Diploma Holdings PLC UK Pension Scheme

Statement of Investment Principles

June 24

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 Scheme holds a buy-in bulk annuity with Just Retirement Limited (the "Insurer") in respect of the Scheme's pensioner members at the time of the purchase of the annuity in early 2019. The Trustees completed a second bulk annuity transaction with the Insurer in March 2024 in respect of the Scheme's remaining members. Combined, these bulk annuities are expected to meet the benefit entitlements of each of the Scheme's members, subject to final adjustment in due course.

2.3 The Insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

2.4 The Trustees also hold cash in the Scheme's bank account and a small holding in the Legal and General Investment Management ("LGIM") Sterling Liquidity Fund. The day-to-day management of the assets held in the LGIM Sterling Liquidity Fund is delegated to LGIM. The investment manager is authorised and regulated by the Financial Conduct Authority, and is responsible for stock selection.

2.5 The Trustees continue to review the appropriateness of the Scheme's investment strategy on an ongoing basis. but would consider it unlikely that any material future changes will be made prior to the Just insurance policies potentially being assigned to individual members and the Scheme then being wound up. The Trustees will 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 invest in assets of appropriate liquidity to meet potential remaining liabilities that are not currently covered by the bulk annuity policies; and
- 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 Scheme'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 Given the Scheme's investment strategy, it is not expected that the Scheme will hold any employer-related investments. However, this is typically checked annually by the Scheme's auditors.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendices to this Statement.

5.2 The Scheme holds bulk annuity policies expected to produce cashflows that match the benefit entitlements of each of the Scheme's members, subject to final adjustment in due course. The remainder of the Scheme's assets are held in the Trustee bank account and the LGIM Sterling Liquidity Fund.

5.3 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.

5.4 The nature of the bulk annuity policies mean that the income from these will meet cashflow requirements in respect of benefit payments. The Trustee expects any Scheme fees and other expenses (including any final benefit adjustments) to be met using the reserves held within bank account and liquidity holding and, where relevant, contributions from the Employer.

5.5 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.

6 Risks

6.1 The various types of investment risk which may affect the Scheme's liabilities are covered under the bulk annuity purchases with the Insurer. Therefore, the vast majority of the risks set out below are covered by the insurance policies, and are therefore judged to have minimal impact on the Scheme's ability to meet the liabilities of the Scheme as they fall due. However, the Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

Risk versus the liabilities	The risk of the assets behaving differently from the Scheme's liabilities has largely been mitigated by purchasing an annuity policy that exactly matches the benefit payments due, subject to final adjustment in due course.
Covenant risk	The Scheme is less reliant on the strength of the Employer's covenant as the Scheme's benefits have been wholly secured with an insurer, subject to final adjustment in due course. When converting the buy-in policies into a buy-out policy with the Insurer, the Scheme will be reliant on the Employer to make good any shortfall in excess of the assets held outside of the insurance contracts.
Insurer counter party risk	The risk of the insurer defaulting has been managed through the selection of a reputable UK-regulated insurer and potentially supported by the insurance compensation regime in place should an insurer fail.
Investment manager risk	The Trustees monitor the performance of the residual assets (i.e. those held in cash and the LGIM Sterling Liquidity Fund outside the bulk annuity policies) as necessary. The Trustees have a written agreement with the investment manager, which contains a number of restrictions on how the investment manager may operate.
Governance risk	Further information is provided later in this Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors (as well as climate risk). While the Trustees consider these factors to be potentially financially material, management of these risks over the lifetime of the contract is primarily an issue for the Insurer to manage.
Concentration risk	The investment manager and the Insurer are 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, including cash, such that there is a sufficient allocation to liquid investments to meet the Scheme's remaining cashflow requirements that are not covered by the bulk annuity insurance contracts (along with potential contributions from the Employer). The Trustees monitor the level of cash available in the Scheme's bank account.
Currency risk	The Scheme's liabilities and the income produced by the bulk annuity contracts 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. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	In the event of the Insurer becoming insolvent, the Scheme could suffer losses on the contracts, but would still retain the liability to pay members' benefits. This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The risk of loss of investment by the investment manager is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7 Expected return on investments

7.1 The Trustees have chosen to invest the vast majority of assets in bulk annuity policies to match the Scheme's projected benefit payments with income from the policies. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme that are not yet covered by the policies, and ongoing expenses.

7.2 The Trustees have not set an expected return on the bulk annuity policies, given that their primary purpose is as an insurance contract rather than a return-seeking asset.

8 Realisation of investments

8.1 The annuity policies with the Insurer is not readily realisable and the Trustees do not expect to need to surrender or realise the contracts given their nature and purpose. The income from the bulk annuity policies will be used to pay benefits covered by the policies.

8.2 The remaining assets of the Scheme are held in assets that can be realised at short notice.

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

9.1 Since the majority of the Scheme's assets are held in an insurance policy, these matters are primarily an issue for the Insurer to manage. 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 Arrangements for incentivising the investment managers of the assets underlying the bulk annuity policies are an issue for the Insurer. The Trustees only hold a residual amount of assests with an investment manager directly (and therefore this is less significant). 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. 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, where relevant. 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.

10.2 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. The arrangements are reviewed periodically, where required.

10.3 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.

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

10.5 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.

Method and time horizon for assessing performance

10.6 The Trustees do not undertake regular formal monitoring of the investment managers due to the limited benefit of this activity given the bulk annuity policies are held with the Insurer for the majority of liabilities. However, the Trustees would undertake such monitoring if it was deemed necessary.

10.7 The Scheme invests exclusively in a pooled cash fund and bulk annuity policies. 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. The Trustees keep a record of the details of the fee structures for the Scheme's investment managers.

10.8 The Trustees believe that this fee structure, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.9 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 and duration of arrangement

10.10 The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. However, given the bulk annuity policies and liquidity holdings of the Scheme, the Trustees note that the impact of portfolio turnover costs and the duration of arrangement with the investment manager are expected to have no material impact.

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

10.12 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.

Conflicts of interest

10.13 The Scheme's investment adviser is 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 conflicts of interest.

10.14 The Trustees expects all investment managers and insurers to have conflicts of interest policies in relation to their engagement and ongoing operations. The Trustees therefore believe it has managed the potential for conflicts of interest in the appointment of the investment managers, insurers, and investment adviser, and conflicts of interest between the Trustees, investment adviser, the investment managers, the insurers, and any underlying investee companies.

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:** **26 JUNE 2024**

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 and insurer to carry out the day-to-day investment of the Scheme:

- Legal & General; and
- Just Retirement Limited

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

The Trustees also hold legacy annuity policies with Scottish Widows, Standard Life, Reassure Ltd, Prudential, Legal & General and Aviva that secure the pensions payable to specified beneficiaries along with a small amount of Additional Voluntary Contributions held with Aviva and Zurich, which are reviewed from time to time. .

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

2. Kinds of investments to be held

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

- Cash
- Money-market (liquidity). The LGIM Sterling Liquidity Fund's objective is to provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average).
- Bulk annuities

3. The balance between different kinds of investment and rebalancing

Most of the Scheme's assets are held in bulk annuity policies. The remaining (non-legacy) assets are held in the Trustee bank account and in the LGIM Sterling Liquidity Fund, bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme that are not covered by the policies.

The Trustees have AVC contracts with Aviva and Zurich for the receipt of members' Additional Voluntary Contributions.

4. Investments and disinvestments

The Scheme's cashflow requirements are expected to be met by the Scheme's remaining cash holdings and the annuity policies (along with potential contributions from the Employer).

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 consider that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) have the potential to be financially material over the long-term. However, as the Trustees have completed a purchase of bulk annuity policies intended to match the majority of the Scheme's liabilities, the Trustees are not directly exposed to these risks. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme and are not covered by the policy. The management of ESG and climate change by insurers was considered as part of the decision to purchase the buy-in policy.

The Trustees have an expectation that the Insurer will consider ESG-related issues in selecting securities and other investments, or will otherwise engage with the issuers of their underlying holdings on such matters in a way that is appropriate for the nature of the assets under consideration.

2. Approach to monitoring ESG policy

The Scheme's assets are held as bulk annuity policies and cash/liquidity. Given the nature of the current holdings in the Scheme, the Trustees will review and monitor the ESG policy as they deem appropriate, considering the risks that present themselves.

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

The Trustees note that by securing the Scheme's benefits with an insurer, they have limited ability to influence the voting and engagement activities undertaken on behalf of the Insurer. Responsibility for engagement with the issuers of investments underlying the bulk annuity policies, including voting policy (where applicable), is the responsibility of the Insurer.

The Scheme retains cash and liquidity holdings but the Trustees note, due to a number of controls at both the asset manager and counterparties, the impact of impact of engagement on the risk/return of the cash holdings is limited. The Trustees have therefore not set stewardship priorities.

4. Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers, the Trustees do not prioritise non-financial matters. Given the bulk annuity purchases, the Trustees have limited ability to address non-financial matters.

The Trustees will review its policy on whether or not to take account of non-financial matters periodically.