Cadent | Gas Pension Scheme.

INVESTMENT BELIEFS

The Cadent Gas Pension Scheme ("the Scheme") exists to pay the benefits due to its members (the "**liabilities**"). As the Trustee, we have established a set of investment beliefs to guide our decisions when investing the Scheme's assets. These investment beliefs are set out in this document and reviewed every year.

Our Investment Beliefs:

- **Our priorities are our members and sustainability:** Our primary responsibility is to act in the best financial interest of our members, but we will also be mindful of the sustainability impact of investments.
- **We take a variety of approaches to manage risk:** Markets are complicated and can be unpredictable, and risks need to be managed using multiple approaches and with reference to the liabilities.
- **We diversify investments to manage risk:** Diversification across different geographies and asset classes and thoughtfully picking different investments can improve our investment portfolio. Doing this can reduce risk without impacting potential returns.
- **We consider long-term sustainable impacts:** Sustainable investment means investing in companies/projects that consider their long-term impact on society and the environment. Over time, sustainability issues can affect the Scheme's financial results and bring risks related to rules and reputation.
- **We consider the risks of climate change:** Climate change is an ongoing risk that needs special attention because it could have major consequences for members, investments, and society as a whole, on issues including food production and flooding.
- **We are selective with active management:** Active management picks investments to outperform a specific index or market, while passive management simply tracks an index. We only use active fund management when we feel that it adds value.
- **We use investment professionals:** People and organisations who are experts in managing money are best suited for dealing with the companies we invest in and handling sustainability risks. We monitor activity and outcomes to ensure they remain aligned with our beliefs and long-term objective.
- **We focus on value over cost:** It's more important to get good value for what we spend than just focusing on how much things cost.

We explain how these beliefs influence our decision making on the following pages.

Our Investment Objective

The Pensions Regulator expects pension schemes to have a **long-term objective** in place that provides a clear, overarching goal for the Scheme's investments and strategy. The Trustee must set this objective, along with a target funding level and a plan of how this will be achieved.

All investment decisions should aim to reach our long-term objective, whilst also keeping in mind the Scheme's maturity and need for cash to pay members on time.

- **Our long-term objective must be clear:** The Trustee sets a clear long-term objective and agrees this with Cadent Gas Limited, the Company.
- **Our plan must be clear:** It's essential to have a clear plan that the Trustee monitors and reviews regularly to ensure progress towards our goals.
- **Our decisions must align with our long-term objective:** Investment decisions should help us get closer to our target funding level and align with the agreed plan.
- **Risks must be considered together:** We need to develop our investment strategy by considering all kinds of risks together. For example, considering the risks that could affect the Scheme's liabilities and funding level, evaluating the risk level of our investments due to changes in economic or market conditions, and considering the strength of Cadent Gas Limited's covenant (i.e. the legal obligation and financial ability of the Company to support the Scheme).
- **We should aim for low dependency:** As the Scheme matures, we aim for the Scheme to have sufficient assets to cover all the pensions it needs to pay out without having to rely on help from Cadent Gas Limited in most situations. This aligns with what The Pensions Regulator expects for schemes of "significant maturity".

What is a funding level?
The funding level is the percentage of assets compared to the liabilities and is a measure of the Scheme's ability to meet its pension obligations.

Our Investment Strategy

Our investment strategy determines how to invest, and the mix of assets we invest in (asset allocation). Getting this right is key to achieving our investment goal.

Our strategy involves:

- **Adjusting our approach over time:** The strategic asset allocation will adapt to changes in the funding position and how the risk/return relationship of financial markets changes.
- **Long-term focus:** We don't have access to better short-term market information than other investors. Instead, we focus on investing in medium to long-term opportunities that fit the Scheme's needs and goals.
- **Diversifying our investments:** We aim to choose a variety of investments that offer good returns at fair prices without taking on unnecessary risk. Diversifying our investments can make our portfolio more efficient.
- **Funding objective:** When we have sufficient assets to meet all our pensions due without extra help from the Company (low dependency), we'll mainly invest in assets that provide cash flows similar in timing and amount to the pension payments we make.

What is asset allocation?
Asset allocation is the process of investing across different types of assets, like stocks, bonds, and cash.

Our Risk and Return Framework

Investing comes with different types of risks, and we need to manage them all appropriately as we go along.

Our strategy involves:

- **Getting a balanced mix of investments:** At any point in time, the exposure to each type of investment (asset class) should be scaled appropriately depending on how much risk it contributes to the overall portfolio, how easy it is to turn it into cash (liquidity), and its expected return (profit).
- **Stress-testing different scenarios:** Since it's hard to predict precisely how risky or what the return on assets will be, we test our financial position and plan against different economic situations using various methods. This helps us understand the risks better.
- **Thinking about all risks:** We always think about risks related to the liabilities (benefit payments the Scheme needs to make), like how long people might live, interest rates, and how prices might go up. For those risks that don't tend to offer higher potential returns, we aim to avoid taking them on as far as practical.
- **Looking at extreme risks:** Some risks might be unlikely to happen, but if they did occur, they might have a huge impact. We explore investments and strategies, such as hedging (action to protect against specific risks), that aim to address these types of risks.
- **Considering climate risk:** Dealing with the risks related to climate change is one of our main beliefs.

Putting Our Beliefs into Practice

Effectively carrying out the investment strategy is essential for the success of our plan. This includes managing various risks, setting criteria for all types of investment (asset classes) and fund managers, and carefully using active management.

- **Efficient risk and reward:** Taking risks related to interest rates and inflation doesn't usually lead to a significant pay off, so we manage these risks and instead focus on using the "risk budget" on investments that offer better potential for returns.
- **Managing different types of risks:** The Trustee will consider and manage all types of risks over different time horizons.
- **Benefitting from illiquid investments:** Because we plan for the long term and have a good idea of when and how much we need to make benefit payments, our portfolio can handle some investments that can't be sold quickly (hard-to-sell/illiquid investments). We'll look to benefit from the higher returns these less 'liquid' investments can offer.
- **Evaluating new investments:** We'll agree and set clear criteria when deciding to add a new type of investment or hire a new investment manager.
- **Monitoring investments:** We'll set and, where necessary, adjust criteria for monitoring each type of investment and each manager.
- **Selective use of active management:** Active management will be used only when there is a strong reason to believe it will be beneficial.
- **Regular monitoring:** The Integrated Risk Management Committee (a subset of the Trustee) will monitor the mix of investments (asset allocation) to ensure it aligns with our long-term goals and plan.

Governance

A solid governance framework is key to ensuring the Scheme achieves its aims.

- **Keeping risks in check:** The Trustee has rules in place to measure and monitor borrowing, liquidity, and risks related to other parties we're dealing with.
- **Understanding and sharing responsibilities:** The Trustee will delegate tasks as required to manage the Scheme's assets in the most efficient way. Delegating to subsets of the Trustee and investment managers, with proper advice, helps improve decision making. However, the Trustee retains overall accountability for the decisions made.
- **Transparency:** The risks and returns of each investment should be clear and match what the Scheme wants to achieve.
- **Balancing good value and fees:** It's more important to get good value for what we spend than just focusing on keeping costs low.
- **Checking fees:** All fees will be regularly monitored to ensure the service has added value.

What is governance?
Governance is the system of rules, practices, and processes used to manage the Scheme.

Environmental, Social, and Governance (ESG) and Sustainability

Sustainability is being able to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. Long-term sustainability issues affect financial outcomes and create regulatory and reputational risks.

- **Best practice compliance:** The Trustee believes in following 'best practice' for meeting regulatory requirements, rather than just doing the minimum, as long as these practices align with the Scheme's financial objectives.
- **Climate risk:** Climate risk is unique compared to other non-financial risks because it can affect assets, liabilities, members, and the Company's covenant. The Trustee believes that it is important to consider and monitor the impacts of climate change in the same way as other risks.

Putting plans into action

- **Clear and available reporting:** The Trustee will ensure that the Scheme's policies and reporting on ESG and Sustainability are made available to members. They will also be available on a public website, if required by regulations.
- **Using investment professionals:** When it comes to managing individual investments, usually the experts will handle aspects such as ESG. But the Trustee will ensure that these experts are skilled and have sufficient people and tools to do this well, and we will monitor their actions and outcomes to ensure they remain aligned with our beliefs and objectives.

Find out more:
For more information on the Cadent Gas Pension Scheme, visit **cadentgaspensions.com**