

Allied Domecq Pension Fund

Statement of Investment Principles

1. INTRODUCTION

This statement sets out the principles governing decisions about the investment of the assets of the Allied Domecq Pension Fund ('the Fund'). It is issued by Allied Domecq First Pension Trust Limited, the Trustee of Allied Domecq Pension Fund ('the Trustee') to comply with section 35 of the Pensions Act 1995 ('the Act'), as amended by the Pensions Act 2004, and The Occupational Pension Schemes (Investment) Regulations 2005 ('the Investment Regulations').

The Trustee has obtained and considered written advice on the content of this statement from the Fund's investment advisers whom the Trustee believes to be suitably qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge of the management of the investments of pension trusts. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Act (as amended by the Pensions Act 2004). This statement is consistent with the investment powers of the Trustee which are set out in Rule C8 of the Consolidated Definitive Trust Deed and Rules (2005 Edition) dated 27 May 2005.

Allied Domecq (Holdings) Limited ('the sponsoring Company') has been nominated by the other scheme employers to act as their representative for the purpose of consultation by the Trustee on the contents of the Fund's statement of investment principles. The Trustee has consulted the sponsoring Company on the content of this statement.

2. DECISION-MAKING STRUCTURE

Overall investment policy falls into two parts:

1. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by the investment objectives as set out in Section 3 below.
2. The remaining elements of policy are part of the day-to-day management of the assets which is delegated to professional investment management and described in Section 4.

The Trustee also maintains an Investment Implementation Policy Document ('IIPD'), which contains details of the Trustee's investment arrangements.

3. STRATEGIC MANAGEMENT

3.1 Investment Objectives

The Trustee has adopted the following primary objective to help guide it in the strategic management of the assets and control of the various risks to which the Fund is exposed:

- *The Trustee seeks to invest the Fund so as to maximise the likelihood:*
 - that benefits will be paid to members as they fall due,
 - of securing the Fund's benefits through insurance policies and ensuring there is suitable cover for residual risks, and
 - of continued long-term financial support from the sponsoring employer.

In addition, the Trustee has adopted the following specific objective:

- that there is a low chance of further significant Company contributions being required as a result of investment experience.

The Trustee believes that these objectives will ensure that the assets are invested in the best interests of the members and beneficiaries of the Fund. The Trustee does not foresee these objectives giving rise to any conflict with the interests of the members and beneficiaries, but if a potential conflict arose, the Trustee would take steps to ensure that the assets were invested in the sole interest of members and other beneficiaries.

The Trustee takes advice from the Fund's actuary and the investment adviser with a view to investing the Fund's assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the Fund. With the benefit of this advice, the Trustee has adopted an investment strategy in respect of those assets not transferred to Rothesay – forming a 'residual portfolio'. This is detailed in 3.3 below. The ranges within which the Fund's investment managers may operate in delivering the investment strategy are set out in the guidelines described in Section 4. It is the intention of the Trustee to review the investment strategy on a regular basis. The Trustee believes these guidelines will also result in the powers of investment delegated to the investment managers being exercised so as to ensure the security, quality, liquidity and profitability of the Fund's portfolio of investments as a whole.

3.2 Investment Risk

As part of its risk management strategy the Trustee has purchased a bulk annuity in respect of the majority of the Fund's liabilities. Given the level of funding, associated adoption of a lower risk

investment strategy and bulk annuity in respect of a material proportion of the liabilities, the Trustee focuses on the risks associated with the residual liabilities not covered by the risk transfer. In particular, the Trustee has considered the Fund's funding level sensitivity to:

- Interest rates
- Inflation
- Market pricing in respect of assets to be sold
- Liquidity, and in particular maintaining sufficient liquidity to meet the residual benefits and expenses of the Fund

In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with the use of derivatives.

The Trustee expects the purchase of the bulk annuity in respect of assets and liabilities to immunise the Fund from market risks such as credit risk and interest rate risk, inflation risk and longevity risk associated with the liabilities covered by the bulk annuity buy-in.

The Trustee expects the buy-in provider risk to be addressed through the supervisory regime applicable to insurance companies but monitors the monthly payment benefits from the buy-in provider to the Fund and periodically, normally annually, monitors the financial covenant of the buy-in provider.

3.3 Investment Strategy

The Trustee's target investment strategy is to maintain a portfolio of gilts to provide interest rate hedging in respect of residual liabilities and to redeem all proceeds from the remaining property and private lending mandates.

The level of liquidity and interest rate hedging is monitored regularly by the Trustee to ensure that it remains appropriate for controlling the risks identified in 3.2.

3.4 Consultation with the sponsoring Company

The Trustee will seek to maintain a good working relationship with the sponsoring Company and will consult with the sponsoring Company before making any changes to this statement or any material changes to the Fund's investment arrangements.

The Trustee will also seek the sponsoring Company's opinion on whether the Trustee's investment strategy and approach to risk management is consistent with the investment objective stated in 3.1 above. As required by the Pensions Act 1995 and as a matter of good practice, the Trustee consulted with the sponsoring Company when the current investment arrangements were adopted.

4 DAY-TO-DAY MANAGEMENT OF THE ASSETS

4.1 Main Assets

As set out in Section 2, the Trustee delegates the day-to-day management of the Fund's assets to a number of investment managers. The Trustee takes all reasonable steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Fund's investments and that they are carrying out their work competently and complying with section 36 of the Pensions Act 1995 (as amended by the Pensions Act 2004). To facilitate this, the Trustee, or its investment adviser on behalf of the Trustee, meets periodically with the Fund's investment managers and receives regular reports from all the investment managers. In addition, the Trustee receives regular reports from the investment adviser. The Trustee has also appointed the investment adviser to assist in monitoring the Fund's investments and to help the Trustee check that nothing has occurred that would bring into question the suitability of the current investments.

The Trustee invests the assets of the Fund predominantly via pooled funds, using a mixture of active and passive management. The Trustee is satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments for risk purposes.

4.2 Investment Guidelines and Restrictions and Fees

The Trustee has developed a set of Investment Guidelines that express the Trustee's policy on issues such as the use of derivatives, underwriting, stock lending etc. It is the intention that these Guidelines will be adopted by the managers, in so far as they apply to each manager's investment activities.

The Trustee has adopted the following control framework in structuring the Fund's investments:

- At the total Fund level and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment in any particular asset or with any one issuer or by issuers belonging to the same group. This restriction does not apply to investment in cash funds or UK Government debt.
- Investments in derivatives are permitted either directly or within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management. The Trustee seeks to avoid excessive risk exposure to a single counterparty and to other derivative operations, and ensures that OTC derivatives are predominantly managed on a fully collateralised basis.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular, liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Fund's mismatch risk relative to its liabilities

or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Fund not held in the bulk annuity are predominantly invested on regulated markets and that the level of assets not admitted to regulated markets be kept to a prudent level.

- No investment is permitted in securities issued by the Fund's sponsoring Company or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

The Trustee also has a signed Investment Management Agreement with each investment manager which sets out the managers' performance objective, performance benchmark, investment guidelines and restrictions and the degree of risk relative to benchmark that the manager is permitted. These are summarised in the IIPD – Schedules A and C.

The asset managers appointed are mandated to either liquidate or run off remaining portfolios or hold liability matching assets that support the Trustee in meeting its objective. These objectives are fundamentally short term in nature.

Other than portfolios in wind-down, where the term of the appointment is dictated by the sale of remaining assets, managers are expected to remain in place for the remaining lifetime of the Fund. The Trustee does not expect managers to take excess short-term risk and will regularly monitor managers' performance against the benchmarks and objectives set on a short, medium and long term basis.

The investment managers have full discretion to buy and sell investments on behalf of the Fund, subject to the agreed constraints of the mandates and applicable legislation.

The Trustee recognises that investment managers should be fairly remunerated and seeks to ensure that actual fees paid are competitive with market rates and aligned to the objectives of the investments. Details of the managers' fees are also included in the IIPD – Schedule B.

4.3 Consideration of Financially Material Factors in Investment Arrangements

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

The strategic benchmark reflects the objectives to hedge interest rate risk and liquidate other assets, rather than deriving expected risk and return profiles using appropriate economic and financial assumptions for different asset classes.

Given the maturity of the Fund and the strong funding position, the Trustee has a relatively short investment horizon and has not made any specific allowance for ESG factors and the risks of climate change in setting its strategic benchmark.

However, given the discretion afforded to the active investment managers, the Trustee expects that their investment managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Selecting Investment Managers

The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their active investment managers and are satisfied that the investment managers are following an approach which takes account of all financially material factors.

In passive mandates, the Trustee recognises that the choice of benchmark dictates the underlying assets and that the manager has minimal freedom to take account of factors that may be deemed to be financially material.

4.4 Consideration of Non-financially Material Factors in Investment Arrangements

Given the objectives of the Fund, the Trustee has not considered any non-financially material factors in the development and implementation of their investment strategy.

4.5 Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

The Trustee has reviewed the UK Stewardship Code and expects its investment managers to apply the Code where appropriate on its behalf and will monitor managers' reports on engagement activity accordingly.

Voting and Engagement

The Trustee believes that responsible share ownership and seeking the best long-term value for investment in shares requires active exercise of voting rights. However, the Fund does not currently hold listed equity assets.

Monitoring

The Trustee undertakes an annual review of responsible investment issues and how these are being dealt with by the Investment Managers.

The Trustee, or the Fund's investment adviser on the Trustee's behalf, aims to meet with all their Investment Managers on a periodic basis. The Trustee provides their managers with an agenda for discussion, including, where appropriate, ESG issues. Where considered appropriate,

managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues that may affect the prospects for return from the portfolio.

4.6 Additional Voluntary Contributions ('AVCs')

The Trustee has selected a range of funds which it has been advised are suitable for AVC investments, as set out in the IIPD - Schedule D. Performance of these funds is monitored and the range of funds reviewed and if appropriate amended from time to time.

4.7 Realisation of Investments

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. When disinvestment is required, in order to meet benefit outgo etc., the Trustee will determine the necessary disinvestments to be consistent with the aim of the investment strategy.

4.8 Portfolio Turnover

Given the Fund's investment strategy in respect of residual liabilities is now comprised of just gilts, cash and redeeming illiquid assets, the Trustee expects the level of turnover within each mandate to be low (other than for the purposes of redeeming assets). Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report, on at least an annual basis, a summary of any transactions over the period. The Trustee will challenge its managers if portfolio turnover seems excessive.

4.9 Monitoring the Investment Managers

Independent performance measurement is carried out by Northern Trust. In addition, the investment adviser provides performance monitoring reports which are reviewed by the Trustee quarterly. Performance is reviewed against a series of metrics, including financial performance relative to the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers), and the management of risks. Material deviation from performance or risk targets may result in the mandate being formally reviewed.

The Trustee similarly monitors the performance and ongoing suitability of the AVC providers.

5 TAX STATUS OF THE FUND

The Trustee would not knowingly permit any manager to act in any way to jeopardise the tax status of the Fund.

6 COMPLIANCE WITH THIS STATEMENT

The Trustee will monitor compliance with this Statement annually, or more frequently if necessary, and will obtain written confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Regulation 4 of the Investment Regulations.

7. REVIEW OF THIS STATEMENT

The Trustee will review this Statement at least annually and more specifically in response to:

- Legislative and regulatory changes
- A material change to the Fund's funding level
- A change to the attitude in risk of the Trustee and the sponsoring Company which they judge to have a bearing on the stated investment policy.

Any such review will again be based on written, expert investment advice and will be in consultation with the sponsoring Company.

Date of Amendments

First Amendment:	July 2001
Second Amendment:	December 2002
Third Amendment:	December 2003
Fourth Amendment:	November 2004
Fifth Amendment:	November 2005
Sixth Amendment:	May 2006
Seventh Amendment:	February 2007
Eighth Amendment:	July 2007
Ninth Amendment:	February 2008
Tenth Amendment:	October 2009
Eleventh Amendment:	May 2010
Twelfth Amendment:	February 2011
Thirteenth Amendment:	September 2011
Fourteenth Amendment	May 2013
Fifteenth Amendment	September 2014
Sixteenth Amendment	December 2016
Seventeenth Amendment	March 2017
Eighteenth Amendment	May 2017
Nineteenth Amendment	October 2017
Twentieth Amendment	September 2018
Twenty-First Amendment	November 2018
Twenty-Second Amendment	March 2019
Twenty-Third Amendment	September 2019
Twenty-Fourth Amendment	December 2019
Twenty-Fifth Amendment	September 2020
Twenty-Sixth Amendment	September 2021
Twenty-Seventh Amendment	September 2022
Twenty-Eighth Amendment	September 2023
Twenty-Ninth Amendment	September 2024