Dairy Crest Group Pension Fund
Investment Policy Implementation Document – June 2022

1. Introduction

The Statement of Investment Principles ("SIP") of the Dairy Crest Group Pension Fund (the "Fund") sets out the guiding principles upon which the Fund's investments are based. The purpose of this document is to provide details of the specific investments in place alongside other information relevant to the management of the investments.

2. Investment arrangements

2.1. Investment objectives

The Fund's long term strategy is to fully fund all of its liabilities. To guide the Trustee in its strategic management of the assets and control of the various risks to which the Fund is exposed, the Trustee has agreed the following principal investment objectives:

i. to target an investment policy to achieve the Long Term Funding Target of 105% on a gilts flat basis by 2029-2032; and
   and

ii. to minimise investment risk, subject to the expected return required to achieve objective (1)

The investment return has been derived in conjunction with the 2019 actuarial valuation.

The liability benchmark portfolio is the notional portfolio of gilts that has the same interest rate and inflation sensitivity as the Fund's liabilities. The expected return takes into account the Fund's "investible assets" and is based on the Fund's assets excluding the value of the two bulk annuity policies. Over the short term, the actual performance of the Fund may deviate significantly from this.

The Fund has also taken the opportunity to reduce risk through insurance providers and has already funded two bulk annuity policies for members who were pensioners as at August 2008.

The Fund's target asset allocation excluding the two bulk annuity policies with effect from 31 March 2022 is detailed below:

Return Seeking Bonds	
Asset Backed Securities	4%
Multi-Asset Credit	6%
Corporate Bonds	15%
Alternatives	
Long Lease Property	4%
Core UK Property	5%
Bank Capital Relief	4%

Property Debt / Direct Lending	4%
Matching	
LDI allocation	58%
Total	**100%**

The Fund has allocated 4% of assets to Property Debt which has been drawn down over time and is now redistributing principal.

In early 2022 the Fund implemented an allocation of 4% of assets to Direct Lending and Bank Capital Relief each to maintain the same overall strategic allocation to Alternatives.

The Fund also holds two annuity policies with Legal & General Assurance Services ("LGAS"). The value of these policies as at 31 March 2022 was £260.3m (as calculated by the Scheme Actuary).

The Trustee believes these investment arrangements to be appropriate given the objectives and the risks identified in the SIP.

2.2. Manager appointments

The Trustee delegates day-to-day investment decisions to external specialist managers. The Trustee has appointment documentation in place with each manager that sets out the terms and conditions under which the respective portfolios are to be managed and reported. The current manager appointments are as follows:

- Legal & General Investment Management ("LGIM")
- Pacific Investment Management Company, LLC ("PIMCO")
- Aviva Investors ("Aviva")
- Insight Investment Management ("Insight")
- Wellington Management Company ("Wellington")
- Chorus Capital Ltd. ("Chorus")
- DRC UK Whole Loan Fund L.P. ("DRC")
- CVC Capital Partners ("CVC")

The Trustee employs more than one manager to diversify the risks associated with appointing a single manager. The Trustee is satisfied that the spread of assets by type and the investment managers' policy on investing in individual securities provides adequate diversification of investments.

The Trustee is also satisfied with the suitability of the appointed managers for the mandates awarded to them.

2.3. Active and passive management

The Trustee will periodically review the allocation of the portfolio between active and passive management. Currently, the bond type investments are managed on an active basis.

2.4 Return Seeking Bond mandates

The Fund is invested in active credit mandates managed by PIMCO, Wellington and Insight.

- PIMCO manage an active corporate bond mandate which invests in global investment grade bonds.
- Wellington manage a Multi-Asset Credit (“MAC”) mandate.
- Insight manage a High-Grade Asset Backed Securities ("ABS") mandate.

The investment in the MAC Fund with Wellington is in a sterling share class with the underlying USD denominated investment fully hedged back to sterling. The PIMCO corporate bond mandate also hedges its currency risk against sterling and is managed against a global benchmark. The investment in the ABS Fund with Insight is in a GBP share class.

The benchmarks against which each manager’s performance is measured along with the performance objectives are set out in Appendix A.

Strategic allocation

Asset Class	PIMCO (%)	Wellington (%)	Insight (%)
Asset Backed Securities	-	-	4
Multi-Asset Credit	-	6	-
Corporate Bonds	15	-	-
Total	**15**	**6**	**4**

2.5 Property mandate

Strategic allocation

Asset Class	LGIM (%)	Aviva (%)	DRC (%)
Conventional	5	-	-
High Lease to Value	-	4	-
Property Debt / Direct Lending	-	-	4
Total	**5**	**4**	**4**

The 4% allocations to property debt and direct lending is being funded under a commitment and drawdown structure. The Fund has committed £40m to the DRC UK Whole Loan Fund which has been drawn down and will be distributed over time.

The Trustee also has a small legacy holding in Insurance Linked Securities (“ILS”) holdings with Nephila Capital Ltd. (“Nephila”) that represent less than 1% of total Fund assets and will be distributed over time.

The benchmarks against which each manager’s performance is measured along with the performance objectives are set out in Appendix A.

The Trustee receives updates on the actual allocation between the managers in the quarterly reports received from the Investment Advisor. The Trustee will not, in normal circumstances, rebalance property investments due to the costs and time delays associated with buying and selling holdings in property pooled funds.

2.6 **Bank Capital Relief**

The Fund has also committed £40m of capital to a Bank Capital Relief mandate managed by Chorus. The allocation will be drawn over time, similar to the DRC and CVC mandates. The Bank Capital Relief fund delivers return by receiving a fixed premium from counterparty banks in return for provision of capital that can be used to collateralise the banks' loan balance sheet. The benchmark and performance objective for this mandate is outlined in Appendix A.

2.7 **Direct Lending**

The Fund has also committed £40m of capital to a Direct Lending mandate managed by CVC. The allocation will be drawn over time, similar to the DRC and Chorus. The Direct Lending fund delivers return by the repayment of interest and principle through providing privately negotiated, secured loans to European companies through debt instruments such as first-lien and second lien senior debt, unitranche facilities, mezzanine financing and other selected subordinated debt. The benchmark and performance objective for this mandate is outlined in Appendix A.

2.8 **Bulk Annuity Policies**

The Trustee will consider opportunities with insurance providers, and has already funded two bulk annuity policies for members that were pensioners as at 20 August 2008.

On 17 December 2008, the Trustee bought an annuity policy into the Fund for 50% of the Fund's pensioner liabilities (relating to those with pensioner status as at 20 August 2008). The remaining 50% of the Fund's pensioner liabilities (including the trivial pensions) were also bought in via an annuity policy on 22 June 2009.

Both bulk annuity policies were purchased with Legal & General Assurance Services ("LGAS"). The first was purchased for c. £149m using both bond and cash assets, the second was purchased for c. £161m using equity and cash assets.

2.9 **Liability Hedging Portfolio**

The Fund has set up a Liability Hedging Portfolio with Insight which is structured as a Qualifying Investor Alternative Investment Fund ("QIAIF"). The objective of this mandate is for Insight to hedge a proportion of the Fund's sensitivity to changes in interest rates and inflation expectations. The current hedging target for the Liability Hedging Portfolio is to hedge approximately 98% and 95% of the fixed and inflation linked liabilities of the Fund, respectively (expressed as a percentage of total liabilities as measured on a technical provisions basis).

Insight has been given discretion in managing the portfolio in order to outperform the liability-based benchmark.

2.10 **Collateral Management**

The Fund holds index-linked gilts (including repo exposure) and fixed interest gilts (including repo exposure).

Within the Liability Hedging Portfolio and effective 31 December 2021, Insight manage £100m of Credit Default Swap ("CDS") exposure for the Fund, providing diversified credit exposure using excess collateral. Any non-sterling exposure is hedged back into sterling by Insight.

2.11 **Realisation of investments and cashflow management**

In general, the managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

Cashflow requirements are sourced from the collateral invested in the Insight Liquidity Fund. A minimum of £15m is made available each month outside of the QIAIF structure and will be available for daily dealing.

2.12 **Third party fees**

External investment manager fees are determined as a percentage of assets. The Trustee believes that this is an appropriate way in which to remunerate the investment managers.

Custodian fees are a combination of a percentage of assets plus transaction related charges.

One off premium amounts were also paid to Legal & General Assurance Services ('LGAS') relating to the two annuity policies purchased.

Fees for the Investment Advisor are determined in line with agreed hourly rates, with an annual agreed budget set each year for core work and fees for specific projects agreed in advance. Fees for the Scheme Actuary are determined in line with agreed hourly rates, again with agreed fees for particular projects.

2.13 **Custody**

For the assets held with Insight, Northern Trust have been appointed as the Custodian.

Agreed for and on behalf of Dairy Crest Pension Trustees Limited

Signed: [redacted]…………………………..

08-Aug-2022
Date: ……………………………………………..

Director - The Law Debenture Pension Trust Corporation

APPENDIX A

Manager benchmarks

The tables below set out the indices used to calculate the benchmark return for each of the investment managers' mandates.

1. **Bond mandates**

PIMCO

Asset Class	Benchmark index	Performance Objective
Corporate Bonds	Barclays Global Aggregate Credit Index	1.0% - 1.5% p.a. (gross of fees)

Wellington

Asset Class	Benchmark	Performance Objective
Multi-Asset Credit	1/3 BofA Merrill Lynch Global High Yield Constrained Index 1/3 JP Morgan Emerging Markets Bond Index Plus 1/3 CSFB Bank Loan Index	2.0% (gross of fees)

Insight

Asset Class	Benchmark	Performance Objective
Asset Backed Securities	1 Month SONIA	2-3% p.a. over 1 Month SONIA
Credit Default Swaps	1/2 iTraxx Europe Main 10 Year Index 1/2 CDX North America Investment Grade 10 Year Index	To track the specified indices

2. **Property mandates**

Manager	Benchmark	Performance Objective
LGIM	IPD UK All Balanced Property Fund Index	To outperform the IPD UK Quarterly All Balanced Property Funds Index over three and five year periods.
Aviva	50% FTSE 5-15 Years Gilt Index + 50% FTSE +15 Years Gilt Index	1.5% p.a. (net of fees)
DRC Capital	n/a	Net IRR of 6%-7%

3. **Bank Capital Relief**

Asset Class	Benchmark	Performance Objective
Bank Capital Relief	n/a	Net IRR of 8-10%

4. **Direct Lending**

Asset Class	Benchmark	Performance Objective
Direct Lending	n/a	Net unlevered (euro) IRR of 7%

5,. Liquidity mandates

	Manager	Benchmark
Liquidity	Insight	7 Day Sterling LIBID
Liquidity Plus	Insight	3 Month Sterling LIBID

Manager Fees

The tables below set out the fees used to calculate the net performance return for each of the investment managers' mandates.

Manager	Asset Class	Fees
Insight	Currency hedging portfolio	0.03%
	External Assets Currency Hedge	(On exposure value of currency hedged)
	Credit Default Swaps	0.05% p.a. on first £250m of notional value 0.04% p.a. thereafter
	<u>Liability Hedging Portfolio</u>	
	Hedge Sub-Portfolio	0.05% p.a. on first £1,000m 0.045% p.a. thereafter (On the present value of Liability Benchmark at fee calculation date)
	Repurchase fee	0.01% p.a. (On the present value of the repo exposure)
	Performance fee	20% on outperformance above the Liability Benchmark, subject to a high watermark
	<u>Cash Management Fees</u>	
	ILF Fund	0.06%
	ILF Plus Fund	0.08%
	High-Grade ABS portfolio	0.35% p.a.
	Note: All funds held in the Liability Hedging Portfolio, cash, synthetic credit and ABS funds are subject to a relationship discount of 5% on fees above £250k and 10% above £500k	
PIMCO	Corporate Bonds	0.49% p.a. on first £50m 0.46% p.a. on the next £100m 0.44% p.a. on thereafter
Wellington	Multi-Asset Credit	0.45% p.a.

L&G	Property	0.70% p.a. on the first £2.5m 0.65% p.a. on the next £2.5m 0.60% p.a. thereafter
Aviva	HLV Aviva	0.4% p.a.
DRC Capital	Property Debt	0.75% p.a. of invested capital under management
Chorus	Bank Capital Relief	0.7% p.a. Plus performance related fee of 20% on returns over the hurdle rate of 6%.
CVC	Direct Lending	0.8% p.a. of net invested amount Plus performance related fee of 10% on returns over the hurdle rate of 5%.