Dairy Crest Group Pension Fund
Statement of Investment Principles – June 2023

1. Introduction

The Trustee of the Dairy Crest Group Pension Fund ("the Fund") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. A separate document, the Investment Policy Implementation Document ("IPID"), detailing the specifics of the Fund's investment arrangements is available upon request.

In preparing this Statement the Trustee has consulted Saputo Inc., the sponsor of the Fund, to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Fund's investment arrangements.

As the Statement covers broad principles, the Trustee does not expect to revise it frequently. The Statement will be reviewed following any significant change in the Fund's investment arrangements and, in any event, at least once every three years. The IPID sets out the details of the current investment arrangements and is updated as and when required.

2. Fund governance

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee, acting on advice from its Investment Consultant, and is driven by the investment objectives as set out in Section 4. The remaining elements of policy are part of the day-to-day management of the assets, which is delegated to professional investment managers as set out in Section 7 with further details provided in the IPID.

Aon has been appointed as Investment Consultant by the Trustee to provide advice on the Fund's investment strategy and strategic asset allocation. The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisors.

3. Process for choosing investments

The process for choosing investments is as follows:

a) Identify appropriate investment objectives;

b) Agree the level of risk consistent with meeting the objectives set; and

c) Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Fund, the Trustee has obtained and considered the written advice of its Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Act (as amended).

4. Investment objectives and risk

The Trustee's objective is to invest the Fund's assets in the best interest of members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed.

4.1. Investment objectives

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

1) To target an investment policy, to achieve the Long Term Funding Target of 101% on a gilts flat basis by 2035 (with a target range of 2033-2037);
and

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

The investment return has been derived in conjunction with the 2022 actuarial valuation. These objectives are subject to review as part of on-going monitoring by the Trustee.

The Trustee reviews investment objectives for all appointed investment managers. These objectives are set out in the IPID and are updated as and when necessary.

4.2. Risk

The investment return expectations of the Fund are driven by the level of investment risk taken. Whilst increasing risk is expected to increase returns over a long period, it also increases the potential for a shortfall in returns relative to that required to cover the Fund's liabilities. Increasing risk will also produce more short-term volatility in the Fund's funding position. Where the appropriate balance between risk and return should lie depends on many different factors. The Trustee has taken advice on the matter and (in the light of its two key objectives outlined above) has considered carefully the implications of adopting different levels of risk.

The level of risk within the Fund's investment strategy takes account of (but not limited to):

- The maturity profile of the Fund's liabilities;
- The level of disclosed surplus or deficit; and
- The expected strength of the covenant of the sponsor.

The Trustee has agreed to reduce the liability risks (interest rate and inflation risk) through a liability hedging mandate. The target hedge ratio for the interest rate and inflation rate risks are 98% and 95% respectively, based on the 2022 Technical Provision liabilities.

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.

Further details regarding the Fund's investment strategy are detailed in the IPID. The Trustee believes these arrangements to be consistent with their objectives.

4.3. Risk measurement methods

There are a number of risk measures that are used as part of the risk management process. The key measures are detailed below:

- The investment arrangements are based on an expected contribution to return (and corresponding risk) from various sources. The level of investment risk is measured as part of the investment strategy review, and periodically thereafter, and the Trustee finds the potential downside that could be experienced acceptable as a result of the overall level of investment risk within the portfolio.

- The risks being run by each of the appointed managers relative to their benchmark (tracking error) is outlined in the manager's appointment documentation. The Trustee reviews each manager's performance relative to their benchmark each quarter and the Trustee also aims to meet with each of the managers from time-to-time to review their individual mandates. Where there are concerns with a particular manager's level of risk, the Trustee will meet with them and review more frequently.

4.4. Risk management

The Trustee recognises that the major source of risk – and therefore potential investment outperformance in excess of the liabilities – arises from the inclusion of return seeking assets within the portfolio. However, the Trustee's overall policy on risk management is to diversify, as far as practical, the sources of risk within its investment arrangements so that it is not overly reliant on one particular source of risk for generating the targeted return.

In targeting a particular level of investment risk there are many different investment arrangements that could be adopted. The Trustee's objective is to identify those arrangements that are likely to maximise the return (net of all costs) for the level of risk taken. In agreeing the investment arrangements the Trustee has considered a wide range of investments including (but not limited to):

- Public developed market equity (including synthetic exposure only);

- Alternatives (including Insurance Linked Securities, Return Seeking Bond strategies, Bank Capital Relief and Property Debt);

- Government and non-government bonds (including both UK and global);

- Property; and

- Liability Driven Investment solutions.

In determining their investment policy, the Trustee has considered a number of investment risks to which the Fund is exposed. In particular, using capital market models based upon assumptions derived from current market conditions and historic market return patterns, the Trustee has considered the Fund's funding level and contribution rate sensitivity to:

- Interest rates;
- Inflation;
- Equity markets;
- Overseas currencies;
- Credit spreads; and
- Mortality

The Trustee has also considered the sponsor covenant risk. In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with equity market concentration, credit, currency, and counterparty risk.

The Trustee has implemented the following measures to manage the risks associated with the investments:

- The Trustee has determined a regular communication link with the Fund's sponsor to manage the risk associated with the sponsor's covenant.
- The assets are divided between a number of investment managers (including active/passive managers as considered appropriate). This reduces the risk associated with one manager having responsibility for all of the Fund's assets.
- The Trustee or its fund manager(s) periodically reviews counterparty risk and considers steps to reduce such risk where appropriate.
- The Trustee hedges a proportion of the Fund's overseas currency exposure (further details are provided in the IPID).
- The Trustee has also taken account of the fact that risk is not only influenced by the asset classes invested in, but also the benchmarks chosen and the level of active manager risk taken. In considering the latter, the Trustee believes that there is scope for active managers to add value in some asset classes.
- The Trustee has a process in place to ensure that the level of collateral assets backing derivative positions does not decrease below a certain level.

The Trustee receives quarterly reports from the Investment Consultant, but monitors the overall level of risk and its component parts on an annual basis to ensure the risks taken are consistent with those expected.

The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance ("ESG") factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks. The Trustee's approach to these risks is discussed in more detail in section 10 below.

Should the Fund's circumstances alter in a material way; the Trustee will review whether and to what extent the Fund's investment arrangements should be altered; in particular whether the current targeted level of risk remains appropriate.

4.5. Expected return

Over the long term, the current investment arrangements in place target a net of fees return of at least 1.8% per above the return on the "liability benchmark portfolio" (based on 31 March 2022 actuarial valuation cashflows and using 31 December 2022 market assumptions). 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 is based on the Fund's net assets and excludes the value of the two bulk annuity policies. Over the short term the actual performance of the Fund may deviate significantly from this.

5. Portfolio construction

The Trustee has adopted the following control framework in structuring the Fund's investments.

- There is a role for both active and passive management. Passive management will be used for one of a number of reasons, namely:
  - To diversify risk;
  - Invest in markets deemed efficient where the scope for active management to add value is limited; and
  - As a temporary home pending investment with an active manager
- All other things being equal there is a preference to invest via pooled funds, however, segregated investments will be considered as circumstances require.
- To help diversify manager specific risk, multiple manager appointments within a single asset class are preferred where practical.
- At the total Fund level and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.
- Investment in illiquid investments, such as Bank Capital Relief, Property Debt, Property or pooled property funds, may be held as long as they do not have a material adverse impact on the management of the Fund's cash flow.
- Investment in derivatives are permitted either directly or within pooled funds as long as they contribute to a reduction in risk, facilitate efficient portfolio management, or help achieve the targeted investment strategy.
- Investments may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing the Fund's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In

any event the Trustee will ensure that the assets of the Fund are predominantly invested in regulated markets.

- No investment in securities issued by the Fund’s sponsoring company or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- No investment by an appointed investment manager in the securities issued by the relevant manager’s company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- Explicit borrowing is not permitted except to cover short-term liquidity requirements. Implicit leverage may however form part of the LDI portfolio.

6. Investment arrangements

The Trustee has approved a long-term asset mix policy as stated in the most up to date IPID (dated June 2023). Agreement on this strategy was reached following advice received from the Investment Consultant and consultation with the Scheme Actuary and Dairy Crest Limited.

7. Day to day management of assets

The Trustee delegates the day-to-day management of the assets to a number of investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience required to manage the Fund’s investments and that they are carrying out their work competently.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustee regularly reviews the continuing suitability of the Fund’s investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time.

8. Additional assets

Separate arrangements have been made for the investment management and custody of members’ Additional Voluntary Contributions (“AVCs”). The Trustee is satisfied that these arrangements are appropriate for the AVC investments.

9. Realisation of investments

In general, the managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Trustee decides how monthly net cash flows should be invested or disinvested.

10. Socially Responsible Investment and Corporate Governance

In setting the Fund’s investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that in order to fulfil this commitment and to protect and enhance the value of the Fund's investments, it must act as a responsible steward of the assets in which the Fund invests.

Environmental, Social, and Governance considerations

As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Fund's assets and liabilities.

- As part of ongoing monitoring of the Fund's investment managers, the Trustee will use ESG ratings information provided by the Investment Consultant, where relevant and available, to monitor the level of the Fund's investment managers' integration of ESG on a quarterly basis.

- Regarding the risk that ESG factors including climate change negatively impact the value of investments held if not understood and evaluated properly, the Trustee considers this risk by taking advice from their Investment Consultant when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

- The Trustee will include ESG-related risks, including climate change, on the Fund's risk register as part of ongoing risk assessment and monitoring.

Stewardship - Voting and Engagement

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term financial value for the Fund and its beneficiaries.

The Trustee expects the Fund's appointed investment managers to comply with the 2020 UK Stewardship Code. It is the expectation of the Trustee that the Fund's investment managers will prioritise and actively monitor for these risks within the investment, providing transparency on engagement with respect to mitigating these risks as appropriate. The transparency offered for engagements should include objectives and relevance to the Fund.

The Trustee regularly reviews the suitability of the Fund's appointed investment managers and takes advice from the Investment Consultant regarding any changes. Where applicable, this advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee expects, the Trustee undertakes to engage with the manager and seeks a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions, and will include this information within the EPIS. The Trustee will review the alignment of the Trustee's policies to those of the scheme's investment managers and ensure the managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee accepts that there may be circumstances where managers are unable to exercise their voting power due to the underlying nature of assets held.

For assets where voting is deemed applicable, the Trustee accepts responsibility for how the manager stewards assets on its behalf, including the casting of votes in line with each managers individual voting policies. Prospective investment managers are also expected to provide information on their voting and engagement policies in advance of any new appointment. Managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

The Trustee will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This information will be available to members on request.

The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest. Where such a concern is identified, the Trustee will engage with the Investment Consultant to consider the methods by which, and the circumstances under which, they would monitor and engage an investment manager and other stakeholders.

Members' Views and Non-Financial Factors

In setting and implementing the Fund's investment strategy the Trustee acts for the members as a whole and, whilst they may be considered, does not explicitly take into account the views of individual members in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

11. Custody

The Trustee regards the safekeeping of the Fund's assets as being of paramount importance. The responsibility for selecting and monitoring the custodians of the investments within the pooled funds does not reside with the Trustee. The Trustee is satisfied with the arrangements in place.

Further details are outlined in the IPID.

12. Arrangements with asset managers

The Trustee monitors the Fund's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies.

Where the Fund invests in funds that are regularly reviewed by the Investment Consultant, the Trustee uses conclusions drawn from this assessment on a quarterly basis to determine whether the fund and investment manager remain suitable.

Where the Fund invests in funds that are not regularly reviewed by the Investment Consultant, the Trustee reviews the investment manager's operational due diligence capabilities on an annual basis and conducts a more in-depth review of the strategy and the investment managers' decision making (including on non-financial matters) periodically, with the support of the Investment Consultant.

The above monitoring includes the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee receives at least quarterly reports and verbal updates from the Investment Consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives, and assesses the investment managers over the long-term.

In line with the required actions from the Pensions Regulator, on an annual basis the Trustee will produce an Engagement Policy Implementation Statement ("EPIS") which will also be included in the annual reports and accounts.

The Trustee shares the policies, as set out in this SIP, with the Fund's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Fund invests in a collective vehicle, then the Trustee will express their expectations to the investment manager.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers (where possible), and regular monitoring of investment managers performance and investment strategy, is sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the

Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment for all investment managers will be reviewed periodically, and at least every three years. Where the Fund holds closed ended vehicles, the duration may be defined by the nature of the underlying investments.

13. Cost monitoring

The Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Fund's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by the investment managers that can increase the overall cost incurred by their investments.

<u>Collation of cost information</u>

The Trustee collects annual cost transparency reports covering all underlying investments and asks that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying investment managers. The Trustee works with the Investment Consultant and investment managers to understand these costs in more detail where required.

The Trustee is aware of the portfolio turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated to their underlying investments through the information provided by the investment managers. The monitoring of the target portfolio turnover and turnover range is monitored annually with the assistance of the Investment Consultant.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across different types of investment mandates. A high level of transaction costs is acceptable if consistent with the type of investment mandate and historic trends. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee is supported in cost transparency monitoring activity by the Investment Consultant.

<u>Evaluation of performance and remuneration:</u>

The Trustee assesses the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

<u>Ongoing reporting:</u>

The Trustee will provide reporting on the implementation of the Fund's cost transparency policy to the Fund's members via the EPIS. This will include:

- A comprehensive breakdown of the Fund’s costs by investment manager and cost type.
- A review of any changes in cost trends over the last year and an explanation for any changes.
- An update on any changes to the Trustee's cost transparency policy.

14. Monitoring insurance providers

The Investment Consultant and the Scheme Actuary regularly monitor the market for available insurance products and make the Trustee aware if they think there are any beneficial buy-in opportunities available.

15. Review of this statement

The Trustee will review this Statement in response to any material changes to any aspects of the Fund, its liabilities, finances and the attitude to risk of the Trustee and the sponsoring company and other participating employers which they judge to have a bearing on the content of this Statement.

This review will occur from time to time and in any event no less frequently than every three years. Any such review will again be based on written, expert investment advice and will be in consultation with the sponsoring company.

Agreed for and on behalf of Dairy Crest Pension Trustees Limited

Name Daniel Barlow

Signature *Redacted*

Date 18/10/23