Diploma Holdings PLC UK Pension Scheme

Statement of Investment Principles

July 2023

1. Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustees of Diploma Holdings PLC UK Pension Scheme (the "Scheme"). This statement sets down the principles governing decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and,
- the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement the Trustees have consulted Diploma Holdings PLC (the "Employer") and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustees are set out in Clause 11 of the Definitive Trust Deed & Rules, dated 19 August 2011. This statement is consistent with those powers.

2. Choosing Investments

2.1 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in Appendix 1 to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

3. Investment Objectives

3.1 The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving those objectives. The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with any contributions from the Employer, the cost of benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Fund's objectives in an appropriate way.

4. Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5 The balance between different kinds of investments

5.1 The Scheme invests in an asset strategy that has been designed with consideration of the Scheme's objectives. The allocation between different asset classes is contained within the Appendices to this Statement.

5.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short term cashflow requirements or any other unexpected items.

5.4 The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Further information is provided later in this Statement.
ESG/Climate risk	Further information is provided later in this Statement.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees may review the internal controls and processes of each of the investment managers from time to time.

7 Expected return on investments

7.1 The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position.

8 Realisation of investments

8.1 The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9 Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

9.1 The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10 Manager arrangements

Incentivising alignment with the Trustees' investment polices

10.1 Prior to appointing the investment manager, the Trustees discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant and how they are aligned with the Trustees' views.

10.2 When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

10.3 The Trustees carry out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

10.4 In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, their appointment will be terminated.

10.5 Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager, where appropriate.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6 The Trustees are mindful that the impact of ESG and climate change has a long-term nature but the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term.

10.7 When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over an agreed predetermined rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon.

10.8 The Trustees expect investment managers to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short-term targets.

Method and time horizon for assessing performance

10.9 The Trustees monitor the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

10.10 The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied. The Trustees keep a record of the details of the fee structures for the Scheme's investment managers.

10.11 The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12 The Trustees ask the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.13 The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.14 During the investment manager appointment process, the Trustees consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

Duration of arrangement with asset manager

10.15 For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.16 The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11 Agreement

11.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the fund managers, the actuary and the Scheme auditor upon request.

Signed: NP Lingwood **Date:** 20 July 2023

On behalf of the Diploma Holdings PLC UK Pension Scheme

Appendix 1 Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

1. Choosing investments

The Trustees have appointed the following fund manager to carry out the day-to-day investment of the Scheme's invested assets:

- Legal & General;

The fund manager is authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters.

Please note that the Scheme also holds a buy-in bulk annuity with Just Retirement Limited in respect of the Scheme's pensioner members at the time of the purchase of the annuity in early 2019.

2. Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following:

- Fixed Interest and Index-Linked Gilts.
- Bulk annuity

3. The balance between different kinds of investment and rebalancing

The invested asset allocation (excluding the bulk annuity) has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Benchmark	Objective
Legal & General Gilt Funds		
All Stocks Index-Linked Gilts	FTSE UK Index-Linked Gilts All Stocks Index	To track the total return of the benchmark to within +/- 0.25% p.a. for two years in three
Over 15 year Gilts Index	FTSE UK Conventional Gilts Over 15 years Index	

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Scheme has a strategic asset allocation as set out in the table below (excluding the bulk annuity). The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Fund manager	Allocation	
Legal & General Gilt Funds	**100%**	
All Stocks Index-Linked Gilts		45%
Over 15 year Gilts Index		55%
Total	**100%**	

The Trustees understand that the actual asset allocation will fluctuate over time. The Trustees will keep the asset allocation under review.

The Trustees have AVC contracts with Aviva and Zurich for the receipt of members' Additional Voluntary Contributions. These arrangements are reviewed from time to time.

4. Investments and disinvestments

Investment of new money

New money is normally invested to rebalance the asset allocation towards its overall benchmark as set out above.

Realisation of investments

The Scheme's cashflow requirements are expected to be partly met by the principal employer's contributions; however, where this is insufficient the Trustees may disinvest some of its investments, usually to move the overall asset allocation in line with the agreed asset allocation.

Buying out the liabilities

The Trustees' investment strategy also includes a buy-in bulk annuity in respect of the Scheme's pensioner members at the time of the purchase of the annuity in early 2019. The Trustees have considered the possibility of securing the entire liabilities with an insurance company when determining the investment strategy. The Trustees will monitor the scope to buyout the liabilities over the long-term and believe that this may become an appropriate course of action to meet their objectives.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

1. Policy on financially material considerations

The Trustees believe that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time over the lifetime of the Scheme. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. The Trustees acknowledge that ESG and climate risk considerations may extend over the entirety of a company's corporate structure and activities, i.e. that they may apply to equity, credit and property instruments or holdings. The Trustees are also cognisant of the different investment timeframes that may apply to investments. The Trustees acknowledge that ESG issues may have a greater impact over a longer timeframe (compared to investments that are held for a shorter timeframe) as the financial materiality of such issues may have a greater impact over a longer timeframe. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees appreciate that the method of incorporating ESG within an investment strategy and process will differ between asset classes. The Trustees note that ESG issues are one of a number of factors that affect the Scheme's investments and that these need to be considered in a proportionate manner. A summary of the Trustees' views/implementation for each asset class in which the Scheme invests is outlined below.

Passive gilts

The Trustees believe there is a limited scope for the consideration of ESG issues to improve risk-adjusted returns within the Scheme's passive gilt holdings because of the nature of the instruments used (i.e. government bonds).

Just buy-in policy

The Trustees believe that ESG issues will be financially material to ensure payments are provided by the Scheme's buy-in policy. The Trustees, however, believe that the integration of ESG by the insurer into the investment management process should help to mitigate investment risk by uncovering material factors missed during credit analysis or private placement due diligence. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

2. Policy on the exercise of voting rights and engagement activities

The Scheme currently invests in pooled investment funds only. The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund managers. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses. The Trustees are comfortable with the fund managers' strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

The investment managers will be asked to provide details of their stewardship activities on at least an annual basis. The Trustees review the information provided by the investment managers, and will provide feedback to the investment managers if required.

3. Policy for taking into account non-financial matters

The Trustees remain cognizant of non-financial matters when constructing the investment strategy and selecting investment managers but these are not prioritized over other financial matters. Based on the size and maturity of the Scheme, the Trustees have adopted a passive approach to their investments, utilising pooled investment vehicles, which mean that it is less practical and efficient (from a return and cost perspective) to take account of such non-financial matters.

4. Additional stewardship information

When delegating investment decisions to their investment managers, the Trustees provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The Trustees consider it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. This is subject to the restrictions of the mandate. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk; the Trustees expect the investment manager to employ the same degree of scrutiny where the Trustees use pooled funds.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustees have made the Sponsoring Employer aware of their attitude to ESG and climate related risks and how they intend to manage them.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on stewardship and how these policies have been implemented.