

Cadent Gas Pension Scheme

Statement of Investment Principles (“SIP”)

Purpose of this Statement

This SIP has been prepared by the Trustee of the Cadent Gas Pension Scheme (the “Scheme”). This statement sets out the principles governing the Trustee’s decisions to invest the assets of the Scheme.

The Scheme’s investment strategy is derived from the Trustee’s investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Governance

The Trustee of the Scheme makes all major strategic decisions including, but not limited to, the Scheme’s asset allocation on a regular basis and, from time to time, considers any rebalancing or de-risking, and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee’s investment advisers, Isio Group Limited, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers’ remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

Investment objectives

The primary objective of the Trustee is to ensure that all members’ current and future benefits can be paid. The Trustee’s willingness to take investment risk depends on the Scheme’s funding position, the financial position of Cadent Gas Limited, the principal employer (the “Company”), and the willingness and capacity of the Company to contribute to the Scheme.

The Scheme’s funding position will be reviewed following triennial actuarial valuations and more frequently whenever required to assess the position relative to the funding objective and whether the investment arrangements remain appropriate to the Scheme’s circumstances. The Scheme’s funding objective is specified in the Statement of Funding Principles.

The financial strength and commitment of the Company is monitored regularly by the Trustee. The Trustee regularly receives advice from its appointed covenant advisers, and the Trustee will review the level of investment risk relative to the liabilities should the Company’s position change.

The Trustee, in consultation with the Company, has agreed the following key investment objectives:

- Maintain a long-term journey plan
- Minimise / avoid undue volatility in the Scheme’s funding level and the Company’s contribution rate.

- Minimise the long-term costs for the Scheme by maximising the return on the assets whilst having regard to the other objectives and the Scheme Actuary's funding assumptions.

The Trustee will invest the assets in a manner which is appropriate given the nature and duration of the expected future benefits, taking account of the security, quality and liquidity of the overall portfolio.

These objectives are not mutually exclusive. In setting long-term investment strategy, the Trustee has to balance the achievement of one of the goals against the others.

Investment strategy

The Trustee takes a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix A. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to generate sufficient income and capital growth, together with the contributions from active members and the Company, to meet the liabilities, and also by investing in a suitably diversified portfolio of assets with the aim of appropriately managing volatility relative to the liabilities.

The assets of the Scheme consist predominantly of investments which are traded on regulated markets. The level of assets not traded on regulated markets is monitored by the Trustee with a view to keeping them at a prudent level.

The Trustee consults with the Company on key elements of the investment strategy including, but not limited to, the evolution of the interest and inflation rate hedging arrangements, the expected portfolio return to be targeted, and the risk budget the Scheme will work to.

Liability hedging assets

The Trustee has a clearly defined liability hedging policy, which identifies the target hedge, hedge basis and how this is implemented.

Investment Beliefs

The Trustee maintains a set of agreed investment beliefs they have adopted to guide future decisions relating to the investment of the Scheme. These investment beliefs reflect the Trustee's core, long-term views and are reviewed periodically.

Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Scheme. The investment managers are regulated under the Financial Services and Markets Act 2000 where they are required to be so.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets against which the investment managers are evaluated. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

The Trustee reviews the level of turnover experienced in the investment managers' portfolios periodically to check they are reasonable.

The Trustee reviews the level of fees charged by the investment managers periodically to check they remain competitive relative to the market.

The Trustee has appointed a custodian to operate alongside the investment managers in place. The custodian provides safekeeping for the Scheme's assets, and performs all associated administrative duties such as the collection of dividends.

Liability Management

In acting to meet its investment objectives, the Trustee recognises the risks relating to the liabilities of the Scheme and the manner in which they might increase. In order to meet the risk of any such increase the Trustee may, on appropriate advice, enter into such insurance, derivative or other hedging contracts, and provide such collateral, warranties and indemnities as it considers appropriate. In entering into any such arrangement, regard shall be taken to the investment risks set out in Appendix A below.

The Trustee also pays due regard to the restrictions on the use by pension scheme trustees of derivatives contained in the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations"). In particular Section 8 of the Regulations states:

"Investment in derivative instruments may be made only in so far as they –

- (a) contribute to a reduction of risks; or
- (b) facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk),

and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations."

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<ul style="list-style-type: none"> The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting. The Scheme's investment managers are invited to present to the Trustee on their performance, strategy and risk exposures. 	<ul style="list-style-type: none"> There are significant changes made to the investment strategy. The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. The Trustee receives information from its investment advisers on the investment managers' approaches to engagement. 	<ul style="list-style-type: none"> The investment manager has not acted in accordance with their policies and frameworks. The investment manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The Trustee may hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, including exposure

through investments in collective investment schemes up to a maximum of 5% of the Scheme's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from its investment advisers.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the Company and took appropriate written advice. The Statement is reviewed at least once every three years or sooner if there is reason to do so, for example following a significant change in the investment arrangements.

Adopted by the Cadent Gas Pension Trustee Limited with effect from:

Date: 28 September 2020.....

Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks recognised within this framework, and details of how they are managed, are stated below:

Risk	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none">• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.• Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cashflows.	<ul style="list-style-type: none">• Funding risk is considered as part of the investment strategy review and the actuarial valuation.• The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none">• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant, ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, as summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	Managed by hedging interest rate and inflation risks at an appropriate level through a Liability Driven Investment (LDI) portfolio
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members' benefits as they fall due (including unforeseen transfer values), and to provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Manager	Underperformance relative to manager benchmarks.	To compare the actual deviation of returns relative to the benchmark against the expected deviation and factors supporting the managers' investment process.
Counterparty	Default by counterparties to financial transactions.	To maintain an appropriately diversified range of counterparties and a suitable collateralisation process where appropriate. The Trustee has delegated the measurement and management of counterparty risk to the relevant investment managers.
Custodian	Failure / collapse of custodian or fall in operational standards.	To monitor the custodial arrangements against pre-agreed service levels and report regularly to the Trustee.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.

Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion: 1. Responsible Investment ('RI') Policy / Framework 2. Consideration of ESG factors integrated into investment process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustee monitors the managers on an ongoing basis. The Trustee discusses relevant ESG policies with the Company.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To implement a currency hedging programme (through a combination of segregated currency hedging overlay and currency hedging carried out by some of the investment managers) which reduces the impact of exchange rate movements on the Scheme's asset value.
Political	Impact on investment returns from political changes or instability.	Regular reviews of actual investments relative to policy and geographical diversification within the existing strategy.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	The Trustee does not take into account non-financial matters in the selection, retention and realisation of investments.

Appendix B – Alignment of Managers’ Interests with Scheme

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • Where the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. The Trustee has segregated arrangements with some investment managers, thereby allowing investment managers to align their strategy with the Trustee’s policies. This is reviewed on an ongoing basis. • A small proportion of the Scheme’s mandates are subject to a performance related fee.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long term.</p>	<ul style="list-style-type: none"> • The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Trustee reviews the performance of all the Scheme’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years. • Investment manager fees are checked quarterly (or when they arrive) to make sure the correct amounts have been charged and the fee rates are reviewed periodically to check that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted</p>	<ul style="list-style-type: none"> • The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

<p>portfolio turnover or turnover range.</p>	
<p>The duration of the Scheme's arrangements with the investment managers</p>	<ul style="list-style-type: none"> • The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. <ul style="list-style-type: none"> ○ For closed ended funds or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements. ○ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.