risk is acceptable because it expects to be rewarded for assuming it.
  - Investment in **derivatives** is permitted either directly or within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).
  - Investment may be made in securities that are not traded on **regulated markets**. The Trustee recognises the associated risks of these investments, in particular liquidity risk, and will consider its tolerance to these risks in setting a strategic allocation to such securities.
  - The Trustee will not invest directly in the **Employer** or associated companies, but acknowledges that indirect investment is possible as a result of the investment policies of the Plan's pooled investment managers. The Trustee will invest in such a way that indirect exposure will not exceed 5% of total assets.
  - No investment is permitted by an appointed investment manager in the securities issued by the relevant **manager's company or any affiliated companies** (other than any such securities held within a pooled fund in which the Trustee invests).
  - **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustee as part of the onboarding process for new investments.
  - The safe **custody** of the Plan's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).



### 5.3 Manager Selection

The Trustee's process for appointing managers is as follows:

- 1) Identify the mandate to be awarded including benchmark and outperformance target.
- 2) Review the consultant's recommendations, including where possible:
  - a) Detailed description of organisation, relevant individuals, investment process (including integration of ESG considerations);
  - b) Past performance of representative portfolios against benchmark;
  - c) Screening of portfolio structure against benchmark; and
  - d) Suitable combinations of managers.
- 3) Negotiate and agree investment management agreements including: fee structure, permitted and prohibited securities, benchmark, outperformance target and tolerance for underperformance.
- 4) Appoint managers on the agreed terms and conditions.

## 6. ESG, Stewardship and Climate Change

The Trustee believes that financially material factors, including environmental, social, and corporate governance (ESG) factors, are likely to have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that will apply over the Plan's investment time horizon (i.e. potentially several decades in the absence of future liability transfer) and increasingly will require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Plan's assets are invested in pooled vehicles and the day-to-day management of the assets has been delegated to investment managers, including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustee engages with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt investments, as appropriate, and covers a range of matters, including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustee accepts that the primary role of its passive manager(s) is to deliver returns in line with the chosen benchmark index and believes this approach is in line with the basis on

which the current strategy has been set. Following a review of the Plan's passive equity mandate in 2022, the Trustee has changed the pooled fund equity investments from those which are benchmarked against broad market capitalisation indices, to a range of pooled funds which aim to provide exposure to companies with comparatively better ESG characteristics, including lower exposure to carbon.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee will challenge managers who it believes are taking insufficient account of ESG considerations in implementing their mandates. The Trustee will also monitor investment manager engagement activity (such as voting) at least annually.

The Trustee has not set any investment restrictions on the appointed investment manager(s) in relation to particular products or activities, but may consider this in future.

## **7 Non-Financial Matters**

"Non-financial matters" (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. In reaching this decision, the Trustee recognises both the challenges of engaging a properly representative sample of members and the potential for a lack of consensus. The Trustee would review this policy in response to significant member demand.

## **8 Investment Manager Arrangements**

The Trustee aims to have in place investment arrangements that are consistent with the Plan's overall long term objectives and investment principles. The Trustee monitors manager performance and performance prospects against targets that are consistent with these objectives and principles accordingly. The ability to replace a failing manager (and hence deprive the manager of fee income) incentivises each manager to achieve these targets. The following paragraphs set out the Trustee's policy in more detail.

### **8.1 Alignment of Investment Manager Objectives and Incentivisation**

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

Where relevant, the Trustee specifies the investment objectives and guidelines in an Investment Management Agreement ("IMA") and sets these so that they are in line with the Trustee's specific investment requirements. In relation to pooled investment

vehicles, the Trustee accepts that they have no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee's own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at relatively short notice. The Trustee notes that in exceptional market conditions, leading to a temporary reduction in liquidity, a reduction in normal dealing frequency may be possible for a proportion of the Plan's investments, particularly for semi-liquid asset classes such as multi-asset credit.

If an investment manager is identified by the Trustee as not achieving its mandated objectives via its performance assessment process it would be subject to closer scrutiny by the Trustee. A first step would be for the Trustee to understand, with the assistance of the investment advisor, the cause for underperformance / failure to achieve a stated objective. This would be achieved, for example, through a combination of written reporting, presentations from the manager and associated questioning from the Trustee, as well as considering the views of the investment advisor. Further details on the Trustee's performance assessment process are outlined in 8.2 below.

Ultimately, if the Trustee has a reduced level or loss of confidence in the investment manager's ability to achieve its mandated investment objective(s) on a forward-looking basis the Trustee will consider terminating the investment manager's appointment.

Investment managers are therefore incentivised both to achieve the mandated objectives, consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

## 8.2 Performance Assessment and Fees

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and periodic presentations from the investment managers.

It is the Trustee's policy that the Managers should report in writing each quarter. It is the Trustee's policy to meet the Managers from time to time and as required.

It is the Trustee's policy to receive independent written reports from Mercer detailing performance, asset allocation, manager research ratings (including ESG ratings as outlined in Section 6) and other findings and views of Mercer's manager researchers, based on its regular meetings with the Managers.

Plan performance is measured against the strategic benchmark which is comprised of the asset class benchmarks weighted by the strategic allocations. Investment manager/mandate returns (and their associated volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets as set out in schedule B of the IPID.

As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of the investment advisor, when assessing investment managers, which may include:

- Personnel and business change
- Portfolio characteristics (including risk and compatibility with objectives) and turnover
- Voting and engagement activity
- Service standards
- Operational controls
- The advisor’s assessment of ongoing prospects based on their research ratings

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees may also be in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustee will consider introduction of performance related fees on a case by case basis where not in operation and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

### 8.3 Portfolio Turnover Costs

Turnover costs arise from a) “ongoing” transactions within an investment manager’s portfolio and b) “cashflow” costs incurred when investing in or realising assets from a mandate. As such, The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management.

The Trustee has not historically monitored investment managers’ ongoing transaction costs explicitly but has measured these implicitly through ongoing performance assessments which are net of these costs. The Trustee will now seek explicit reporting on ongoing costs for all appointed managers. However, the Trustee has not set an explicit portfolio turnover target as it believes that the investment managers are best placed to determine what level of portfolio turnover is appropriate in the funds that they manage. Appropriate levels of turnover will vary by mandate. The Trustee will investigate if turnover levels appear unduly high.

The Trustee does not monitor regular cashflow costs (but seeks to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via the investment consultant.

## 9. Additional Voluntary Contributions (“AVCs”)

Members of the Plan, who wish to do so, may pay AVCs. However, these are paid into a separate arrangement outside of the Plan organised by the Company.

## 10. Investment Advisor Fee Structure

The fees for Mercer are either based on fixed quotes for core services and particular projects or on time cost. To ensure that the advisors continue to provide appropriate advice, the Trustee will formally assess their investment advisors from time to time.

## 11. Compliance and Review of Statement

The Trustee will monitor compliance with this statement annually, and in any event will review the Statement at least every three years and without delay after any significant changes in investment policy.

The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee and the Company which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation or other actuarial advice. Any such review will again be based on written expert investment advice and the Company will be consulted.

**February 2024**

**Paragon Pension Plan Trustees Limited, for and on behalf of The Paragon Pension Plan**