Statement of Investment Principles for the West of England Ship Owners Insurance Services Ltd Retirement Benefits Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the West of England Ship Owners Insurance Services Ltd Retirement Benefits Scheme ("the Trustees") on various matters governing decisions about the investments of the West of England Ship Owners Insurance Services Ltd Retirement Benefits Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated December 2024.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed dated 15th November 1968.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Scheme's Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due.

To achieve this, the Trustees have entered into two bulk annuity contracts with Aviva Life & Pensions UK Limited ("Aviva") which match the benefits payable to the Scheme's members. The annuity policies collectively act as a full buy-in and therefore remain assets of the Scheme. Apart from the annuity policies with Aviva, there are some residual assets held with Columbia Threadneedle Investments ("CTI") and Alcentra.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, reviewed the investment strategy for the Scheme in December 2024, taking into account the objective described in Section 2 above.

The result of the review was that the Trustees agreed that the investment strategy of the Scheme should be restructured in the run up to entering into the final bulk annuity contract with Aviva in February 2025. As a result, the Scheme's remaining allocation to equities and LDI assets were sold and the proceeds were invested into a portfolio of gilts held in CTI's Transition Fund in order to better match the agreed price-lock mechanism. The Trustees then disinvested from the Transition Fund, in order to pay the premium to Aviva.

At the time of writing, the Trustees had a small amount of the Scheme's invested assets invested in private credit via Alcentra's closed ended fund and a cash fund with CTI. The private credit fund is now paying back the invested capital, which is all expected to be returned by 30 September 2026.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In setting the strategy the Trustees took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;

- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustees have signed agreements transferring the liability for paying member benefits to an insurance company Aviva.

Details of the investment managers are set out in Appendix 3.

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Scheme's non buy-in assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

At present, Aviva pays the pension payroll into the Trustees' bank account, with the Scheme's administrator processing the payments to members.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of additional cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees maintain an allocation to liquid assets that are readily redeemable to pay benefits, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg private credit) which also offer an illiquidity premium. In general, the Trustees' policy is to use asset cash flows and disinvestments to meet benefit payments where required.

7. Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations).

All the Scheme's non buy-in assets are invested in pooled funds. The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not consider that their obligations to the beneficiaries of the Scheme require them to take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Stewardship

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations The Trustees expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of the beneficiaries.

The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

The Trustees monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustees seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

The Trustees have selected some priority ESG themes (ie Climate change, Diversity, Equity and Inclusion and Remuneration) to provide a focus for our monitoring of investment managers' voting and engagement activities. The Trustees review the themes regularly and update them if appropriate and communicate these stewardship priorities to our managers.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.

9. Employer related investment

The Trustees are aware that pension schemes are allowed to invest no more than 5% of their assets in employer-related investments, including such investments held via a collective investment scheme.

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

All decisions remain the responsibility of the Trustees.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees / investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet their investment objectives.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future; and
- the Scheme's cash flow requirements.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. Although this is now considered to be small. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.2. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.3. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

2.4. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Trustees have also entered into insurance policies with Aviva, and the Trustees are aware that there is a risk that Aviva could default on its obligations. However, the Trustees are mindful that UK financial regulations require insurance companies to monitor their solvency positions and hold sufficient capital levels that demonstrably reduce the risk of default.

2.5. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of their assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected), but this has now been mitigated by the bulk annuity contracts with Aviva;
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated); and
- Fraud risk.

By understanding, considering and monitoring the key risksthe Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Details of the investment managers, their objectives, and investment guidelines are set out below. Each of the investment managers either acts as or has appointed its own custodian for the assets. In cases where the investment manager acts as custodian, the responsibilities are delegated to a depositary. The Trustees do not hold a direct relationship with any the custodians or depositaries.

1. Alcentra Limited ("Alcentra") – Private credit

The Scheme invests in private credit through a pooled fund called the Clareant European Direct Lending Fund II. The stated objective of the fund is to return 8-10% pa (net of fees) by providing capital to middle-market corporate borrowers in Europe. The fund is priced quarterly, is closed ended and is unlisted. The Trustees are committed for a minimum six-year period from the fund's final closing date in September 2016. Alcentra can extend the life of the fund for an additional two years, subject to consent of more than 50% of investors. The Scheme is invested in a Sterling denominated share class on a fully hedged basis.

2. CT – Sterling Liquidity Fund

The Scheme invests in cash through a pooled fund called the Sterling Liquidity Fund. The objective of the fund is to maintain high levels of liquidity, preserve capital and generate a return in line with the GBP 7-Day LIBID. There is no specific performance objective for the Sterling Liquidity Fund. The fund is priced daily, is open ended and is unlisted.

3. Additional Voluntary Contributions

The Trustees have selected Royal Bank of Scotland PLC and National Provident Institution as the Scheme's money purchase AVC providers.