Carr's Group Pension Scheme

Statement of Investment Principles – December 2024

1. Introduction

The Trustees of the Carr's Group Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Pensions Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustees' investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer").

In addition, consultation has been undertaken with Carr's Group plc. ("the Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustees' objectives.

2. Process for Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustees' strategy whereby the level of investment risk reduces as the Scheme's funding level improves. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

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

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme's current and ongoing solvency funding positions. The Trustees recognise that equity (and other growth asset) investment will bring increased volatility of the funding level, but in the expectation of improvements in the Scheme's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met. In meeting this objective, the Trustees' further objectives are to:

- By means of investment return on the existing Scheme assets move the Scheme to a target position of 110% funded on a de-risked funding basis (gilts +0.25% p.a.) by 2024-2028.

- In doing so, to opportunistically reduce the degree of risk in the Scheme's investment arrangements, thereby helping to protect the Scheme's improving funding position.

The 110% funding target was agreed as part of the 2017 strategy review, following the Scheme making better than expected progress through its de-risking journey plan.

Previously the Scheme had been targeting a fully funded position of 100% on the gilts +0.25% p.a. basis by no later than 2024. However, as part of the 2017 strategy discussions, the Trustees acknowledged that the ultimate "end game" objective will be to buy-out the liabilities with an insurance company. In order to achieve this, the Scheme will need to have a funding level surplus to cover the expected premium that will be due to the insurance company. The target of 110% on a gilts +0.25% p.a. funding basis represents a current estimate of the surplus that is likely to be required in 2026 (the mid point of the target timeframe). This target has been kept under review as part of future strategy review exercises.

Since agreeing the investment objectives above the Scheme has been exploring potential risk transfer solutions with UK insurers. This engagement with the risk transfer market has arisen sooner than initially expected due to strong funding level experience, coupled with a desire on part of the Sponsor to do so (with support from the Trustees). These discussions are at an advanced stage at the time of preparing this Statement, with the Scheme entering into exclusivity terms with a selected insurer.

As a result of entering into exclusivity terms with a selected insurer, the Trustees' short term investment objectives have additionally become:

- *To minimise the likelihood that the Scheme's assets move unfavourably relative to the Premium quoted by the selected insurer.*

- *To consider the liquidity of the Scheme's assets ahead of a transaction being completed.*

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in Section 9.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' approach to managing these risks is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more volatility in the Scheme's funding position.

- Due to the advanced stage of discussions with a preferred insurer, the main risk to the Scheme at the time of writing is the Premium moving unfavourably due to a variability between the Scheme's assets and the "price lock mechanism" agreed with the preferred insurer. This price lock period commenced on 6 November 2024 and is anticipated to run until the assumed policy inception date of 13 January 2025. To manage this pricing risk, the Trustees, having taken advice, have de-risked the Scheme's investment strategy further, resulting in the majority of Scheme assets being held in a Matching Portfolio which is expected to move broadly in line with the bulk annuity premium "price lock mechanism" that has been agreed with the selected insurer. The Trustees recognise that there may still be a modest mismatch between the movement of Scheme's assets and the Premium and note that there is no rebalancing within the portfolio.

- The Trustees recognise that even though the Scheme's assets are invested in the Matching Portfolio there may still be a modest mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the modest mismatch in duration between assets in the Matching Portfolio and the liabilities.

- Subject to a fixed weight initial strategic allocation, the Trustees have delegated day to day management of the Scheme's Matching Portfolio to Mercer. The Scheme's overall asset allocation is reviewed regularly and has been set so that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 3.

- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes the Trustees believe that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and, when investing in certain asset classes where, due to relatively efficient markets the scope for achieving added value is more limited. At this stage of the Scheme's journey plan and in light of the price lock mechanism in place with the selected insurer, the Scheme's current asset allocation is predominantly invested in passive strategies (fixed and index-linked gilts).

- To help diversify manager-specific risk, within the context of the Matching Portfolio, the Trustees expect that the Scheme's assets are managed by appropriate underlying asset managers.

- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Trustees Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have financially material impact on returns. Section 9 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances the Trustees will advise Mercer, who will review whether and to what extent the de-risking strategy in place remains appropriate.

5. Investment Strategy

The Trustees, with advice from the Scheme's investment consultant and Scheme Actuary, maintain an investment strategy for the Scheme that reflects the Trustees' various investment objectives as set out in Section 3, as well as the Trustees' ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Over recent years, the Scheme has experienced favourable performance in funding level terms and as a result the Trustees and the Sponsor have been exploring options to purchase a bulk annuity contract for the entire defined benefit liabilities with an insurer.

During 2024 these discussions have been accelerated and in order to protect the funding position against insurer pricing, the Trustees agreed to significantly de-risk the Scheme's investment strategy. As a result, the Scheme's investments are now held entirely in a Matching Portfolio allocation.

The Scheme's current investment framework with Mercer was agreed following the advanced discussions with the selected insurer that provided a "price lock mechanism" that would indicate how the premium would change during the period of the price lock.

With guidance from Mercer the Trustees put the following Matching Portfolio investment strategy in place in November 2024 in order to closely match the "price lock" mechanism. The intention is that this price lock portfolio will move closely in line with the premium quoted by the selected insurer.

Matching Portfolio	Initial Allocation
MGI UK Cash Fund	2.2%
Mercer Short Dated UK Gilt Fund	2.3%
Mercer UK Long Gilt Fund	33.5%
MGI UK Inflation Linked Bond Fund	11.5%
Mercer Passive Short Dated UK Index Linked Gilt Fund	50.5%
Total	**100.0%**

Rebalancing of Target Allocation

There are no formal rebalancing ranges within the Matching Portfolio. Specifically, the allocation will be allowed to drift to reflect the movement in the price lock mechanism provided by the selected insurer.

6. Benchmark and tracking error targets

The benchmarks for the underlying portfolios that the Scheme was invested in at the date of this Statement are summarised in the table below.

Mercer Portfolio	Benchmark Index	Tracking Error Expectation (%p.a.)[1]
MGI UK Long Gilt Fund	FTSE A Over 15 Year Gilts Index	Less than 0.25
MGI UK Inflation Linked Bond Fund	FTSE A Over 5 Year Index-Linked Gilts Index	Less than 0.25
Mercer Short Dated UK Gilt Fund	FTSE Actuaries Up to 5 Year Gilts Index	Less than 0.5
Mercer Passive Short Dated UK Index Linked Gilt Fund	FTSE Actuaries UK Up to 10 Year Index-Linked Gilts Index	Less than 0.5
MGI UK Cash	FTSE GBP 1 Month Euro Deposit	0.5

7. Realisation of investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

8. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. The

Scheme Administrator is responsible for raising cash flows to meet the Scheme's requirements.

9. ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and 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 Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's (and the Trustees') thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's and MGIE's investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics.

The Trustees also note Mercer's commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer's Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy targets and metrics.

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

10. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment. To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 3. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the investment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the current investment strategy. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

11. Review of this statement

The Trustees will review this Statement at least once every year and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.