Addendum to the Statement of Investment Principles

For the Thomas Miller & Co Retirement Benefits Scheme

Effective from: July 2023

This addendum to the Statement of Investment Principles ("SIP") for the Thomas Miller & Co Retirement Benefits Scheme (the "Scheme") has been produced by the Trustee of the Thomas Miller & Co Retirement Benefits Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme's investment arrangements.

Part 1:
Investment governance, responsibilities, decision-making and fees

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

1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employer;
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary, and other service providers;
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended);
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged; and
- reviewing the SIP and modifying it as necessary.

We have delegated consideration of certain investment matters to an Investment Sub-committee ("ISC"), although any decisions remain our responsibility.

Investment managers

The investment managers' responsibilities include:

- 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 (including climate change and other Environmental, Social and Governance ("ESG") 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 regular information concerning the management and performance of their respective portfolios; including information on voting and engagement undertaken; 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 are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

2. Investment adviser

The investment adviser's responsibilities include:

- 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;
- advising on and monitoring liability hedging and collateral management;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including

climate change and other ESG considerations); and

- assisting us with reviews of this SIP.

Where appropriate, we will seek the views of the Scheme Actuary when considering changes to the investment strategy.

3. Fee structures

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. We have agreed terms with the Scheme's 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.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

4. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

5. Working with the sponsoring employer

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

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following implementation of the Scheme's current investment strategy, as at 1 May 2023 , the Scheme's 1 year 95% Value at Risk was estimated to be £6m. This means that there is estimated to be a 1 in 20 chance that the Scheme's funding position will worsen by £6m or more, compared to the expected position, over a one year period. When deciding on the current investment strategy, we believe this level of risk to be appropriate given the Scheme's objectives.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

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 (eg equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset. This was a key consideration when determining the Scheme's investment arrangements.

Credit risk

The Scheme is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge currency exposure.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Scheme's assets provides protection (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately, and from time to time review how these risks are being managed in practice.

Illiquidity/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. We 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.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

Within the LDI funds, there is exposure to counterparty risk as the LDI fund manager uses derivative instruments to match the Scheme's liabilities. The terms under which the LDI portfolio is managed include provisions to manage the exposure to counterparty risk, such as using centrally cleared derivatives, limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet. In addition, the derivative positions are collateralised daily, aiming to limit counterparty risk to one day's market movements.

For centrally cleared positions, the Scheme is not exposed to bank counterparty risk as the Scheme now faces the clearing house. A significant portion of the derivatives used within the LDI portfolio are now centrally cleared.

Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level.

To mitigate this risk, the Trustee has a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, the Trustee periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

The Trustee has also given consideration to what further measures could be taken should the assets referred to in the leverage management plan prove insufficient to support the LDI arrangements, for example, raising additional money from other Scheme assets and/or sourcing money from the employer in the short term.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements. Examples include:

- longevity risk (risk that members live, on average, longer than expected); and

- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below.

All the Scheme's investment managers are responsible for the custody of the assets of the pooled funds. The Scheme does not have a direct relationship with the custodian of the pooled funds.

Columbia Threadneedle Investments ("CTI") – LDI Portfolio

We have selected CTI as the investment manager for the Scheme's LDI portfolio via pooled funds.

The Scheme first invested in the following pooled funds in March 2012 and the objective of the funds are:

- Real Dynamic LDI Fund – to provide a hedge against real rate liabilities using a range of hedging assets. Its benchmark is a typical pension fund's liability profile as determined by CTI.
- Nominal Dynamic LDI Fund – to provide a hedge against nominal rate liabilities using a range of hedging assets. Its benchmark is a typical pension fund's liability profile as determined by CTI.

The allocation to these funds is set to target interest rate and inflation hedging approximately in line with the Scheme's funding level on a technical provisions basis.

The funds are structured as a Luxembourg domiciled mutual investment umbrella funds (Fonds Commun de Placement-Fonds d'Investissement Specialise) and are daily dealing.

CTI – Liquidity Portfolio

We have selected CTI as the investment manager for the Scheme's Liquidity portfolio via two pooled funds:

- Sterling Liquidity Fund; and
- Sterling Liquidity Plus Fund.

The stated objective of the Sterling Liquidity Fund is to maintain high levels of liquidity and generate a return in line with money market rates. The stated objective of the Sterling Liquidity Plus Fund is to generate a return in line with GBP SONIA over an investment period of two years.

The funds are structured as a Luxembourg domiciled mutual investment umbrella funds (Fonds Commun de Placement-Fonds d'Investissement Specialise) and are daily dealing.

CTI – Low Duration Credit Portfolio

We have selected CTI to manage the Scheme's low duration credit portfolio via a pooled fund.

The Scheme first invested in the Global Low Duration Credit Fund in August 2019. The objective of the fund is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets.

There is no formal benchmark for this fund, but we use SONIA and LCP's long term expected return for this asset class for monitoring purposes.

The fund is structured as a Luxembourg domiciled mutual investment umbrella funds (Fonds Commun de Placement-Fonds d'Investissement Specialise) and is daily dealing.

Legal & General Investment Management ("L&G") – Maturing Buy & Maintain Credit Funds

We have selected Legal & General Investment Management ("L&G") as the passive manager for the Scheme's Maturing Buy & Maintain Credit portfolio via two pooled funds:

- Maturing Buy & Maintain Credit Fund 2035 – 2039; and
- Maturing Buy & Maintain Credit Fund 2040 – 2054.

The Scheme first invested in the above pooled funds in April 2023. The objectives of both the funds are to capture the return received as a result of taking credit risk through investing principally in a globally diversified portfolio of non-government bonds and avoiding investment in bonds which in the opinion of the Investment Manager are likely to default or experience a significant deterioration in credit quality.

There is no formal benchmark for these funds, but we use SONIA and LCP's long term expected return for this asset class for monitoring purposes.

The funds are structured as unit-linked insurance funds and are weekly dealing.

Additional Voluntary Contributions

We have established arrangements under which these contributions were invested. Our objectives are to maximise, as far as is reasonable, the value of the member's contributions plus investment returns, within the constraints imposed by the member's choice of investments, and to provide members with a choice of investments.

Part 4:
Monitoring and engaging with managers on voting and engagement

This section sets out our effective system of governance ("ESOG") in relation to stewardship. This includes monitoring the voting and engagement activities that our investment managers undertake on our behalf, engaging with them regarding our expectations in relation to stewardship, and encouraging improvements in their stewardship practices. We will review this ESOG periodically, and at least triennially.

On a regular basis, typically once a year, we will also undertake an own risk assessment ("ORA") which assesses how well our ESOG is working and whether any changes should be made.

Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are climate change, biodiversity loss and corporate transparency.

We chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore we believe it is in our members' best interests that our managers adopt strong practices in these areas.

We will write to our investment managers regularly to notify them of our stewardship priorities, set out viewpoints and issues of interest ahead of the voting season and remind them of our expectations of them in relation to responsible investment – ie ESG considerations, climate change, voting and engagement.

Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes and have a preference for managers and funds with net zero targets and credible plans to meet them. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

Manager monitoring

We receive information regularly to enable us to monitor our managers' responsible investment practices and check how effective they're being.

This information includes metrics such as our investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for our mandates. It also includes a selection of voting, engagement examples relating to our stewardship priorities. The examples are chosen to reflect our stewardship priorities and material mandates over the course of the scheme year (although not necessarily every priority for every mandate).

Annual responsible investment review

Each year, the ISC undertakes a more comprehensive review of our managers' responsible investment practices. This includes our investment consultant's qualitative responsible investment assessments for each manager, a summary of the managers' voting and engagement policies including in relation to our stewardship priorities, and summary statistics for their voting and engagement over the previous year where available.

Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements. Managers are routinely invited to meet the ISC.

We review the information outlined above to identify any concerns, for example where the managers' actions are not aligned with our views. Where there are concerns, we typically seek further information through our investment consultants. If a concern is confirmed, we will consider what further action is appropriate/intend to take the following steps:

1. We define clearly what the issue is, the objectives for the engagement and the target dates for achieving those objectives.
2. We contact the manager to raise the concern and set out our expectations in relation to the issue
3. We aim to agree an improvement plan with the manager with target dates for achieving engagement objectives
4. We review periodic progress reports as the plan is implemented. This may include inviting the manager to one of our regular meetings to discuss the issue
5. As appropriate we may seek to escalate the concern with a more senior individual at the manager
6. If our concerns are not addressed, we might reduce the allocation to that mandate or replace the manager.

The ISC reviews progress on the engagements on a regular basis and agrees any next steps.

Implementation statement including most significant votes

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our Statement of Investment Principles, voting and engagement policies during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The ISC selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- whether it relates to one of our stewardship priorities;
- the potential financial impact of the vote;
- any potential impact of the vote on our investor rights or influence;
- the size of our holding; and
- whether the vote was high-profile or controversial.

Signed by the Chair of the Trustee on 13 July 2023
For and on behalf of TMC Trustee Company Limited
Trustee of the Thomas Miller & Co Ltd Retirement Benefits Scheme