Urenco UK Pension Scheme – Defined Benefit Section

Statement of Investment Principles – November 2024

1. Introduction

The Directors of Urenco UK Pension Trustee Company Limited, the Trustee of the Urenco UK 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 "Act") and subsequent legislation. In preparing the Statement the Trustee has consulted a suitably qualified person in having obtained written advice from Mercer Limited and has also consulted the Principal Company, Urenco Limited, in particular on the Trustee's objectives.

A separate document, the Scheme's Investment Policy Implementation Document ("IPID"), details the specifics of the Scheme's investment arrangements and is available on request.

The Scheme provides two types of benefit, one linked to a defined benefit and the other a defined contribution / money purchase arrangement. This document covers the Defined Benefit Section (the "Section"). The Defined Contribution Section is covered in a separate Statement.

In considering the appropriate investments for the Section, the Trustee has obtained and considered advice from the Section's Investment Consultant. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as amended.

2. Investment Policy

2.1 Process for Choosing Investments

- Identify appropriate investment objectives based on the Trustee's investment beliefs (contained in a separate document)
- Consider the broad level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise return (net of all costs) given the Trustee's risk tolerance, liquidity requirements and expected cashflow needs

2.2 Investment Objectives

The Trustee's primary investment objective is to invest the Section's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest between them and the Principal Company, in the sole interest of the members and beneficiaries. In doing so the Trustee pays due regard to the Principal Company's position with respect to the size and incidence of employers' contribution payments.

The Trustee has an investment objective that targets full funding in 2026 on a low risk basis (gilts + 0% p.a.). The purpose of this objective is to reduce the reliance on the covenant of the Principal Company.

2.3 Investment Strategy

The Trustee and Principal Company recognise that at the current funding levels, a degree of investment risk will need to remain if the investment objective is to be achieved. Given the ongoing support of the Principal Company, investment risk is acceptable. The Trustee has decided on a Section specific mix of assets that is expected to produce long term investment returns in excess of the liabilities as required to meet the investment objective, while limiting the level of risk. Over the long term (ten years), the Trustee expects the current strategy to return approximately 1.3% per annum above the growth of the liabilities, although this is not guaranteed.

The broad investment strategy is shown in the table below. Further details are outlined in the IPID. The Trustee undertakes a detailed review of investment strategy approximately every three years based on qualitative and quantitative analysis of the risks.

	Benchmark Allocation %	**Ranges %**
Growth Portfolio	**15**	**0 – 18**
Diversified Growth	15	0 – 18
Defensive Portfolio	**85**	**82 – 100**
Corporate Bonds	25	20 – 40
Liability Driven Investment (“LDI”) [1]	35	-
Asset-Backed Securities [1]	15	-
UK High-Lease-to-Value Property (“HLV”)	10	0 - 15
Liquidity	0	0 – 15
Total	**100**	

[1] The allocations between LDI and asset-backed securities may deviate from the benchmark allocation, for example if there are more assets in the LDI portfolio than required to maintain the target level of liability hedging, in which case additional assets may be invested in asset backed securities.

The ranges have been set to allow “de-risking” if the development of the funding level exceeds expectations, thereby allowing a reduction in risk and increased security of benefits.

A breach of the range will act as a trigger for discussion rather than an automatic mechanism for rebalancing.

2.4 Financially Material Consideration, Risk Measurement and Management

The Trustee’s policies on the factors they consider to be financially material when making decisions relating to selection, retention and realisation of the Section’s investments, over its anticipated remaining timeframe, are outlined below:

- *Asset and Liability mismatch*. The primary risk upon which the Trustee focuses is that arising through a mismatch between the Section’s assets and its liabilities. The Section faces a number of key risks in this respect, namely interest rate, inflation, growth asset (from the diversified growth fund), currency, property and credit.

The Trustee recognises the importance of achieving a balance between risk and return and seeks to minimise risk for the required level of return. Therefore a funding level based framework is in place for considering switching assets from “growth” to “defensive” or matching asset classes to reduce risk when affordable.

The risk of changes in future interest rates and expected inflation adversely impacting the funding position is mainly addressed via investment in UK government bonds and derivatives, within the LDI funds.

- *Sponsor risk.* The Trustee’s willingness to take investment risk is dependent on the continuing financial strength and support of the Principal Company. Therefore, a key risk is the failure of the Principal Company to be able or willing to support the Section. As a result, the Trustee receives regular business plan updates from the Company, considers the Company’s performance regularly, and formally assesses the support at least every three years as part of the actuarial valuation.

- *Lack of diversification risk.* The Trustee believes that diversification limits the impact of a single risk. Therefore, the Trustee aims to ensure that the asset allocation and manager structure policies in place result in an adequately diversified portfolio.

- *Risks arising from environmental, social and corporate governance (“ESG”) issues including climate change and stewardship.* The Trustee believes that these factors present threats but also opportunities over certain timeframes. Section 4 provides dedicated comments on the Trustee’s approach.

- *Active management risk*. The Trustee recognises the risk of underperformance introduced by the use of active management. This is managed and monitored by the Trustee undertaking quarterly monitoring of the managers and the Investment Consultant providing advice. The Trustee takes a long term view of manager performance.

- *Custody risk.* The safe custody of the Section’s assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

- *Liquidity Risk*. The Trustee recognises that the implementation of the High-Lease-to-Value property allocation is exposed to liquidity risk, both in terms of ability to invest and potentially to disinvest. To allow for greater flexibility in managing the investment strategy, the Trustee has instructed a redemption from High Lease to Value property. This is currently being processed in line with the investment manager’s procedures. The redemption proceeds are being held in a cash/liquidity fund, pending further consideration of the wider investment strategy.

The Trustee typically meets with their Investment Consultant each quarter to discuss investment matters. At these meetings the funding level development, investment strategy and manager performance are reviewed, thereby providing an opportunity to consider the impact of risks further and whether any changes are needed to further manage those risks.

In considering the selection, retention and realisation of investments the Trustee does not take account of non-financially material considerations, including member views.

Should there be a material change in the Section's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered.

2.5 Day to Day Management of the Assets

The Trustee delegates the day to day management of the Section's assets to professional investment management firms who are authorised by the appropriate regulators. Details of the appointed managers and their respective benchmarks can be found in the IPID.

2.6 Realisation of Assets and Cashflow Management

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments. The Section is cashflow negative and therefore the Trustee has implemented a cashflow policy. The Trustee also has in place arrangements designed to meet the cashflow requirements that may arise from the LDI portfolio.

3. Responsible Investment and Corporate Governance

The Trustee believes 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 Trustee's stewardship priorities are based on climate change, with a specific focus on disclosure of carbon emissions, in particular the availability of scope 3 carbon emissions. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Given the Section has no directly held investments, the Trustee has focussed on how all of the Section's investment managers implement their policies (rather than invest in a dedicated ESG focussed equity investment strategy for example). In addition, specific opportunities arising from ESG factors tend to be in illiquid asset classes, often requiring assets to be held for in excess of ten years. Currently the Trustee does not consider this to be consistent with its target investment strategy.

Where applicable, managers are required to outline to the Trustee their stewardship policies, which the Trustee expects to reflect current UK best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee has given the investment managers full discretion in evaluating ESG factors, including climate change considerations. In addition, it has delegated to the investment managers engagement with companies (including collaboration with others and escalation), and exercising voting rights and stewardship obligations attached to the investments, including considering climate change impacts.

When appointing, monitoring and withdrawing from investment managers, going forward, the Trustee considers, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes, making use of the Investment Consultants' ESG ratings. These ratings are provided each quarter. The Trustee also receives an annual review of ratings versus competitors, with the latest review taking place during July 2024.

4. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of asset/investment managers and portfolio turnover costs

4.1 Aligning Manager Appointments with Investment Strategy

When engaging with investment managers to implement the Trustee's investment strategy outlined in section 2, the Trustee is concerned that, as appropriate and to the extent applicable, the investment managers are incentivised to align their strategy and decisions with the objectives of the Section.

However, as the Section invests in multi-client pooled funds, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Funds. The Trustee is able to make investment manager appointments in such a manner that the assets are managed consistent with the investment strategy for the Section. The investment managers are incentivised by the knowledge that the Trustee will review their appointment if, over time, they do not meet expectations.

Investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustee looks to their Investment Consultants for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the Consultants' assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Section invests in. The Consultants' manager research ratings assist with due diligence and questioning the managers directly during presentations. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider investment objectives.

The Trustee does not have a policy about making investment decisions based on its 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 investment managers. 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 Trustee does, however, consider the Investment Consultants' assessment of how each investment manager embeds Environmental, Social and Governance issues into their investment process. This includes the investment manager's policies on voting and engagement. More detail is in section 3.

4.2 Manager Appointments and Performance

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the Funds they invest in over various time periods. The Trustee reviews the absolute performance, and relative performance against a suitable index used as the benchmark (where appropriate), and/or against the managers' stated target performance (over the relevant time period) on a net of fees basis.

The Trustee's focus is primarily on long-term performance but a manager's appointment may be reviewed at any time. Examples of why this may happen are:

a) There are sustained periods of underperformance;

b) There is a change in the portfolio manager or portfolio management team;

c) There is a change in the underlying objectives of the investment manager;

d) There is a significant change to the Investment Consultant's rating of the manager.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

If managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustee may ask managers to review the Annual Management Charge or, more likely, decide to switch managers.

4.3 Portfolio Turnover Costs

The Trustee receives, where applicable, MiFID II reporting from investment managers for the Section, but does not currently analyse the information. The Trustee assesses investment performance net of the impact of the costs of such activities.

However, the Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee will, at least on annual basis, ask managers to report on portfolio turnover costs.

4.4 Manager Turnover

The Trustee is a long-term investor and is not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee will retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager;

- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

5. Additional Assets

The Trustee is also responsible for offering and monitoring the Additional Voluntary Contributions arrangement. Assets in respect of members' Additional Voluntary

Contributions are held in Unit-linked and With-Profit funds. In addition, the Section offers a Shift Pay Pension Plan investing in With-Profits. Further details are in the IPID.

6. Compliance and Review of This Statement

The Trustee will monitor compliance with this Statement at least annually. The Trustee will review this Statement in response to any material changes to any aspects of the Section, its liabilities, finances and the attitude to risk of the Trustee and the Principal Company which it judges to have a bearing on the stated Investment Policy. This review will occur no less frequently than every three years.