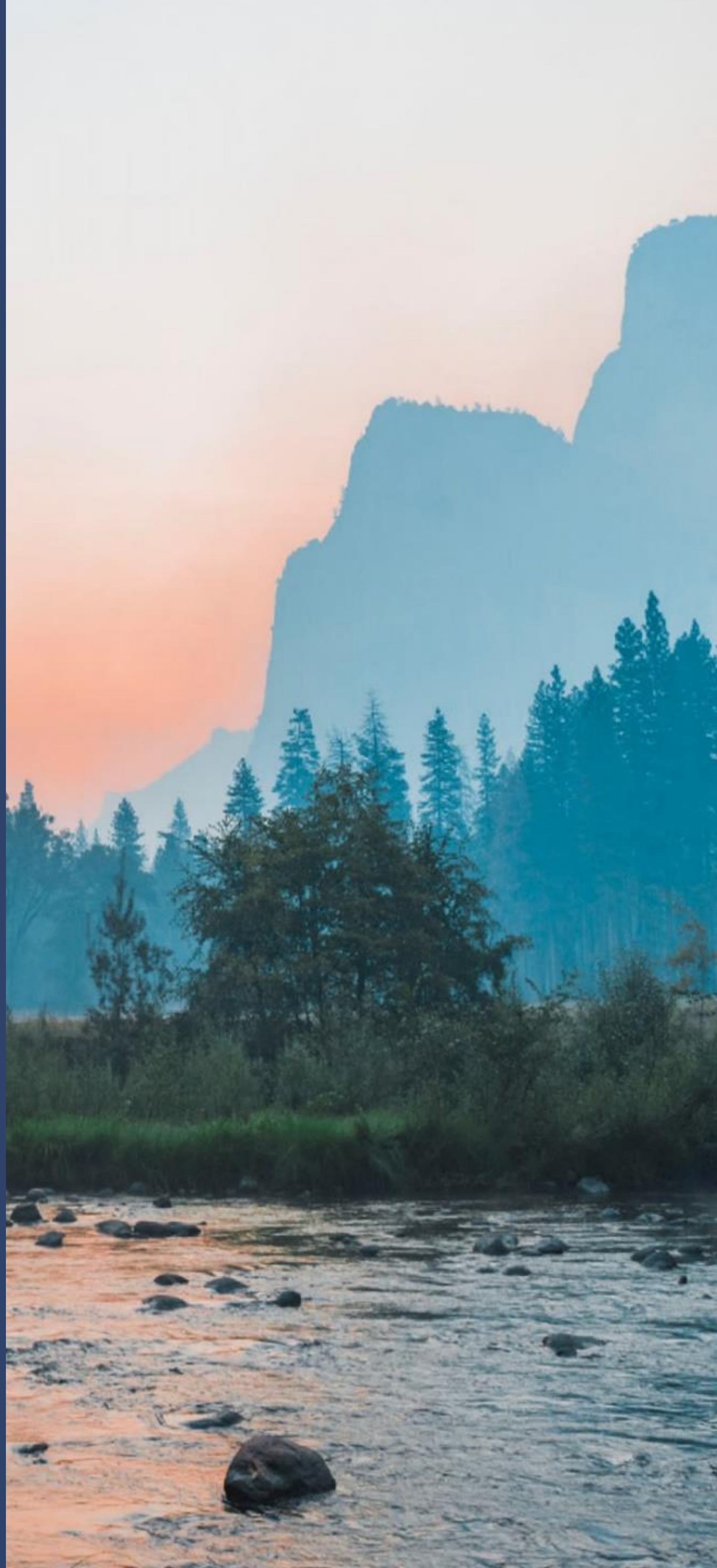
Addendum to the Statement of Investment Principles

For the Peel Ports Final Salary Pension Scheme

Effective from: December 2022

This addendum to the Statement of Investment Principles ("SIP") for the Peel Ports Final Salary Pension Scheme (the "Scheme") has been produced by the Trustee of the 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
- reviewing the SIP and modifying it as necessary.

2. 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 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
- 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.

3. Investment adviser

The investment adviser's responsibilities include:

- for the DB Section, 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 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)
- assisting us with reviews of this SIP.

4. 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 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.

5. 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.

6. 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
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

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

For the DB Section, 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 DB assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

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 or implement separate currency hedging arrangements.

Interest rate and inflation risk

The DB 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

For the DB Section, 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 and by investing in income generating assets, where appropriate.

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.

In particular, Insight makes use of derivative and gilt repos contracts within its LDI fund range to efficiently match a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The LDI manager may call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that we are not able to post additional cash to the LDI fund within the required timeframe when requested. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, our objective is that the Scheme has a sufficient allocation to cash and other highly liquid assets that could be used to meet LDI collateral calls.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as private credit), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

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 for the DB Section 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.

Defined Benefit Section

Legal & General Investment Management ("LGIM") – Global developed market equities (unhedged)

The Scheme invests in un-hedged global developed market equities via a pooled fund called the Legal & General Global Equity Fixed Weights (60:40) Index Fund. The Scheme first invested in the fund in December 2006.

The benchmark for the fund is outlined in the below table:

Region	Benchmark	Weight	Expected tracking error
UK	FTSE All Share Index	60%	+/- 0.25% p.a.
North America	FTSE World North America Index	14%	+/- 0.5% p.a.
Europe (ex-UK)	FTSE World Europe (ex-UK) Index	14%	+/- 0.5% p.a.
Japan	FTSE World Japan Index	7%	+/- 0.5% p.a.
Asia Pacific (ex-Japan)	FTSE World Asia Pacific (ex-Japan) Index	5%	+/- 0.75% p.a.

- The objective of this fund is to track the underlying benchmark.

LGIM is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Legal & General Investment Management ("LGIM") – Global developed market equities (hedged)

The Scheme invests in hedged global developed market equities via a pooled fund called the Legal & General Global Equity Fixed Weights (60:40) Index Fund – GBP Currency Hedged. The Scheme first invested in the fund in December 2006.

The benchmark for the fund is outlined in the below table:

Region	Benchmark	Weight	Expected tracking error
UK	FTSE All Share Index	60%	+/- 0.25% p.a.
North America	FTSE World North America Index - Currency Hedged	14%	+/- 0.5% p.a.
Europe (ex-UK)	FTSE World Europe (ex-UK) Index – Currency Hedged	14%	+/- 0.5% p.a.
Japan	FTSE World Japan Index - Currency Hedged	7%	+/- 0.5% p.a.
Asia Pacific (ex-Japan)	FTSE World Asia Pacific (ex-Japan) Index – Currency Hedged	5%	+/- 0.75% p.a.

- The objective of this fund is to track the underlying benchmark.

LGIM is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Legal & General Investment Management ("LGIM") – Emerging market equities

The Scheme invests in emerging market equities via a pooled fund called the Legal & General World Emerging Markets Equity Index Fund. The Scheme first invested in this fund in December 2005.

- The objective of this fund is to perform in line with FTSE AW - All Emerging Markets Index (less withholding tax if applicable) benchmark.

LGIM is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Arcmont – Private credit

The Scheme invests in private credit via a pooled fund called the Senior Loan Fund II. The Scheme first committed capital to this fund in July 2020.

- The fund is benchmarked against SONIA (cash).
- The objective of this fund is to seek a return (net of all fees) of 6% to 7.5% pa in Sterling and a 5% to 6% cash yield over the period of investment.

Arcmont is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Pemberton – Private credit

The Scheme invests in private credit via a pooled fund called the Mid-Market Debt Fund III. The Scheme first committed capital to this fund in November 2021.

- The fund is benchmarked against SONIA (cash).
- The objective of the fund is to have an overall target unlevered gross internal rate of return ("IRR") of 8.0%-9.0%, and a net IRR of 6.0%-7.0%.

Pemberton is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

M&G – Multi-asset credit

The Scheme invests in multi-asset credit via a pooled fund called the M&G Alpha Opportunities Fund. The Scheme first invested in this fund in March 2015.

- The fund is benchmarked against SONIA (cash).
- The objective of the fund is to outperform the benchmark by 3% gross of fees over a rolling 3-year period.

M&G is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Insight – Liability Driven Investment ("LDI")

The Scheme invests in LDI via a series of pooled funds within the Insight Enhanced Selection range. The list of funds the Scheme invests in can be found below:

- Enhanced Selection Longer Nominal Fund;
- Enhanced Selection Shorter Nominal Fund;
- Enhanced Selection Longer Real Fund; and
- Enhanced Selection Shorter Real Fund;

The Scheme first invested in this fund range in May 2015.

- The objective of these funds is to invest is way that matching the cashflow characterises of a typical UK pension scheme.

Insight is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Insight – Money market assets

The Scheme invests in money market assets predominantly via a pooled fund called the Insight Liquidity Plus Fund. The Scheme first invested in this fund in December 2019.

- The fund is benchmarked against SONIA.
- The objective of this fund is to provide investors with stability of capital and income.

We note that from time to time, the Scheme may invest in other money market funds, for example the Insight Liquidity Fund, for efficient portfolio management, or as part of collateral events.

Insight is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Additional Voluntary Contributions

Below we have listed the providers of AVC arrangements for each section of the Scheme.

Section	AVC Provider
MDHC Salaried Officers	Prudential Assurance Company Ltd London Life Limited
Weekly Staff	Prudential Assurance Company Ltd London Life Limited
Medway Ports	Prudential Assurance Company Ltd Standard Life Ltd
Manchester Ship Canal	AVCs are invested with the main Scheme assets but their capital value at retirement or death is calculated as if they had been earning interest at the rates payable on local authority borrowings.
Clydeport	Prudential Assurance Company Ltd