

STATEMENT OF INVESTMENT PRINCIPLES

Purpose of this Statement

This Statement of Investment Principles (the “Statement”) has been prepared by Cadent Gas Pension Trustee Limited (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 appropriate training and proper written advice from its advisers. The Trustee’s investment consultant is qualified by its ability in and practical experience of financial matters and has the appropriate knowledge and experience. The investment consultant’s remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining the best value for the Scheme. Where appropriate, the Trustee may also obtain legal advice on the terms of its investments.

Investment objectives

The Trustee’s primary objective is to ensure that there are sufficient assets to pay benefits to all members’ and their beneficiaries’ current and future benefits, to which they are entitled under the Rules of the Scheme and as required by legislation. The Trustee’s willingness to take investment risk depends on the Scheme’s funding position, the financial position of Cadent Gas Limited, the sponsoring 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 adviser, 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 Company contributions required to fund the Scheme, and also the strength of the 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 actual performance of the assets and the assumed performance for the purposes of calculating the value of the Scheme's 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.

Collateral management

The Trustee has adopted a collateral framework which defines the strategic level of collateral to be held, the collateral waterfall order and the monitoring structure. The framework is reviewed at least annually, or as soon as possible in the event of significant market movements.

The Trustee monitors the working cash balance quarterly, with the aim to maintain a balance equal to around three months of net benefit payments.

Investment Beliefs

The Trustee maintains a set of agreed investment beliefs they have adopted, which provides a framework for consistent and effective investment decision making. These investment beliefs reflect the Trustee's core, long-term views and are reviewed periodically.

Environmental, Social, Governance (ESG)

The Trustee maintains an ESG Policy which recognises, consistent with the importance of being a responsible steward of assets, its fiduciary duty and legal duty to consider factors that are ESG related. These factors, including, but not limited to climate change, can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee expects the investment managers, where appropriate, to take account of ESG factors in the selection, retention and realisation of investments. In addition, the Trustee and its investment consultant take into account the investment managers' policies in relation to ESG factors when selecting investment managers and also monitors its compliance with such policies.

Stewardship

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, protect and enhance the long-term value of investments and believes these practices are therefore in members' best interests.

In line with best practice, the Trustee has set stewardship priorities aligned to its investment and ESG beliefs. The stewardship priorities are based on the following four UN Sustainability Development Goals:

- Climate Action
- Affordable and clean energy
- Decent work and economic growth
- Industry, innovation and infrastructure

The Trustee will monitor the priorities periodically by assessing how the investment managers' stewardship activity is aligned to the priority.

Although the Trustee believes the investment managers are best placed to conduct stewardship given their expertise and access to company management, the Trustee with its investment managers as part of its stewardship monitoring process or, potentially, as a particular stewardship matter is brought to its attention.

Monitoring will be focussed on the investment managers' engagement activities with the issuers since the Scheme has no exposure to listed equities with voting rights. If a manager's level of engagement was viewed to be unsatisfactory, the Trustee would escalate this to the investment manager. If the Trustee's engagement with the investment manager did not result in any improvement over a reasonable period of time, the Trustee would consider whether the specific circumstances justified the termination of the mandate.

The Trustee expects its managers to engage on relevant matters including ESG and climate change related issues, alongside other financially material matters such as performance, strategy, risks, capital structure, conflicts of interest policies.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes and sign up and comply with common codes such as the United Nations-supported Principles for Responsible Investment (UN PRI) and Stewardship Code.

The Trustee reviews engagement activity undertaken by its investment managers as part of its broader monitoring activity.

Investment Management Arrangements

The Trustee has appointed a number of investment managers to manage the assets of the Scheme. The Trustee has taken advice from the investment consultant on the appropriateness of the managers and its legal adviser on the terms of appointment of managers. 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 fees paid to the investment managers comprise a base fee plus, where appropriate, an additional performance related fee. 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.

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.
ESG 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 consultant on the investment managers’ approaches to engagement. • The Trustee will engage, via its investment consultant, with investment managers and/or other relevant persons, about “relevant matters”* (including but not limited to financially material matters and factors that impact on investments) and the Scheme’s stewardship priorities) at least annually. The Trustee will share any agreed stewardship priorities to ensure alignment in voting and engagement activity. 	<ul style="list-style-type: none"> • The investment manager has not acted in accordance with their policies and frameworks (including stewardship priorities). • The investment manager’s policies and stewardship priorities are not in line with the Trustee’s policies in this area.

*The regulations define “relevant matters” as matters concerning an issuer of debt or equity including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

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 consultant.

Compliance

This Statement has been prepared in compliance with Section 35 of the Pensions Act 1995, the Pensions Act 2004 (as amended), 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. The Statement is effective from the date shown at the end of the document which is also the date of the latest review. This Statement supersedes all previously adopted versions.

Other sources

In addition to this Statement, the Trustee also maintains other documents which relate to the investment of the Scheme's assets as part of its overall governance of the Scheme.

Adopted by Cadent Gas Pension Trustee Limited with effect from:

Date: 29 October 2024

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 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 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' and their beneficiaries' benefits as they fall due (including unforeseen transfer values), and to provide collateral to the LDI manager.

Risk	Definition	Policy
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 and custodian.
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.
ESG	Exposure to ESG factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion:</p> <ol style="list-style-type: none"> 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 6. UK Stewardship Code signatory 7. The Trustee monitors the managers on an ongoing basis. 8. The Trustee discusses relevant ESG policies with the Company.

Risk	Definition	Policy
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 no 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, and by setting clear expectations of the investment managers and regular monitoring of the investment managers’ performance, the investment managers are expected 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’ stewardship, engagement and voting activity on an annual basis as part of their ESG monitoring process, as well as when meeting with the managers. • 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 and measures the performance against investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 years, 5 years and since inception of the mandate. • 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 portfolio turnover* or turnover range.</p>	<ul style="list-style-type: none"> • The Trustee monitors the portfolio turnover costs periodically. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
<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.

<p>Voting policy – How the Trustee expects the investment managers to vote on its behalf</p>	<ul style="list-style-type: none"> • The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme’s investment managers on their behalf.
<p>Engagement policy – How will the Trustee engage with investment managers, direct assets and others about “relevant matters”</p>	<ul style="list-style-type: none"> • The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme’s investment managers on their behalf. • The Trustee, via its investment consultant, will engage with managers about ‘relevant matters’ (including the Scheme’s stewardship priorities) at least annually. • Example stewardship activities that the Trustee has considered are listed below. <ul style="list-style-type: none"> - Selecting and appointing asset and managers – the Trustee will consider potential managers’ stewardship policies and activities. - Asset manager engagement and monitoring on an annual basis, the Trustee assesses the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustee’s investment decision making. - Collaborative investor initiatives – the Trustee will consider joining/ supporting collaborative investor initiatives.

**Portfolio turnover is defined as changes to the underlying holdings in the portfolio as a result of manager activity or changes in investment strategy. The Trustee’s strategy is to minimise portfolio turnover and therefore portfolio turnover costs but subject to any rebalancing guidelines.*