Thorn Lighting Pension Fund

Statement of Investment Principles

June 2024

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Section 1: Introduction

Pensions Act 1995

1.1 This document constitutes the Statement of Investment Principles (‘the SIP’) required under Section 35 of the Pensions Act 1995 for the Thorn Lighting Pension Fund (‘the Fund’). It describes the investment policy being pursued by Thorn Lighting Pension Trustees Limited (‘the Trustee’), as the Trustee of the Fund and is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (‘the Myners Principles ‘). This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) Amendment and Modification) Regulations 2018.

1.2 The Principal Employer is Thorn Lighting Group, and the Participating Employers are Thorn Lighting Ltd, and Tridonic UK Ltd (the Employers), the Scheme Actuary is John Sydenham of Aon Solutions UK Limited, the Fiduciary Manager is Towers Watson Limited, and the Legal Adviser is Sacker & Partners LLP (collectively termed ‘the Advisers’). The administrator of the Fund is ISIO.

1.3 The Trustee confirms that, before preparing this SIP, it has consulted with the Employers and has taken formal advice from the Fiduciary Manager, which the Trustee considers to be a suitably qualified firm. The Trustee believes the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Fund requires.

1.4 The Trustee is ultimately responsible for the investment of the Fund’s assets. Where it is required to make an investment decision, the Trustee always receives advice from the relevant Advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

Financial Services and Markets Act 2000

1.5 In accordance with the Financial Services & Markets Act 2000, the Trustee sets general investment policy, but has delegated the day-to-day investment of the Fund’s assets to professional fund managers (“the Investment Managers”) in accordance with Section 34(2) of the Pensions Act 1995. The Investment Managers are authorised under the Financial Services & Markets Act 2000, to provide the expertise necessary to manage the investments of the Fund competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

Section 2: Fund Governance

2.1 The Trustee is ultimately responsible for the governance and investment of the Fund’s assets. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of its responsibilities.

2.2 In particular the Trustee has appointed an Investment Manager to manage the Fund’s assets on a discretionary basis and provide investment advisory services to the Trustee (Towers Watson Limited; “the Fiduciary Manager”). This appointment was made in September 2020

2.3 The responsibilities of each of the parties involved in the Fund’s governance are detailed in Appendix A.

Section 3: Investment Objectives

3.1 The overall objective of the Fund is to meet the benefit payments promised as they fall due. The Trustee has the following qualitative objectives:

- To acquire suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Employers, the cost of current and future benefits which the Fund provides;
- To limit the risk of the assets failing to meet the liabilities over the long term, or other statutory requirement;
- To minimise the long-term costs of the Fund by maximising the return on the assets whilst having regard to the objectives above; and
- To generate sufficient stability in the asset value of the Fund in relation to the liabilities in order that the volatility of contributions may be appropriately controlled.

3.2 In order to meet these qualitative objectives, the Trustee has the following quantitative objective. This is a measurable and quantifiable objective that the Trustee can use to set the on-going performance of the Fund's investments to ensure the qualitative objectives are met:

- To target an overall return for the Fund of the Liability Proxy Return + 1.45% p.a. This is needed to meet the recovery plan as set out in the Statement of Funding Principles.

3.3 The objective in 3.2 was re-affirmed following the 31 March 2021 Actuarial Valuation.

3.4 The Liability Proxy Return is used as a proxy for the movement in the liabilities due to changes in market conditions.

Section 4: Implementation of Investment Strategy

4.1 The Trustee has received advice to determine an appropriate investment strategy for the Fund.

4.2 The Fund's assets are invested in a diversified range of suitable investments of different types with different Investment Managers in order to reduce investment risk given the circumstances of the Fund.

4.3 The balance within and between the Fund's investments is determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Fund's investment objective set by the Trustee. The Trustee expects the Fiduciary Manager to consider a range of factors when determining the balance of the Fund's investments including the Trustee's belief in diversification, the impact that each investment has on the overall liquidity of the Fund's portfolio and the contribution of an investment to the portfolio's expected return and risk. In exercising investment discretion, the Fiduciary Manager is required to act in accordance with its obligations set out in the Fiduciary Management Agreement (FMA), including the guidelines and any investment restrictions set out therein, and in so doing is expected to give effect to the principles contained in this SIP so far as reasonably practicable. This ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy, and policies.

4.4 The Trustee has delegated the selection and de-selection of, and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustee in the FMA between the parties as amended from time to time.

4.5 Investments are made by the Fiduciary Manager on behalf of and in the name of the Trustee, either directly in pooled vehicles or by the appointment of third-party investment managers to provide discretionary investment management services to the Trustee.

4.6 The duration of the arrangements with investment managers will be determined on an individual basis taking into account the nature of the relevant investment mandate. In most cases, managers are appointed with the expectation of a long-term relationship but with an ability to terminate where considered appropriate. However, there may be occasions when managers are put in place for a short period or a fixed period, depending on the nature of the investment strategy.

4.7 The Trustee and Fiduciary Manager are not involved in the Investment Managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to Investment Managers appointed by the Trustee where it considers it appropriate.

4.8 The Trustee, together with the Fund's administrators and the Fiduciary Manager, will ensure that they hold sufficient cash to meet the likely benefit outgoings. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Fund's overall investment strategy.

Section 5: Monitoring

Investment managers

5.1 The Fiduciary Manager maintains processes to ensure that the performance and risk of underlying investment managers are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Fund's long-term objectives.

Fiduciary Manager

5.2 The Trustee monitors the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that, the Fund's investment portfolio, in aggregate, is consistent with the policies set out in this SIP as far as reasonably practicable, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee expects the Fiduciary Manager to:

- check that the investment objectives and guidelines of any pooled vehicle are consistent with the principles contained in this SIP; and
- set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the principles contained in this SIP.

5.3 The expected return of all the Fund's investments is monitored regularly and will be directly related to the Fund's investment objective.

5.4 The Trustee monitors the liability profile of the Fund and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.

Advisers

5.5 The Trustee will monitor the advice given by the Advisers on a regular basis.

Other

5.6 The Trustee will review this SIP at least every three years, or following any material changes to the investment strategy. The date this SIP was last reviewed was September 2023. This review will be completed in consultation with the Employers. There will be no obligation to change this SIP, any Investment Manager or Adviser as part of such a review.

Section 6: Fees

Investment Managers

6.1 The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial selection of an investment manager and on an ongoing basis. Ad valorem fees are used in the majority of cases as they do not incentivise excessive risk-taking by the investment manager, consistent with the nature of the investment manager's mandate. In certain types of mandates, for example, where manager skill is expected to be a significant driver of investment returns, some of the manager's fee may be linked to its performance to reward this skill where it improves investment returns. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

6.2 The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Fund's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Advisers

6.3 Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects, with the exception of the Fiduciary Manager who is paid an ad valorem fee.

Section 7: Risks

7.1 The Trustee recognises a number of risks involved in the investment of assets of the Fund. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

    - A Liability Proxy is used as a proxy for the liabilities (as described in Section 3) in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt yields only). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The Liability Proxy will be reviewed following each actuarial review.

    - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.

    - When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk.

    - This risk is also monitored through regular actuarial and investment reviews.

    - The Trustee has implemented a liability hedging strategy to reduce this risk.

- **Underperformance risk** – the risk of managers underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:

    - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.

    - The use of instruments and strategies designed to control the extent of downside exposure.

    - Regular monitoring of the Fiduciary Manager’s performance, processes, and capabilities with respect to their mandate and by the Fiduciary Manager undertaking regular monitoring of the Investment Managers.

- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.

- **Custodial risk** - addressed through investment in pooled vehicles, with the pooled fund managers being responsible for selection of suitable custodians. In addition, the Fiduciary Manager is responsible for sweeping un-invested cash balances into pooled cash funds, which are managed by a pooled fund manager who, in line with the Fund's other pooled fund managers, is responsible for selecting the custodian for the cash funds.

- **Interest rate and inflation risk** – measured by comparing the likely movement in the Fund's liabilities and assets due to movements in inflation and interest rates. This is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Fund's assets to broadly match movements in the value of liabilities due to inflation and interest risk.

- **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Managers. This is addressed in the agreements with the Fiduciary Manager and Investment Managers, which contain a series of restrictions. The activity of the Investment Managers and their processes are monitored regularly by the Fiduciary Manager on behalf of the Trustee.

- **Default risk** – the risk of income from assets not being paid when promised. This is addressed where appropriate through restrictions for the Investment Managers e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little expected default risk.

- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Fund. This is addressed through regular monitoring of the Investment Managers and Advisers.

- **Counterparty risk** – the risk of the counterparty to an agreement not carrying out its side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

- **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Fund to control the timing of any investment/disinvestment of assets.

- **Sponsor risk** – the risk of the Employers ceasing to exist, which for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Employers.

- **Transition risk** – the risk of paying unnecessary costs or being at increased risk of adverse market movements, when transitioning assets from one Investment Manager or asset class to another. This risk is mitigated through the appointment of a specialist Fiduciary Manager or by using a specialist transition manager, if appropriate.

- **Currency risk** – the risk of changes in exchange rates having a negative impact on the performance of any overseas, non-sterling denominated investments. This is managed by investing in hedged share classes for a number of the Fund's investments.

- **ESG risk** - the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Fiduciary Manager's incorporation of ESG assessment at the point of investment with the investment managers and as part of its ongoing investment manager monitoring process.

- **Political risk** - the risk of an adverse influence on investment values arising from political intervention. This is managed by regular reviews of the actual investments relative to policy and through the level of country diversification within the policy.

The Trustee will keep these risks and how they are measured and managed under regular review.

Section 8: Other issues

Statutory Funding Objective

8.1 The Fiduciary Manager's objectives have been set with regard to the Statutory Funding Objective. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

8.2 The Trustee will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

Corporate Governance and Stewardship

8.3 The Trustee expects the Fiduciary Manager to select investment managers with an expectation of a long-term partnership with the Trustee, which encourages active ownership of the Fund's assets. When assessing an investment manager's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee's position as a long-term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment manager based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in their business structure or investment team. The Trustee adopts the same long-term focus as part of its ongoing oversight of the Fiduciary Manager.

8.4 For most of the Fund's investments, the Trustee expects the Fiduciary Manager to select investment managers with a medium to long time horizon, consistent with that of the Fund. In particular areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Fund's allocation to such mandates is determined in the context of the Fund's overall objectives.

8.5 The Trustee recognises that an investment's long-term financial success is influenced by a range of financially material factors including environmental, social and governance ("ESG") issues. The time horizon over which financially material factors are being considered is the long-term taking into consideration the Fund's recovery plan ending in October 2043.

8.6 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy, and particular exposures which the Fiduciary Manager takes into account in the assessment.

8.7 Consequently, the Trustee (through the selection of the Fiduciary Manager with its approach to ESG issues) seeks to be an active long-term investor. The Trustee's focus, as outlined above. is explicitly on financially material factors. The Trustee's policy at this time is not to take into account non-financial matters in the selection, retention and realisation of investments. The Trustee does not currently take account of members views in this area as there is no likely common view on any ethical matters which members are likely to hold.

8.8 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations, taking into account the nature of the assets held under the relevant investment mandate. but has identified climate and human and labour rights as key areas of focus for the Trustee. The Trustee assesses that ESG risks, and in particular climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. Whilst the Trustee's policy is to delegate a number of stewardship activities to the Fiduciary Manager and its investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee incorporates an assessment of how well the Fiduciary Manager and investment managers exercise these responsibilities as part of its overall assessment of their performance.

8.9 The Fiduciary Manager has a dedicated sustainable investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on periodic basis. The Trustee expects the Fiduciary Manager to assess the alignment of each investment managers' approach to sustainable investment (including engagement) with its own before making an investment on the Fund's behalf. The Trustee expects the Fiduciary Manager to engage with the Fund's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the investment managers' approach to sustainable investment (including engagement) on a regular basis and engage with the investment managers to encourage further alignment as appropriate.

8.10 The Fiduciary Manager encourages and expects the Fund's investment managers to sign up to local or other applicable stewardship codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the

Principles for Responsible Investment and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

8.11 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Fund's investments to its investment managers. The Fiduciary Manager assesses the voting policies of the investment managers that it appoints on the Trustee's behalf, for consistency with the Trustee's policies and objectives, as appropriate. The Fiduciary Manager has also appointed EOS at Federated Hermes to undertake public policy engagement on its behalf as well as company-level engagement and the provision of voting advice for a proportion of the Fund's equity and credit investments.

Additional Voluntary Contributions (AVCs)

8.12 Under the terms of the trust deed, the Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

Appendix A: Responsibilities

Trustee

The Trustee of the Fund is responsible for, amongst other things:

i. Determining the investment objectives of the Fund and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Fund.

iii. Reviewing at least triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.

v. Assessing the performance of the Fiduciary Manager.

vi. Appointing and dismissing the Fiduciary Manager.

vii. Assessing the on-going effectiveness of the Advisers.

viii. Consulting with the Employer when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements with this SIP on an on-going basis.

x. Informing the Advisers of any changes to Fund benefits, and significant changes in membership.

Fiduciary Manager

The Fiduciary Manager will be responsible for, amongst other things:

i. Assisting the Trustee in reviews of this SIP.

ii. Advising the Trustee how any changes within the Fund's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Assisting the Trustee in developing an appropriate journey plan, return target and de-risking framework for the Fund.

iv. Monitoring the overall progress of the Fund and the underlying investment risk/return balance relative to the Trustee's strategic objectives and parameters and reporting to the Trustee on an agreed frequency.

v. Within the constraints of the agreed investment guidelines:

    - determining asset allocation
    - liability hedging design and implementation
    - selecting and de-selecting investment managers; and
    - implementing all asset transitions (including rebalancing).

vi. Leading and completing negotiations of investment manager agreements, including:

    - agreeing investment and commercial terms
    - obtaining, considering, and acting on legal advice as appropriate; and
    - executing agreements on the Trustee's behalf under a Power of Attorney.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Liaising with the Fiduciary Manager on the suitability of the Fund's investment strategy.

ii. Performing the triennial valuations (or more frequently as required) and advising on the appropriate contribution levels.

iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Fund at the triennial valuations.

iv. Advising the Trustee and Fiduciary Manager of any changes to contribution levels and funding level.

Custodians

The Fund has appointed a Custodian: State Street Bank & Trust Company. The Custodian will be responsible for, amongst other things:

i. Safe-keeping and administration of all the directly held assets.

ii. Collecting income from assets and transferring it to the Trustee.

iii. Processing all tax reclaims in a timely manner.

iv. Reconciling records of assets held with those of the Investment Managers.

Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

i. Liaising with the Trustee to ensure legal compliance including, those in respect of investment matters as required from time to time.

Signed: ____________________ ______________________

Name: _____________________ ______________________

Authorised for and on behalf of the Trustee of the Thorn Lighting Pension Fund.

Date: _______________________

We hereby acknowledge agreement to the policies stated above.

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for and on behalf of)
) ……………………………………
Director/Duly Authorised Signatory