Baker Group of Companies Retirement Benefits Scheme

Statement of Investment Principles

January 2025 (replaces August 2023)

1. Introduction

The purpose of the Statement of Investment Principles **("the Statement")** is to document the principles and policies governing decisions about the investment of the assets of the Baker Group of Companies Retirement Benefits Scheme **("the Scheme").** This statement has been prepared by the Trustees of the Baker Group of Companies Retirement Benefits Scheme **("the Trustees")**. It sets out the Trustees' policy for complying with the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005 and is adopted with effect from July 2015

The Trustees have consulted F W Baker Ltd **("the Company"),** the Sponsoring Company, on the Statement, as required, and have received written advice from the Scheme's Investment Consultant, Mercer Limited **("Mercer"),** which is regulated by the Financial Conduct Authority ("FCA") in relation to investment services and whom the Trustees consider to have the required expertise.

The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Implementation Policy Document ("IIPD"). Both documents are available to members on request.

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustees' investment powers. The investment powers do not conflict with this Statement.

The Trustees will review this Statement at least once every three years and without delay upon a material change to the Scheme or the Company.

2. Process For Choosing Investments

In considering the appropriate investment arrangements for the Plan the Trustees have obtained and considered the written advice of Mercer as their investment consultant, 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).

The Trustees have decided upon an overall strategy (as set out in Section 5) after taking advice from Mercer. They have decided to delegate implementation of the investment strategy. Specifically, with the exception of the AVCs, the Trustees have also appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and these assets, subject to restrictions e.g. as to allocations, are invested in a range of Mercer Funds managed by MGIE. This provides access to a range of third party specialist managers chosen for their expertise. The Trustees believe that Mercer has expertise in identifying, selecting and combining highly rated fund managers who are well placed and resourced to manage the Plan's assets on a day-to-day basis. The Trustees regularly review the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

The Trustees have also taken advice from Mercer in relation to the AVCs.

3. Strategic Management

3.1 Investment Objectives

Following a sale of Butcher's Pet Care by the Company, the Trustees have agreed with the Company to pursue a full buy-in of the Scheme liabilities with an insurance company via a bulk annuity, to be completed in the near term, followed by a "buy-out". An escrow account has been established by the Company such that, combined with the assets held by the Scheme, there will, with a very high level of confidence, be sufficient assets overall in order to secure a buy-in. As such, while the Scheme liabilities are long term, the expected time horizon of the Scheme's assets is potentially short.

Consistent with this overall objective, the Trustees have agreed an investment strategy that is designed to provide a very high level of protection against fluctuations in the likely price of a bulk annuity, in particular that may result from changes in long term interest rates (gilt yields), inflation expectations, and the price of corporate bonds relative to gilts. They recognise that full protection is not possible due to other factors that impact on insurer pricing and differences in approaches between different insurers. This approach minimises the risk that a buy-in is not affordable and minimises uncertainty over the likely level of escrow cash remaining post the buy-in taking place.

The Trustees are satisfied that pursuing this strategy is consistent with minimising risk vs the Scheme's ongoing liabilities should for whatever reason a buy-in not proceed, although they would review investment strategy in this instance.

The Trustees have a secondary objective which is to ensure that the Scheme assets remain sufficiently liquid to meet ongoing benefit obligations and other cashflow commitments (such as expenses) as they fall due, prior to buy-in taking place.

Subject to the above points, investments that provide a higher level of expected return are favoured over investments expected to provide a lower level of return, considered over the short to medium term.

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 such as member views are discussed in section 4.

3.2 Investment Risk

The Trustees regard "risk" as the likelihood of failing to achieve the objectives set out above, in particular the risk of a significant deterioration in the funding position on a buy-in basis. and have, on the advice of Mercer, taken several measures which are set out in this Statement to minimise this risk, over the Scheme's anticipated lifetime, so far as is possible. The Trustees have considered the following risks in particular:

1) The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities, in particular measured on a "buy-out" basis. As noted in 3.1, this risk comprises:
    a. Interest rate risk – the risk that changes in long term interest rates impacts the Scheme assets differently from likely buy-in prices;

b. Inflation risk – the risk that changes in long term inflation expectations impacts the Scheme assets differently from likely buy-in prices;
c. Credit risk – the risk that changes in credit markets impacts the Scheme assets differently from the Scheme liabilities.

The Trustees seek to manage these risks by adopting an investment strategy that provides a level of exposure to each of these factors that is comparable to expectations of how these factors are likely to affect insurer pricing. In relation to interest rates and inflation this implies adopting a very high “hedge ratio” of assets vs liabilities and a good “shape match” vs liabilities on a suitable basis. In relation to credit, this is managed by maintaining a modest allocation to high quality corporate bonds, reflecting the likelihood that insurer pricing is partially linked to investment grade credit markets. The Trustees recognise that a perfect match is not possible.

2) The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities and aim to ensure the asset allocation policy in place results in an adequately diversified portfolio.

3) Investments may be made in securities that are not traded on regulated markets. Recognising the risks (liquidity and counterparty exposure), such investments will only be made with the purpose of reducing the Scheme’s mismatch risk relative to its liabilities or to facilitate efficient portfolio management.

4) In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.

5) Liability Driven Investment (“LDI”) introduces the risk that capital calls may be needed at short notice to manage leverage levels, as a result of changes in long term s and/or inflation expectations. This is managed through investing in funds which maintain sufficient collateral to tolerate very large shock movements in these factors; and via a plan to recollateralise the relevant investment vehicles whenever collateral levels fall below set levels.

6) 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 (including “Buy & maintain credit”) involves such a risk. However, for specific asset classes it believes 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 markets deemed efficient where the scope for added value is limited.

7) Regardless of the style of investment, by investing in bonds the Trustees are exposed to default risk. This is minimised by holding high quality investments and through diversification, and where active management is employed through the individual managers’ oversight.

8) The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 5 sets out how these risks are managed.

9) The Scheme may be subject to currency risk where underlying investments are partially denominated or priced in a foreign currency. To limit this risk, the Scheme only invests in vehicles where currency exposure is hedged to Sterling.

10) Responsibility for the safe custody of the Scheme’s assets is delegated to Mercer who has appointed State Street Bank and Trust Company (“State Street”) as custodian of

the assets invested in their pooled vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

3.3 Investment Strategy

The Trustees, with advice from the Scheme's investment consultant and Scheme Actuary, reviewed the Scheme's investment strategy most recently in 2024. This review considered the Trustees' investment objectives, and the risks considered in 3.2. They have agreed the following investment strategy accordingly:

Portfolio	Target Asset Allocation (%)
Hedge Management	**70.0**
Non-Hedge Management	**30.0**

The **hedge management portfolio** is invested in a combination of LDI vehicles which may include gilts, geared gilts, swaps and cash funds. The **non-hedge management portfolio** is invested in Sterling denominated or cross currency hedged overseas Buy & Maintain corporate bonds that comprises predominantly investment grade bonds. The actual allocation between the two may vary over time with market movements and will be monitored. The Trustees monitor the continued appropriateness of the strategy on an ongoing basis with the help of their advisers.

In combination the investment strategy targets a hedge ratio of 100% of liabilities on a gilts + 0.25% p.a. basis.

Based on typical yields for investment grade corporate bonds vs gilts, the strategy has an expected return as at the date of this Statement of the order of gilts + 0.3% p.a. before fees. Actual returns will depend upon market conditions and are not guaranteed.

Full details of the Scheme's investment strategy being implemented can be found in the IIPD.

The investment strategy is reviewed regularly by the Trustees to ensure that it remains appropriate for meeting the objectives set out in 3.1 and for controlling the risks identified in 3.2.

3.4 Consultation with the Company

As required by the Pensions Act 1995, and as a matter of good practice, the Trustees have consulted with the Company concerning the investment arrangements set out above.

4. Environmental, Social, and Corporate Governance, 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.

The Trustees have delegated day to day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. These investment managers 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 Corporate Governance Code and 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, are 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 such as carbon foot printing for equities and other asset classes where relevant and data is available and /or climate transition analysis for diversified growth portfolios.

Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Plan, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The results of the latest climate scenario modelling are within the TCFD compliant Climate Change Management Report. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2˚C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.

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

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

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities but may consider this in future.

5. 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 3, 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 3. 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 nor 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 4 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 de-risking 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. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

6. Fee Structure

Mercer levies an annual fee for advisory services based on a percentage of the value of assets under management.

Mercer levies additional fees for investment management services. These fees are based on percentage amounts of the value of the assets invested in each of the Mercer investment funds (the percentage amount varies by fund used).

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.

Mercer and the underlying investment managers selected by Mercer have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

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

9. Rebalancing

There is no predefined or automatic rebalancing between the Hedge management Portfolio and Non-Hedge management Portfolio nor between the Mercer Funds within the Hedge Management Portfolio and Non-Hedge Management Portfolio. Further details are set out in the IIPD.

10. AVCs

Assets in respect of members' AVCs are invested in a range of investment options. The AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustees and the needs of the members. More information on the AVC providers is detailed in the IIPD.

11. Compliance and Review of Statement

In line with the Occupational Pension (Investment) Regulations (2005), the Trustees are required to review the Statement at least every three years and without delay after any significant changes in investment policy.

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Company which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation or other actuarial advice. Any such review will again be based on written expert investment advice, and the Company will be consulted.

For and on behalf of the Trustees Baker Group of Companies Retirement Benefits Scheme