



Hotpoint UK Pension Scheme

Statement of Investment Principles

August 2024

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Hotpoint UK Pension Scheme (the "Scheme")

Statement of Investment Principles (SIP)

This Statement of Investment Principles covers the defined benefit and the defined contribution sections of the Scheme. It is set out in three parts, first the objectives and implementation of the defined benefit section, secondly those of the defined contribution section, and finally the Trustee's overall policy on issues that apply equally to the defined benefit and defined contribution sections.

Defined Benefit Section

Investment Objective

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

Strategy

The target **asset allocation strategy** chosen to meet the objective above is set out in the table below. The Trustee will monitor the actual asset allocation versus the target weight set out in the table below.

Asset Class	Funds	Benchmark (%)
Index-Linked Gilts	LGIM Index-Linked Gilts Funds	35.0
Credit	LGIM Buy and Maintain Credit Fund	55.0
Equities	LGIM All World Equity Index Fund (GBP Hedged)	10.0
	Total:	100.0

The asset allocation strategy was determined with regard to the actuarial characteristics of the Fund, in particular the strength of the funding position and the liability profile. The Trustee's policy is to make the assumption that equities will outperform gilts over the long term. However, the Trustee recognises the potential volatility in equity returns, particularly relative to the Scheme's liabilities and the risk that the fund manager does not achieve the targets set. When choosing the Scheme's asset allocation strategy, the Trustee considered written advice from their Investment Adviser and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustee also consulted with the sponsoring employer when setting this strategy.

Risk measurement and management

The Trustee maintains a 'Statement of Funding Principles' which specifies the Scheme's funding objective. The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for its liabilities ("**funding risk**"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("**mismatching risk**"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("**cash flow risk**"). The Trustee will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund manager(s) to achieve the rate of investment return assumed by the Trustee ("**manager risk**"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager(s) and on an ongoing basis thereafter.
- The failure to spread investment risk ("**risk of lack of diversification**"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy
- The possibility of failure of the Scheme's sponsoring employer ("**covenant risk**"). The Trustee considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("**operational risk**"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that environmental, social and governance factors can impact future returns ("**risk of ESG factors**"). The Trustee acknowledges that ESG factors can have a financially material impact on the future returns on its investments and the Trustee's actions to mitigate these is detailed later in this document.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a fund manager, the Trustee's policy is to monitor these risks regularly, where possible. The Trustee receives bi-annual performance reports showing:

- Performance versus the Scheme's investment objective.
- Performance of individual fund manager(s) versus their respective targets.
- Any significant issues with the fund manager(s) that may impact their ability to meet the performance targets set by the Trustee.

Implementation

The Trustee, with guidance from their Investment Adviser, has chosen Legal and General Investment Management (“LGIM”) to be the Scheme’s Investment Manager. LGIM is authorised and regulated by the Financial Conduct Authority. LGIM’s investment objectives for each fund are as follows:

Asset Class	Fund Name	Description
Gilts	LGIM Index-Linked Gilts Funds	The funds aim to reduce DB pension scheme risk exposure to changes in interest rate and inflation rates. The investment objective of the funds is to track the performance of the appropriate FTSE Actuaries UK Index Linked Gilts Index to within +/-0.25% p.a. for two years out of three.
Credit	LGIM Buy and Maintain Credit Fund	The fund aims to provide investors with credit risk exposure through investing principally in a globally diversified portfolio of non-government bonds and avoiding investment in bonds which in the opinion of the Investment Manager are likely to default or experience a significant deterioration in credit quality.
Equities	LGIM All World Equity Index Fund (GBP Hedged)	The fund aims to track the performance of the FTSE All-World Index (less withholding tax where applicable) - GBP Hedged (with the exception of emerging markets), which is a customised index to within +/- 0.5% per annum for two years out of three.

The fund manager is remunerated on the basis of fees directly related to the value of funds under its management.

In addition, the fund manager may pay commissions to third parties on many trades they undertake in the management of the assets. The Trustee will review these costs on a regular basis.

The Trustee regards the safekeeping of the Scheme's assets to be of paramount importance. They are satisfied with the security, controls and indemnities in place with LGIM's custodians, HSBC Global Investor Services and Citibank N.A. The custodians provide safekeeping for all the Scheme's assets and perform the associated administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

Defined Contribution Section

Investment Objective

The Trustee is responsible for investing the Scheme's assets in line with members' preferences. Its key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. It has taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

Strategy

The investment objective is implemented using the range of options set out in the table below:

Investment option	Investment description	Investment characteristics
Aegon BlackRock (70/30) Global Growth	Invests mainly in UK equities (~70%) and overseas equities (~30%). The overseas equities are split between geographical regions in fixed percentages.	The Fund aims to produce a return in excess of its benchmark.
Aegon LGIM Global Equity (50/50) Index	Invests mainly in UK equities (~50%) and overseas equities (~50%).	The Fund aims to track the return of its benchmark.
Aegon BlackRock UK Growth	Invests mainly in UK equities.	The Fund aims to produce a return in excess of its benchmark.
Aegon BlackRock Balanced Growth	Invests mainly in equities and to a lesser extent government securities, cash and other fixed interest investments, in the UK and overseas.	The Fund aims to produce a return in excess of its benchmark. The benchmark will evolve over time to reflect market, industry and internal views and developments as to an appropriate asset mix for a broadly invested fund.
Aegon BlackRock Property	The Fund has a diversified exposure to a range of commercial property assets such as offices, shopping centres, retail warehouse parks and industrial estates: gaining exposure to these assets by investing in a number of underlying pooled property funds.	The Fund aims to produce a return in excess of its benchmark.
Aegon BlackRock Pre-Retirement	Invests mainly in UK Gilts, UK Bonds and other fixed income securities.	The Fund aims to produce a return in excess of a benchmark designed to reflect long-term changes in immediate annuity prices.
Aegon BlackRock Cash	Invests principally from a portfolio of Sterling denominated cash, deposits and money-market instruments.	The Fund aims to produce a return in excess of its benchmark.

The Trustee's policy is to provide suitable information for members so that they can make appropriate investment decisions. The range of funds was chosen by the Trustee after taking expert advice from the Trustee's investment advisers. In choosing the Scheme's investment options, it is the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.
- The suitability of each asset class for a defined contribution scheme.
- The need for appropriate diversification of asset classes.

The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long term returns on the bond and cash options are expected to be lower than returns on predominantly equity options. However, bond funds are expected to broadly match the price of annuities, giving some protection in the amount of secured pension for members closer to retirement. The Cash Fund will provide some protection against changes in short-term capital values (although unit prices can fall as well as rise) and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

The Trustee believes there may be financial advantages to investing in illiquid assets. However, the Trustee identifies the following challenges:

- 1) Illiquid assets have greater fees and transaction costs than liquid assets, which may diminish the net profits for members.*
- 2) Illiquid assets may have longer lock-up periods or limited redemption windows, which may not meet the liquidity needs of DC members who want to access their pension pots on demand*
- 3) Illiquid assets may have lower transparency and valuation frequency than liquid assets, making it more difficult for members to monitor their investment performance and risks.*

However, the Trustee intends to consult with its investment adviser and investment manager about growing investment in illiquid assets, as well as to review its illiquid investment policy on a regular basis.

Risk measurement and management

The Trustee recognises that the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considers this risk when setting the investment options and strategy for the Scheme. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below.

The Trustee considers the following sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices.
- Risk of fund manager(s) not meeting their objectives ("**manager risk**"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- Risk of the default fund being unsuitable for the requirements of some members.
- The risk of fraud, poor advice or acts of negligence ("**operational risk**"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that environmental, social and governance factors can impact future returns ("**risk of ESG factors**"). The Trustee acknowledges that ESG factors can have a financially material impact on the future returns on its investments and the Trustee's actions to mitigate these is detailed later in this document.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustee's policy is to review the range of funds offered and the suitability of the default option annually.

These risks are considered as part of each normal strategy review. In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund manager(s) that may impact their ability to meet the performance targets set by the Trustee.

Implementation

Members can invest in the following funds managed by BlackRock (the Global Equity (50/50) Index Fund is managed by Legal & General Investment Management and offered via BlackRock).

Asset Class	Investment Fund	Performance target	Benchmark	Risk characteristics
Global Equity	BlackRock (70/30) Global Growth	Outperform the benchmark	70% FTSE All Share, 10% Continental Europe, 10% North America, 5% Japan, 4% Pacific Basin, 1% Emerging Markets	The fund is most likely to be appropriate for members who are investing for long term capital growth.
Global Equity Tracker	LGIM Global Equity (50/50) Index	To track the return on the benchmark.	50 % FTSE All-Share, 17.5% FTSE All World North America, 17.5% FTSE All World Europe (ex-UK), 8.75% FTSE All World Japan, 6.25% FTSE All World Asia Pacific (ex-Japan)	The fund is most likely to be appropriate for members who are investing for long term capital growth.
UK Equity	BlackRock UK Growth	Outperform the benchmark.	FTSE All Share	The fund is most likely to be appropriate for members who are investing for long term capital growth.
Diversified Growth Fund	BlackRock Balanced Growth	Outperform the benchmark.	55% FTSE All Share, 8% FTSE World US (£), 8% FTSE World Europe (ex-UK £), 4% FTSE World Japan (£), 4% FTSE World Pacific (ex-Japan £), 1% MSCI Emerging Markets Free (£), 10% FTSE Actuaries All Stocks Gilts, 5% Barclays Capital Global Aggregate 500 (ex-UK unhedged £), 5% SONIA	The fund is most likely to be appropriate for members who are less risk adverse, or who are investing for some capital growth but with greater stability than is typically available from equity markets.
Property	Aegon Property	Outperform the benchmark.	IPD All Balanced Property Funds Index	The fund is most likely to be appropriate for members who are investing for long-term capital growth.
Fixed Income (UK)	BlackRock Pre-Retirement	Outperform the benchmark	29% ICE BofA 10+ Year AAA-AA-A Sterling Non-Gilt Index, 23% FTSE Actuaries UK Conventional Gilts 5-15 Years Index, 21% FTSE UK Gilt 15-25 Year Index, 19% FTSE Actuaries UK Conventional Gilts up to 5 Years Index, 8% FTSE Actuaries UK Conventional Gilts over 25 Years Index	The fund is most likely to be appropriate for members approaching retirement, or who are investing for some capital growth but with greater stability than is typically available from equity markets.
Cash	BlackRock Cash	Outperform the benchmark	SONIA	The fund is most likely to be appropriate for members who are investing to protect the value of their pension fund as they approach retirement.

BlackRock manage the funds using an active management approach, which means that they make decisions on the appropriate asset mix and selection of the securities within each fund. Active management may result in periods of out and under performance of the investment markets as a whole.

The LGIM Global Equity (50/50) Index Fund is managed by Legal & General Investment Management using an index tracking or passive approach. This means that they will hold securities in line with the relevant individual index and should closely match the performance of the indices.

BlackRock are remunerated through a percentage of assets under management. The charges have been negotiated to ensure competitiveness and will be reviewed regularly. In addition, the fund manager may pay commissions to third parties on many trades they undertake in the management of the assets.

Defined Benefit and Defined Contribution Sections

Implementation

Investment Adviser

Isio Group Limited (“Isio”) has been selected as Investment Adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions themselves and to monitor those they delegate. Isio are paid an annual fee for an agreed range of services needed on a regular basis. Any additional services falling outside those agreed will be charged separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

Investment Managers

The Trustee has delegated all day-to-day decisions about the investments that fall within the mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

The investment managers’ duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Scheme’s assets including taking into account the Institutional Shareholders’ Committee Statement of Principles on the responsibilities of Institutional Shareholders and Agents.

The Trustees’ policy on stewardship (i.e. active monitoring of and engagement with companies) is to monitor the investment manager to whom they delegate this function through investment in pooled funds. The investment manager produces regular reports on stewardship.

Voting activity

The Trustee reviews the statements of corporate governance issued by their fund manager and monitor voting activity regularly.

The Trustee’s policy is to invest in pooled investment vehicles. It is the Investment Manager that is responsible for the exercise of rights (including voting rights) attaching to these investments.

The Trustee’s policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Scheme’s interests in the investments, having regard to appropriate advice. The Trustee expects the Investment Manager to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance,

strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.

ESG policy

The Trustee's policy towards financially material considerations (including, but not limited to, environmental, social and governance considerations, including climate change) is to monitor the investment manager to whom they delegate this function through investment in pooled index-tracking funds. The Investment Manager produces regular reports on their engagement with companies on environmental, social and governance considerations.

The Trustee recognises the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustee has set an appropriate monitoring framework to ensure the Scheme's Investment Manager is regularly reviewed. The monitoring framework is intended to promote greater transparency and improved understanding of the reasons behind performance trends and key risk exposures. The Trustee recognises the importance of regular monitoring of the Investment Manager's performance, remuneration and compliance against ESG policy to ensure that the Scheme's assets are being managed appropriately. Regular monitoring and communication with the Investment Manager, with specific reference to ESG factors, will incentivise the Scheme's Investment Manager to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.

In addition to performance measures, the Trustee will review the engagement activity of the Investment Manager to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustee will also monitor the voting activity of the Investment Manager to ensure votes are being used and are aligned to its views on ESG.

The remuneration of the investment manager is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustee will review and replace the investment manager if net of fees investment performance, risk characteristics and ESG practices are not in line with the Trustee's expectations and views.

If the Trustee believes that the Scheme's Investment Manager is no longer acting in accordance with the Trustee's policies, including those regarding ESG and engagement with investee organisations to assess and improve their medium to long-term financial and non-financial performance, the Trustee will take the following steps:

- engage with the Investment Manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement Investment Manager or managers which are more closely aligned with the Trustee's policies and views.

The Trustee believes that these steps will incentivise the investment manager to align its actions with the Trustee's policies and also for it to act responsibly.

The Trustee, with guidance from their Investment Adviser, has chosen to invest in pooled funds. For open-ended pooled funds, the Trustee's policy is to enter arrangements with no fixed end date. However, in this case the Trustee will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The

Scheme's open-ended investments are weekly dealt. The Trustee will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of the Investment Manager's performance against objectives. The Trustee may also elect to terminate the arrangement with the Investment Manager when performing ongoing reviews of the suitability of the Scheme's asset allocation over time.

Non-financial matters (i.e., the views of the members and beneficiaries including (but not limited to) their ethical views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme) are not taken directly into account in the selection, retention and realisation of investments.

Governance

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

Trustee

- Monitor actual returns versus Scheme investment objective.
- Set structures and processes for carrying out their role.
- Select and monitor planned asset allocation strategy.
- Select and review direct investments.
- Select and monitor investment advisers and fund manager(s).
- Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy.

Investment Adviser

- Advise on all aspects of the investment of the Scheme's assets, including ESG and implementation.
- Advise on this statement.
- Provide required training.

Fund Manager

- Operate within the terms of this statement and its written contracts.
- Select individual investments with regard to their suitability and diversification.
- Comment, where applicable, on the suitability of the indices in their benchmark.
- Is responsible for the stewardship of underlying investments.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as '**direct investments**'.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' DC contributions and AVCs. When deciding whether or not to make any new direct investments, the Trustee will obtain written advice

and consider whether future decisions about those investments should be delegated to the fund manager.

The written advice will consider the issues set out in the Occupational Pension Scheme (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund manager) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's Investment Adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The fund managers are remunerated on an ad valorem basis. The level of remuneration paid to the fund managers is reviewed regularly by the Trustee against market rates in the context of the Scheme's size and complexity to ensure the fund managers' interests are aligned with those of the Scheme.

In addition, the fund manager pays commissions to third parties on many trades it undertakes in the management of the assets and also incurs other ad hoc costs. The Trustee receives statements from the fund manager setting out these costs and review them regularly with advice from their Investment Adviser. This is to ensure that the costs incurred are commensurate with the goods and services received.

The Trustee also reviews additional investment management costs and charges (including portfolio turnover costs) on a regular basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustee monitors the portfolio turnover in the context of what the Trustee believes to be reasonable given the nature of each mandate. By also monitoring performance and associated costs, the Investment Manager is incentivised to consider the impact of portfolio turnover on investment performance.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Effective date: August 2024

