

Milk Pension Fund (the “Fund”)

Statement of Investment Principles (the “Statement”)

This Statement has been prepared in accordance with the Pensions Act 1995 (the "Act"), as amended and the Occupational Pension Schemes (Investment) Regulations 2005 (the “IORP”).

The effective date of this Statement is 1 April 2025. The Trustee must, in order to comply with the IORP, review this Statement and the Fund’s investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy. It is the Trustee’s additional practice to review the Statement annually.

1. Consultations Made

As required by the Act, Milk Pension Fund Trustees Limited (the “Trustee”) has consulted with the Employers prior to signing this Statement. The Trustee is responsible for the investment strategy of the Milk Pension Fund. It has obtained written advice on the long-term investment strategy appropriate for the Fund and on the preparation of this Statement. This advice was provided by Aon Investments Limited, which is authorised and regulated by the Financial Conduct Authority.

The day to day management of the Fund's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. The Trustee’s objectives in relation to an investment will be clearly communicated to the investment managers appointed.

2. Objectives

The primary objectives of the Trustee are:

- “funding” - to ensure that the Fund is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place that will take into account the financial covenant of the employers, and the tolerance of and guidance from the Pensions Regulator;
- “security” - to try to ensure that the Fund remains solvent in general (as assessed on the prescribed bases). The Trustee will take into account the strength of employers’ covenants when determining the solvency position of the Fund;
- “stability” – to have due regard to the likely level and volatility of required contributions when setting the Fund’s investment strategy; and
- “risk management” – to manage the risks of liability hedging assets against the method used by the Fund Actuary in funding calculations.

The investment strategy chosen by the Trustee has the aim of maximising the likelihood of achieving these objectives.

3. Risk

Choosing Investments

The types of investments held and the balance between them is considered in the light of the liability profile of the Fund, its cash flow requirements, the funding level of the Fund and the Trustee’s objectives. The assets of the Fund are invested in the best interests of the members and beneficiaries, subject to available contributions from the employers.

The Trustee exercises its powers of investment in a manner calculated to maximise the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Fund’s technical provisions (the liabilities of the Fund, established according to UK subsidiary rules, enacted to comply with the European Pensions Directive 2003) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

The assets of the Fund are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investments in derivatives are made only in so far as they contribute to the reduction of investment risks or to facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations, and will not lead to the creation of an overdraft, other than for short term liquidity reasons.

The Balance Between Different Kinds of Investments

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation.

It therefore retains responsibility for setting asset allocation, and takes expert advice as required from its professional advisers.

The Trustee reviews its investment strategy every three years, following each formal actuarial valuation of the Fund (or more frequently should the circumstances of the Fund change in a material way). The Trustee takes written advice from its professional advisers regarding an appropriate investment strategy for the Fund.

A broad range of available asset classes has been considered. This includes consideration of so called “alternative” asset classes (including, but not limited to, property, private equity, and diversified growth funds). In addition from time to time, the Trustee may choose to purchase annuities in its name, on behalf of the Fund.

Investment Risk Measurement and Management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Fund, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy.

The Fund does not borrow, apart from very short-term overdrafts to cover out-of-the market situations arising during manager transfers, in accordance with the European Pensions Directive.

Consideration is given to the Pension Protection Fund scores and assessment is made of the risks associated with changes in the employer covenant. In addition, the Trustee is in regular contact with the employers, and may receive confidential financial information.

The Trustee monitors the risks arising through the selection or appointment of fund managers on a quarterly basis. The Trustee has appointed Aon Investments Limited to alert it on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

The Trustee acknowledges that investment returns achieved substantially outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

Custody

For assets managed on a segregated basis for the Fund, day-to-day control of custody arrangements is delegated to the custodians. The Trustee receives copies of the investment managers’ reports. Auditors’ reports on the respective procedures of investment managers and custodians (prepared in accordance with the relevant accounting standards) are sent directly to the auditors and accounts team where applicable.

Additionally, there are investments in pooled funds that give the Trustee a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the relevant assets of the pooled fund.

The custodians are independent of the Employers.

4. Expected Returns on Assets

To understand what an acceptable degree of risk is, the Trustee takes expert advice. The nature of this advice is described elsewhere in this Statement, but has resulted in an investment strategy laid out in detail in Appendix I of this Statement.

The Trustee believes that this strategy:-

- represents its best judgement of what is necessary to meet the Fund's liabilities given its understanding of the contributions likely to be received from the employers and employees;
- takes account of its attitude to risk, specifically its willingness to accept underperformance (in relation to its objectives) due to market conditions;
- satisfies its obligation to ensure compliance with the relevant funding standard, albeit within anticipated risk tolerances. (The impact of investment strategy on security of funding level, and the implied amount and incidence of employer contributions required to maintain full funding within constraints implied by funding methodology have been taken into consideration.)

5. Focus on Asset Allocation Strategy

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation.

It therefore retains responsibility for setting asset allocation, and takes expert advice as required from its professional advisers.

The Trustee believes the most appropriate means of determining asset allocation is by asset and liability modelling, which is carried out following each formal actuarial valuation of the Fund (or more frequently should the circumstances of the Fund change in a material way). Therefore as a minimum the asset allocation is reviewed once every three years.

The asset allocation set out in Appendix I was implemented in line with the de-risking framework agreed with the Employer Group as part of the 31 March 2018 actuarial valuation.

A full range of available asset classes has been considered when setting the Fund's investment strategy.

Expected Returns on Assets

Liability hedging assets have characteristics that are broadly similar in nature to the Fund's liabilities. These assets are predominantly bonds and could also possibly include other financial instruments such as interest rate and inflation swaps (e.g. so-called 'Liability Driven Investment' pooled funds.)

The Fund's remaining assets in aggregate target a higher expected return than the liability hedging assets and typically have a higher associated volatility, relative to liabilities. These assets would typically involve equities and may include alternative asset classes such as different types of absolute return mandates and property funds.

Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustee in consultation with its advisers and investment managers.

6. Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

7. The arrangements with asset managers

The Trustee regularly monitors the Fund's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with Trustee's policies. This includes monitoring the extent to which asset managers:

- Make decisions based on assessments about medium- to long-term financial performance and non-financial performance of an issuer of debt or equity; and
- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant.

The Trustee receives regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives and assesses the asset managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustee in determining the extent to which the Fund's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Fund's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Fund invests in a collective investment vehicle, then the Trustee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically, and at least every three years.

The Trustee does not regularly monitor asset managers against non-financial criteria of the investments made on its behalf.

8. Social, Environmental and Governance Considerations

This area has developed substantially in recent years due to increased awareness of underlying environmental, social and governance issues, and a wider range of available approaches for investing. Most recently the Department of Work and Pensions (the 'DWP') consulted on trustees' investment duties as they relate to environmental, social and governance considerations.

In setting the Fund's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as ultimately this creates long-term financial value for the Fund and its beneficiaries.

The Trustee regularly reviews the suitability of the Fund's appointed asset managers and takes advice from its investment consultant with regard to any changes, including the appointment of new investment managers. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed asset managers. If an incumbent asset manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the asset manager.

The Trustee reviews the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Fund's asset managers and ensure its asset managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with its asset managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee expects transparency from its asset managers on their voting and engagement activity. Where voting is concerned, the Trustee expects asset managers to, where relevant, provide a summary of their voting actions on an annual basis. The transparency offered for engagement activity should include the objectives of the engagement action, the ultimate outcome and the processes for escalating unsuccessful engagements.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Investment managers meet with the Investment Committee at least annually and are required to report on their ESG, voting and engagement activity as part of this process.

9. Activism and the Exercise of the Rights Attaching to Investments

The Trustee has a policy in relation to the exercise of the rights (including voting rights) attaching to investments in that it delegates all voting and engagement activities to the Fund's investment managers. The Trustee accepts responsibility for how the managers steward assets on its behalf, including the casting of votes in line with each managers' individual voting policies and carries out an annual review of these policies to ensure they are in line with expectations.

10. Costs and transparency

The Trustee has an overarching principle to focus primarily on asset performance net of all fees and expenses as this is ultimately what the Fund receives. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by its asset managers that can increase the overall cost incurred by the Fund's investments.

The Trustee collects annual cost transparency reports covering all of the Fund's investments and asks that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying the Fund's investment managers. The Trustee will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Fund. This will be reviewed before the appointment of any new managers. For the existing managers, the Trustee will gather information in line with the CTI templates. If responses are deemed unsatisfactory, the manager appointments will be reviewed by the Trustee.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment manager's fund holdings change over a year. The Fund's investment consultant monitors this on behalf of the Trustee as part of the manager monitoring it provides to the Trustee and flags to the Trustee where it has concerns. The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustee assesses the performance of the Fund's investment managers on a quarterly basis and the remuneration of the Fund's investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

The Trustee assesses value for money received from the Fund's asset managers on a regular basis. This enables the Trustee to have a detailed understanding of the Fund's overall costs and to challenge asset managers where costs appear out of keeping with the wider market.

The Trustee assesses how the Fund's asset managers are remunerated as part of the appointment process. The Trustee takes into consideration the asset class, performance objective and the fee proposal as part of its decision. The Trustee has also reviewed the remuneration of existing managers to ensure consistency with the remuneration policy.

11. Effective Decision Making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes.

12. Additional Voluntary Contributions (“AVC”) Arrangements

Some members have obtained further benefits by paying Additional Voluntary Contributions (AVCs) to the AVC providers, appointed by the Trustee. Active contributions are no longer permitted. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of AVC providers are included in the Appendix to this Statement.

From time to time the Trustee reviews the appointments of the AVC providers and the choice of investments available to members to ensure that they remain appropriate to the members’ needs.

Lynne Rawcliffe	<i>L Rawcliffe</i>	29/05/2025
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Director of	Signature	Date
Milk Pension Fund Trustees Limited		
Director for The Law Debenture		
Pension Trust Corporation plc		

Milk Pension Fund

Appendix 1 Investment Strategy Statement

This Investment Strategy Statement sets out the current investment strategy of the Trustee. Details on the investment principles of the Trustee can be found in the Milk Pension Fund Statement of Investment Principles.

The Trustee's investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the Statement of Investment Principles.

The Trustee will invest the Fund's assets in line with the following strategy:

Asset Class	Target Range (%)
Multi-Asset	0~35
Property	0~10
Direct Lending	0~10
Liability Hedging Assets	40~100
Total	

The strategic objective of the Liability Hedging Assets portfolio is to provide a 100 % hedge against interest rate and inflation risk, measured as a percentage of the Fund's funded long-term liabilities measured using a Gilts+0% discount rate.

'Manager Risk' considerations, as set out in Section 3 of the Statement of Investment Principles, were considered on the initial appointment of the managers and subsequently as part of the regular ongoing investment review procedures that the Trustee has in place. The Trustee periodically reviews, at least once a year, the asset distribution across investment managers. The Trustee considers that the current strategy is appropriate to ensure that the chances of its primary objectives being achieved are maximised.

Monthly disinvestments are made from the investment manager determined to be most appropriate by the Trustee at that time.

The Trustee has appointed a number of investment managers to invest in assets for the Fund. Details of each mandate and a summary of the Fund's AVC investment providers are included within the remainder of this Appendix.

	Mandate	Asset Class	Benchmark Index	Performance Target	Fee Scale*
Property	Schroders Segregated Property Portfolio	UK Property*	IPD UK Pooled Property Fund Indices All Balanced Funds (Weighted Average)	To outperform the benchmark by 0.75% p.a. net of fees over rolling 3 year periods	UK Property at 0.25% pa European Property at 0.50% pa Plus charges for the underlying property funds, which will vary according to the particular funds bought.
Multi-Asset					
	Aon Investments Limited Managed Growth Strategy	Multi-Asset	SONIA	To outperform the benchmark by 4% p.a. net of fees over rolling 3 years.	0.19% pa
Direct Lending	Hayfin Direct Lending Fund III	Direct Lending	-	To provide a portfolio Internal Rate of Return of 8% to 10% gross (6% to 7.5% net)	0.80% pa on commitments
Liability Hedging Assets	LGIM Buy and Maintain Credit Fund**	Buy and Maintain Credit	-	The Fund aims to provide investors with a combination of growth and income.	0.13% pa
	LGIM Matching Plus Funds**	Liability Driven Investment	Various	Track Index	0.18% pa of the first £25 million, plus 0.15% pa of the balance above £25 million

*Schroders are permitted to allocate up to 25% of the Fund's segregated property portfolio in Europe (ex-UK).

**LGIM charge an additional 0.03% pa on all assets invested in the Buy and Maintain Credit and Matching Plus Funds as part of their enhanced liability hedging service.

AVC Providers

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Walton Street,
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HP21 7QW

ReAssure Limited,
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The Prudential Assurance Company Limited
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BN15 8GB