

Statement of Investment Principles – Gallaher Defined Benefit Pension Scheme

Introduction This Statement of Investment Principles (SIP) has been prepared by the Trustee of the Gallaher Defined Benefit Pension Scheme ("the Scheme") to comply with the requirements of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005.

Effective Date This SIP is effective from 1 January 2022.

1. Strategy

Investment Objectives The Trustee's strategic objectives are:

- To seek to preserve the security of member's benefits; and
- To invest the assets of the DB section prudently to ensure that the benefits promised to members are provided.

Allocation of Assets The current asset allocation strategy comprises the following:

An **Annuity Policy** with Standard Life which was signed on 10 December 2021. The Annuity Policy is intended to cover all Scheme membership, and to eliminate the interest rate, inflation and longevity risk associated with those liabilities. The insurer pays the Scheme an amount each month equal to the pension payment in respect of the members underlying the policy. The policy is an asset of the Scheme and the pension liability remains within the Scheme.

The **Residual Assets** are invested in the Insight Liquidity Fund.

With the entirety of the Scheme membership secured through the Annuity Policy, there are no strategic weightings.

Risks The Annuity Policy removes most of the investment risks to which the Scheme may otherwise be exposed. The main residual risks are

- Annuity Policy default risk – that Standard Life fails to make the pension payments covered by the Annuity Policy as they fall due
- Residual Assets risk – that the Residual Assets lose most of their value and become insufficient to meet the other payments the Scheme needs to make, such as any true-up premium to Standard Life, scheme expenses etc

The Annuity Policy default risk is mitigated by the protections offered due to Standard Life being regulated by the Financial Conduct Authority and The Prudential Regulation Authority.

The Residual Assets risk is mitigated by investing in a highly rated fund which aims to preserve capital and invests only in high quality holdings.

2. Implementation

Annuity Policy

The Annuity Policy is not a tradable asset. In practice the trustee is unable to change this investment.

Residual Assets

The residual assets consist primarily of a cash allocation through an investment in the Insight Liquidity Fund.

There are currently some other small historic holdings which cannot be quickly realised; these will be realised as fast as reasonably practicable and the proceeds invested in the Insight Liquidity Fund.

Choosing investments

Individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. The Trustee may sell assets to fund the Scheme's expenditure.

3. General

Environmental, Social and Governance Considerations

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the financial interests of the Scheme and its beneficiaries.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase an Annuity Policy with Standard Life. The Trustee does not attempt to influence the ESG integration nor stewardship policies and practices of Standard Life in managing these assets. The ESG credentials of Standard Life were reviewed as part of the decision to purchase an Annuity Policy.

The Trustee regularly monitors how the Scheme's remaining manager, Insight, integrates ESG into its processes, aided by the provision of reports and updates from Insight and the investment adviser.

Stewardship – Voting and Engagement

The Trustee has no influence over voting and engagement with companies in which Standard Life invests.

The assets of the Insight Liquidity Fund do not carry votes.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"¹).

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Cost Monitoring

The Trustee intends to collect annual cost transparency reports covering all of its relevant investments in line with the appropriate Cost Transparency Initiative (“CTI”) template. This allows the Trustee to understand exactly what costs are incurred across the investment portfolio.

Evaluation of performance and remuneration:

The Trustee will assess the performance and remuneration of the manager of the Residual Assets at least annually.

Portfolio turnover costs:

The Trustee will monitor portfolio turnover costs (defined as the costs incurred as a result of the buying and selling of investments) with input from the investment consultant and through the MIFID II compliant cost reporting received from Insight.

Investment Adviser

Aon has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995.

Review of SIP

This SIP will be reviewed at least every three years or following a change of investment policy. Written advice on any changes will be taken from the Investment Adviser, and the Sponsoring Company, Gallaher Limited (part of the JTI group of companies) will also be consulted.
