

Merriman Pension Fund (the “Scheme”)

Statement of Investment Principles

August 2024

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1. Definitions

| | |
|--------------------|---|
| Investment Adviser | <p>The Trustees are advised on investment matters by Mattioli Woods plc.</p> <p>The Trustees have appointed First Actuarial LLP to produce this Statement of Investment Principles. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.</p> |
| Scheme | Merriman Pension Fund |
| Trustees | The Trustees of the Scheme |

2. Introduction

This statement is made in accordance with the requirements of legislation¹. The main body of the document sets out the principles and policies that govern investments made by the Trustees whilst details of the specific investment arrangements in place are provided in the Appendix.

Throughout the statement, wording in blue represents actions that will be taken by the Trustees in connection with the Scheme's investment arrangements.

Investment advice

The Trustees will obtain and consider written advice from a suitably skilled and professionally qualified adviser when reviewing the Scheme's investment strategy and when considering the suitability of potential investments. The Trustees expect that such advice will be consistent with any guidance issued by The Pensions Regulator.

Legal advice

The Trustees will seek legal advice relating to investment matters whenever deemed necessary.

Consultation with the sponsoring employer

The Trustees will consult with the sponsoring employer before making any changes to the Scheme's investment strategy.

Conflicts of interest

The Trustees are satisfied that the Scheme's investment strategy meets their responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

¹ Consideration has been given to:

- the Pensions Act 1995
- the Occupational Pensions (Investment) Regulations 2005
- the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustees and are reflected in the Scheme's investment strategy.

Basic investment principles

The Trustees believe that the following three basic investment principles should be taken into account in the construction of the Scheme's investment strategy:

- i) Targeting higher levels of investment return requires increased levels of investment risk.
- ii) Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the specific choice of investments.
- iii) Asset diversification helps to reduce risk.

Financially material considerations and the appropriate time horizon

The Trustees believe that the potential impact of any financially material considerations that may affect the Scheme's investments should be assessed over the period during which benefits are expected to be paid from the Scheme. In the terminology used by legislation, the Trustees consider this period of time to be "the appropriate time horizon of the investments".

Environmental, Social and Governance (ESG)

The Trustees believe that the impact of ESG risks and opportunities can be financially material and the Trustees recognise that ESG matters, particularly climate change, should be assessed over the appropriate time horizon.

3. Investment Beliefs (continued)

Members' views (non-financial matters)

Legislation defines non-financial matters as including (but not limited to) ESG matters and the present and future quality of life of the members and beneficiaries of a scheme.

The Trustees believe that their duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

In reaching this conclusion, the Trustees considered whether to take members' views into account when determining a suitable investment strategy and in the selection, retention and realisation of investments. However, the Trustees have determined that it would not be practical to do so. In particular, the Trustees concluded that it is likely that members and beneficiaries would hold a broad range of views, which would be difficult to accommodate.

At least every three years, the Trustees will:

- Review the suitability of their investment beliefs.
- Review their policy on whether to take account of members' views within the Scheme's investment strategy and in the selection, retention and realisation of investments.

4. Investment Objectives and Investment Strategy

The Trustees' primary investment objectives are:

- To ensure that the assets are invested in such a way which takes into consideration the likely timing and form of payments to members.
- To generate an appropriate level of investment returns, and to protect the value of assets – limiting the scope of adverse investment experience.
- To continue to run an open scheme at an affordable cost to the employer.

To help meet these objectives, the Trustees have a default investment option for all members, including those members who remain in the Scheme after retirement.

Investment strategy

The Trustees take the view that by investing a large proportion of total assets in real property, they are able to meet their obligations to pay benefits and to generate attractive longer term capital returns for the other members. Given their property expertise within Merriman Ltd, they will continue with this current policy as they consider it appropriate to the Scheme.

The Trustees will continue to review their strategy on a regular basis, or when a property is sold, with help from their pension consultants and the Investment Adviser. The Trustees acknowledge that the Investment Adviser has advised the Trustees to diversify the Scheme's assets to reduce overall investment concentration risk.

Membership profile

In determining the investment strategy, the Trustees consider the profile of the Scheme's membership.

| Age Range | 20-30 | 30-40 | 40-50 | 50-60 | 60 + |
|-------------------|-------|-------|-------|-------|------|
| Number of Members | Nil | 3 | 3 | 6 | 7 |

Total Members - 19

4. Investment Objectives and Investment Strategy (continued)

Details of the current investment strategy are provided in Appendix 1.

The Trustees will review their investment objectives at least every three years.

The Trustees will review the default arrangement at least every three years and without delay after any significant change in investment policy, or the demographic profile of the members invested in the default strategy or their beneficiaries.

Illiquid assets

The Scheme invests directly in illiquid assets and the Trustees understand the risks and costs associated with this asset class.

Although the Trustees review the ongoing suitability of the illiquid assets held regularly, the expectation is that illiquid investments will normally be held for several years.

The types of illiquid assets the Scheme currently holds are as follows:

- Freehold Property
- Freehold Land

5. Investment Manager Arrangements

The Scheme's assets are invested predominantly in direct property holdings. Day-to-day management of the Scheme's property holdings, including the selection, retention and realisation of investments, is undertaken by the Trustees.

Use of pooled funds

The Trustees may also hold regulated pooled funds. Should the Trustees choose to appoint one or more investment manager(s) for part or all of the portfolio, day-to-day responsibility for the assets will be delegated to the investment manager, for that part of the portfolio.

Use of derivatives

The Trustees may select pooled funds which are permitted to use derivative instruments to reduce risk or for efficient portfolio management.

Alignment with the Trustees' investment principles

Investment managers are incentivised to maintain an approach consistent with that when they were appointed by investors by the payment of the investment management fee (and in the knowledge that a change of approach may cause investors to reconsider the investment).

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. The Trustees assess this when selecting and monitoring managers.

Duration of investment arrangements

Although the Trustees review the ongoing suitability of the investments held regularly, the expectation is that investments will normally be held for several years. This applies both to directly held investments and pooled funds.

6. Selection of Investments

In assessing the suitability of a potential investment, whether a direct holding or a pooled fund, the Trustees consider, in conjunction with their Investment Adviser, how the investment would fit within the Scheme's investment strategy and how it is expected to help the Trustees meet their investment objectives. As part of this consideration, all matters which are deemed to be financially material are taken into account including:

- In selecting a pooled fund, whether the investment manager has appropriate knowledge and experience.
- In selecting a direct holding, whether the Trustees have appropriate knowledge and experience.
- The risks associated with the investment.
- Whether the investment's return is expected to exceed inflation over the long-term.
- Past performance – with the emphasis being on assessing long-term performance.
- The assets that will be held, including whether the asset allocation is expected to change over time, and the extent of any exposure to overseas currencies.
- The investment's fee structure - to ensure that this is reasonable. Where this relates to a pooled fund, this also ensures that the fee structure does not provide an incentive for the investment manager to manage the investment in a way that differs from the expectations of the Trustees.

Pooled funds

For pooled funds specifically:

- The fund's performance objective and whether that objective is consistent with the performance that the Trustees expect from that fund.
- Where appropriate, whether the higher fees associated with active management are justified.
- How frequently underlying investments within the fund are expected to be traded by the investment manager.
- Portfolio turnover costs.

6. Selection of Investments (continued)

- The investment manager's approach to ESG matters.
- The investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the fund held.
- The investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG considerations. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

At least every three years, the Trustees will review whether the ongoing use of each investment remains consistent with their investment strategy.

The Trustees will ensure any new investments introduced into the investment strategy are appropriate to the circumstances of the Scheme.

7. Monitoring

The Trustees review the Scheme's investments for all matters considered to be financially material (including, where appropriate, ESG, stewardship matters and portfolio turnover costs²) regularly. This includes reviewing that each investment continues to operate in a manner that is consistent with the factors used by the Trustees to select it, and that the choice of investments remains appropriate.

Action when an investment is causing concern

Where concerns about an investment are identified, the Trustees may look to reduce exposure to that investment or disinvest from it entirely. However, such action is expected to be infrequent.

The Trustees will regularly assess the ongoing suitability of each investment held for all matters deemed to be financially material (including where appropriate, ESG, stewardship matters and portfolio turnover costs).

² In monitoring portfolio turnover costs for a pooled fund, the Trustees expect investment managers to provide cost data under the framework developed by the Cost Transparency Initiative.

8. Stewardship

Stewardship is defined by the Financial Reporting Council as being “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”.

The Trustees believe that good stewardship can help create, and preserve, value for companies and markets as a whole.

Direct holdings

The Trustees’ policy in relation to management of direct property holdings is that they wish to encourage best practice in terms of stewardship.

Pooled funds

The Trustees consider an investment manager’s policies on engagement and voting in making decisions about retaining and appointing investment managers.

The Trustees recognise that members might wish the Trustees to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustees’ priority is to select investment managers which are best suited to help meet the Trustees’ investment objectives, and ultimately to ensure that members’ benefits can be paid as and when they fall due.

The Trustees expect that each investment manager should discharge its responsibilities in respect of investee companies in accordance with that investment manager’s own corporate governance policies and current best practice, such as the UK Stewardship Code and the UN Principles for Responsible Investment.

The Trustees expect that, where appropriate, each investment manager should take ESG considerations into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

The Trustees expect that the investment managers selected to manage the Scheme’s assets should invest for the medium to long term and should engage with issuers of debt or equity with a view to improving performance over this time frame.

9. Risks

The principal investment risks identified by the Trustees are listed below together with an explanation of how they are mitigated.

Indirect credit risk

The risk that an investment held will suffer a financial loss because of a third party failing to pay monies that it owes.

Currency risk

The risk that the value of an investment will fall because of adverse movements in currency markets.

Real return risk

The risk that the Scheme's assets do not deliver a long-term return in excess of inflation.

ESG risk

The risk that ESG factors will adversely impact the value of the Scheme's investments.

Investment manager risk

The risk that an investment manager does not deliver returns in line with expectations.

Mitigation of the above risks

The risks listed above are mitigated by the Trustees monitoring the suitability of the investments used by the Scheme. This monitoring would be carried out in conjunction with the Investment Adviser.

Self-Investment risk

The risk that the Scheme's assets are linked to the sponsoring employer which could mean a reduction in the covenant of the sponsoring employer would simultaneously decrease the value of the Scheme's assets.

Mitigation

The Trustees will ensure exposure to employer-related assets does not exceed limits prescribed in legislation.

9. Risks (continued)

Direct credit risk

The risk that disruption with a third party (such as fraud or insolvency) could adversely impact the value of the Scheme's investments.

Mitigation

Pooled funds are structured such that the Scheme's assets are ringfenced from the assets of the investment manager and other investors.

Directly-held assets are held in the names of the Trustees (or in some instances, jointly with Merriman Limited) and formally registered with the Land Registry.

There are a number of mitigants in relation to fraud, including the investment managers' internal controls.

Interest rate risk and inflation risk

The risk that movements in interest rates/expectations for future inflation will adversely impact the value of the Scheme's investments.

Market Risk

The risk that the Scheme's assets do not deliver a sufficient return, because of falls in investment markets.

Mitigation

The Trustees' investment approach is to invest in real assets which have some intrinsic value and are not impacted in the same way as other investments, by markets.

Liquidity Risk

The risk that assets cannot be realised for cash when required.

Mitigation

The majority of the Scheme's investments are illiquid, and the Trustees retain an allocation to cash. In addition, the Scheme has the capability to borrow, should the liquidity be insufficient to meet payments to members. The Trustees recognise that the Scheme's liabilities are long-term in nature and that an allocation to less-liquid investments may be appropriate. The Scheme's pensioner liabilities are fully covered by investment income yields.

9. Risks (continued)

The Trustees will:

- Review the investment risks faced by the Scheme at least every three years.
- Ensure the Scheme does not hold any direct employer-related assets and that any indirect exposure is expected to be less than 5% of total assets.
- Ensure that sufficient cash can be realised at relatively short notice without incurring high costs.

10. Future Amendments

The Trustees must revise the SIP after every review of the default arrangement unless they decide that no action is needed.

The Trustees will consult with the sponsoring employer before amending this statement.

The Trustees will obtain and consider written advice from the Investment Adviser before amending this statement.

The principles set out in this Statement have been agreed by the Trustees:

Signed:.....

Date:

For and on behalf of the Trustees of the Merriman Pension Fund (the "Scheme")

Appendix 1: Investment Strategy

This section provides a summary of the investment strategy adopted by the Scheme as at 31 December 2023.

The allocation of the investments will be monitored and rebalanced at the discretion of the Trustees.

| Investment | Description | Allocation |
|--|-------------------|-------------|
| <i>Direct Property</i> | | 97% |
| Cossington – Units 6/6a/6b/6c/6d/7 & 8 | Freehold property | 53% |
| Cossington – Land Development Area | Freehold land | |
| Cossington – Area A – Units 9/12/13/15/16/17/18GF & 19 | Freehold property | |
| Hawthorne – Long Eaton | Freehold property | 20% |
| Red Lane | Freehold land | 24% |
| <i>Cash</i> | | 3% |
| Cash Deposits | Cash | 3% |
| Total Assets | | 100% |

Note that the Red Lane property is in the process of being sold, as at July 2024.

Appendix 2: Investments Details

Objectives

This section provides a summary of the assets used to implement the Scheme's investment strategy.

| Cossington - Units 6/6a/6b/6c/6d/7/8 & 8a | |
|---|-------------------------|
| Description | Freehold Property |
| Objective | Maintain rental income. |

| Cossington – Land Development Area | |
|------------------------------------|-------------------------|
| Description | Freehold Land |
| Objective | Develop with new units. |

| Cossington – Area A – Units 9/12/13/15/16/17/18GF & 19 | |
|--|-------------------------|
| Description | Freehold Property |
| Objective | Maintain rental income. |

| Hawthorn – Long Eaton | |
|-----------------------|--|
| Description | Freehold Property |
| Objective | To maintain current level of 13.30% upwards. |

Appendix 2: Investments Details (continued)

| Red Lane* | |
|-------------|----------------------------------|
| Description | Freehold Land |
| Objective | To sell site to a house builder. |

**Please note that this is almost at the point of being sold, therefore funds will be released to the Scheme in due course.*

| Cash Deposits | |
|---------------|------|
| Description | Cash |
| Objective | N/A |