

Thorntons Pension Scheme

Statement of Investment Principles – November 2025
(replaces November 2024)

1. Introduction

The Trustee of the Thorntons Pension Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. A separate document detailing the specifics of the Scheme’s investment arrangements has also been drawn up and is available on request.

In preparing this Statement the Trustee has consulted Thorntons Limited (“the Employer”) as Scheme Sponsor and obtained and considered written professional advice from Mercer Limited (“the Investment Consultant”). The Trustee believes the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended).

2. Process For Choosing Investments

The Trustee has considered its investment and funding objectives together and in light of the strength of the Employer covenant to ensure that they are compatible and supportable. The Trustee has then constructed a portfolio of investments consistent with these objectives and which it hopes will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

The Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of Mercer Ltd 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 Pensions Act 1995 (as amended).

3. Investment Objectives

The objectives set out here, and the risks and other factors referenced are those that the Trustee determines to be financially material considerations in relation to the Scheme.

The Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- *To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme taking into account the funding level of the Scheme and the strength of covenant of the Employer.*
- *To pay due regard to the interest of the Employer on the size and incidence of its contribution payments.*

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

The Trustee understands, following discussions with the Employer, that the Employer is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

4. **Risk Management and Measurement**

There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme. The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accrued liabilities. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The Trustee's policy on risk management and measurement over the Scheme's anticipated lifetime is set out below.

The primary investment risk upon which the Trustee has focused is a deterioration in the value of assets relative to the value of the liabilities, as assessed on the Trustee's Technical Provisions funding basis, beyond the level that the Employer is willing or able to rectify through additional payments.

Key strategic investment risks that impact on Scheme funding are as follows:

- Market Risk (including equities, property and exposure to other growth asset markets) – the risk that asset valuations fluctuate in an uncorrelated way with the value of the liabilities;
- Interest Rate Risk – the risk that changes in the value of the assets do not move in line with changes in the value placed on the Scheme's liabilities in response to changes in interest rates;
- Inflation Risk – similar to interest rate risk but concerning inflation;
- Credit Risk – the risk that one party to a financial instrument will cause a financial loss to the Scheme by failing to discharge an obligation;

- Currency Risk – the risk that foreign currency exposure causes asset valuations to fluctuate in an uncorrelated way with the value of the liabilities which are denominated in Sterling;
- Liquidity Risk – the risk that the Scheme doesn't have sufficient liquid assets to meet payments.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 11.

To manage investment risks the Trustee has established an investment policy designed to reduce this risk, without damaging the Scheme's long term return prospects, using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk ("VaR").

In particular:

- Market risk is managed via the strategic allocation to the various asset classes and by holding diversified portfolios (by individual holdings, sectors, and market regions) that are complementary in terms of investment style.
- The Trustee has also developed a Liability Driven Investment ("LDI") framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. Target hedge ratios for both interest rates and inflation are 90% as a percentage of liabilities on a gilts + 0.25% p.a. funding basis. The Trustee recognises that the target LDI portfolio will not produce a perfect match for the liability exposures it is aiming to hedge. Furthermore, the Trustee recognises that there are different measures for calculating the liabilities that may not be closely matched by the LDI assets held.
- The Scheme's LDI portfolio is invested on a pooled fund basis. However, the underlying investments include derivative exposures that introduce other specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:
 - basis risk (the risk that the derivative invested in does not perfectly match the physical asset that the derivative has replaced);
 - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);
 - recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);
 - collateral and counterparty risk (the risk that the party with whom the LDI manager has contracted defaults and that any collateral is insufficient to make good any resulting loss);

These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks is low and/or the impact of them is low.

- Credit risk is managed via the strategic allocation and investing in pooled funds with diversified holdings of bonds..

- Currency risk is managed through the total allocation to overseas markets and consideration of currency hedging.
- Regarding liquidity risk, the Trustee believes that the majority of the Scheme's investments are realisable at short notice in most prevailing market conditions.

The Trustee recognises the following additional risks and takes the following steps to manage risk:

- Risks may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles;
- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active management involves such a risk. Section 5 sets out the policy for mitigating this risk.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that, in conjunction with overall asset allocation policy, the investments held by the Scheme and the amount invested in them are suitable. The managers' guidelines prevent investing in asset classes outside of their mandates without the Trustee's prior consent.
- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. The Trustee meets periodically with the Scheme's active managers and receives regular reports from all the investment managers and Mercer.
- The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).
- Across all of the Scheme's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risks arise from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Trustee will consider these risks when setting the Scheme's investment strategy.

Overall, the Trustee primarily measures and manages investment risk through the investment strategy (outlined in Section 6) and reviews the appropriateness of this strategy on a regular basis.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Employer and its willingness to contribute appropriately to the Scheme. The financial strength of the Employer and its perceived commitment to the Scheme is monitored and the Trustee would expect to reduce investment risk relative to the liabilities should either of these deteriorate significantly.

The degree of investment risk the Trustee is willing to take also depends on other circumstances, including the financial health of the Scheme, the Scheme's liability profile and investment time horizon. The Trustee will monitor these with a view to

altering the investment objectives, risk tolerance and/or return target and asset mix, should there be a significant material change in these factors.

5. **Portfolio Construction**

The Trustee has adopted the following principles subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Sections 3 and 4 and subject to the Trust Deed & Rules:

- There is a role for both **active and passive management**. Passive management involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both the Trustee aims to take advantage of active management where it believes it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.
- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the need for diversification, available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments. However, the Trustee anticipates investing on a pooled basis.
- **Specialist mandates** are preferred over generalist mandates because of the potential to access a higher level of expertise. However, the Trustee limits the number of directly appointed managers so as to manage its overall monitoring requirements. Also there should be some flexibility to move between asset classes notwithstanding the appointment of specialists.
- At the total Scheme level investments should be **broadly diversified** to ensure there is not a concentration of exposure to any one market or issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt.
- The amount invested in **highly concentrated portfolios** will take into account the level of risk this represents taking into account the Scheme's assets overall.
- The Trustee recognises that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Given the long-term investment horizon of the Scheme, the Trustee believes that a degree of liquidity risk is acceptable because it expects to be rewarded for assuming it. The amount invested in illiquid investments, such as property or pooled property funds, will take into account the implications of not being able to readily liquidate a proportion of the Scheme's investment on the operation of the Scheme.
- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).
- Investment 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 risk or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustee will not invest directly in the **Employer** or associated companies, but acknowledges that indirect investment is possible as a result of the investment policies of the Scheme's pooled investment managers. The Trustee will invest in such a way that indirect exposure will not exceed 5% of total assets.
- **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustee as part of the onboarding process for new investments.

6. Investment Strategy

In conjunction with the 2023 Actuarial Valuation, the Trustee has reviewed the Scheme's investment strategy and has agreed, based on expert advice from Mercer, an investment strategy that is consistent with the Trustee's funding and investment objectives. The split of assets between each asset class (excluding any cash held separately to meet day to day cash flow requirements) is set out below.

Asset Class	Strategic Guide (%)
Equities	14.0
Emerging Market Debt	5.5
Property	15.5
Multi-Asset Credit	10.0
Liability Driven Investments ("LDI")*	55.0
Total	100.0

*LDI may include physical gilt and index-linked gilt holdings, as well as partially funded exposure to changes in interest rates and inflation through pooled vehicles with underlying exposure to derivative contracts including interest rate and inflation swaps, total return swaps and gilt repo. It may also include cash.

The Trustee will consider from time to time holding other alternative assets to diversify the Scheme's assets further and improve returns on a risk adjusted basis.

7. Day-to-Day Management of the Assets

The Trustee delegates the day-to-day management of the assets, including selection, retention and realisation, to a number of investment managers in accordance with Section 5 and detailed in the Summary of Investment Arrangements document. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme'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 Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. It does so via regular reports and periodic presentations from the appointed managers with the assistance of the Investment Consultant. However, any such adjustments would be done with the aim of ensuring consistency with this Statement.

Section 13 sets out how the Trustee incentivises investment managers, where applicable, to operate in line with the Trustee's objectives.

8. **Expected Return**

The Trustee expects to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Scheme's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.

9. **Additional Assets**

Members of the Scheme have the opportunity to pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustee establishes the arrangements under which these contributions are invested. Further information is outlined in the Summary of Investment Arrangements document.

10. **Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.

The Trustee has implemented a policy to manage the Scheme's net cash in/out flow; details are contained in the Summary of Investment Arrangements document. Within individual mandates, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments subject to the relevant appointment documentation and pooled fund prospectuses.

In addition, the Trustee monitors the allocation between the appointed managers and between asset classes and will rebalance (or delegate this to individual investment managers) as set out in the Summary of Investment Arrangements document.

11. **ESG, Stewardship and Climate Change**

The Trustee believes that financially material factors, including 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 also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset

classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme's assets are invested predominantly in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to investment managers, including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to 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 Trustee engages with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustee accepts that the primary role of its passive manager(s) is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set. Following a review of the Scheme's passive equity mandate in 2025, the Trustee changed the pooled fund equity investments from those which are predominantly benchmarked against broad market capitalisation indices, to a range of pooled funds which aim to provide exposure to companies with comparatively better ESG characteristics, including lower exposure to carbon. The Trustee will continue to periodically consider the appropriateness of the benchmark indices against which its passive manager(s) aim to track, relative to viable alternative indices.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee will challenge managers who it believes are taking insufficient account of ESG considerations in implementing their mandates.

The Trustee will also monitor investment manager engagement activity (such as voting) at least annually and is required to provide a definition of what it considers a "significant vote", following statutory guidance introduced in 2022 by the Department of Work & Pensions. The Trustee has agreed that its definition of a significant vote is a vote that relates to and aligns with the Trustee's key priority themes of climate change and corporate governance, including diversity, equity and inclusion. To be deemed significant, votes are also subject to a size of holding threshold. Further details on the engagement and voting activity of the Scheme's investment managers are outlined in the Implementation Statement.

The Trustee has not set any investment restrictions on the appointed investment manager(s) in relation to particular products or activities but may consider this in future.

The Trustee will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

12. **Non-Financial Matters**

“Non-financial matters” (where non-financial matters includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.

13. **Investment Manager Arrangements**

Alignment of Investment Manager Objectives and Incentivisation

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of “tracking error” against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager’s idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager’s approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

Where relevant, the Trustee specifies the investment objectives and guidelines in an Investment Management Agreement (“IMA”) and sets these so that they are in line with the Trustee’s specific investment requirements. In relation to pooled investment vehicles, the Trustee accepts that they have no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee’s own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee’s overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at relatively short notice.

For each appointment retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve the mandated investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the mandated objectives, consistent with the Trustee’s policies and objectives, and to ensure that

they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Performance Assessment and Fees

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and periodic presentations from the investment managers.

Investment returns (and their associated volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.

As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of the investment advisor, when assessing investment managers, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Voting and engagement activity;
- Service standards;
- Operational controls; and
- The advisor's assessment of ongoing prospects based on their research ratings.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees may also be in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustee will consider introduction of performance related fees on a case by case basis where not in operation and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored investment managers' ongoing transaction costs explicitly but has measured these implicitly through ongoing performance assessments which are net of these costs. The Trustee will now seek explicit reporting on ongoing costs for all appointed managers.

The Trustee does not monitor regular cashflow costs (but seeks to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via the investment consultant.

14. **Compliance with this Statement**

The Trustee will monitor compliance with this Statement annually. The Trustee will also periodically check that the investment managers have given effect to the investment principles in this Statement and the Summary of Investment Arrangements document so far as reasonably practicable and that in exercising any discretion they have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

15. **Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed:

For and on behalf of the Trustee of the Thorntons Pension Scheme