

Saffron Building Society Pension Scheme

Statement of Investment Principles

February 2026

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1 Introduction

This Statement sets out the principles governing decisions relating to the investment of the assets of the Saffron Building Society Pension Scheme (the Scheme).

The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC). The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.

This Statement has been prepared in line with the following legislation and regulations:

- Section 35 of the Pensions Act 1995
- Section 244 of the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

A copy of this Statement will be made available to Scheme members on request to the Trustees or online.

This Statement supersedes the previous Statement dated February 2025.

2 Investment Decision Making

The investment of the Scheme's assets is the responsibility of the Trustees. The Trustees' investment powers are set out in Clause 9 of the Scheme's Amending Deed, dated 6 January 2012, as amended. The powers granted to the Trustees under this Clause are wide and this Statement is consistent with those powers.

The Trustees have obtained and considered professional advice on the content of this Statement from Broadstone Corporate Benefits Limited (Broadstone), their appointed investment adviser. Broadstone is authorised and regulated by the Financial Conduct Authority. Broadstone has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation. Broadstone is remunerated through a fee for its advice, and its appointment is reviewed from time to time by the Trustees.

The Trustees have also consulted the Principal Employer, Saffron Building Society, when setting their investment objectives and strategy, and in the preparation of this Statement.

Responsibility for maintaining the Statement and determining the Scheme's investment strategy rests solely with the Trustees. The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.

3 Investment Objectives

In determining their investment objectives and strategy, the Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme and have focussed on managing risk appropriately in determining their investment objectives and strategy.

The Trustees have also agreed that the funding position, measured on a SFO or Technical Provisions funding basis is the assessment of scheme funding that is of most importance to the Trustees, the Principal Employer and members, as it determines the Scheme's funding requirements and members' long-term benefit security. The Trustees also have regard to the Scheme's low dependency liabilities.

The Trustees' investment objectives are as follows:

- To ensure that the assets are of a nature to enable the Trustees to meet the Scheme's benefits as they fall due.
- To invest the Scheme's assets in an appropriately diverse and liquid range of investments.
- To invest in a way that is consistent with the Scheme's funding objectives, i.e. to invest so that the investment return assumptions used to determine the Trustees' funding plan have a reasonable chance of being achieved in practice.
- Where future opportunities arise, the Trustees will consider further steps to reduce the volatility of the Scheme's funding position and thereby improve the security of members' benefits.

The Trustees will also have regard to the Principal Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.

4 Setting the Investment Strategy

The Trustees have appointed Legal & General – Asset Management (L&G) to undertake the day-to-day investment management of the Scheme's assets. Through L&G's Investment Platform, the Trustees also invest in a fund managed by M&G Group Limited (M&G), though there is no direct relationship between the Scheme and M&G. L&G and M&G are collectively referred to as the Investment Managers throughout this Statement.

Details of the investment strategy are set out in the **Appendix** to this Statement.

The Trustees' policies in setting the investment strategy are set out below:

Policy	
Selection of Investments	The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to UK equities, overseas equities, government bonds, corporate bonds, commercial property, and alternative asset classes, such as hedge funds, private equity, and infrastructure. The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level. The Trustees may also: - Invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments. - Hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it. - Hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.
Balance of Investments	The Trustees will set a Target Asset Allocation and Target Hedging Ratios from time to time, determined with the intention of meeting their investment objectives. The Target Asset Allocation and Target Hedging Ratios will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment. The Trustees have agreed the range of funds to be used in the investment strategy, taking into account the maturity of the Scheme's liabilities, and to ensure the range is sufficiently robust to allow easy adjustment between the funds as the Trustees' risk appetite changes and the Scheme matures.
Delegation to Investment Managers	The Trustees will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.
Maintaining the Target Asset Allocation and Target Hedging Ratios	The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and Target Hedging Ratios. The Trustees monitor the asset allocation on a regular basis with the assistance of their adviser, Broadstone, and will consider switching assets between funds should the allocation move significantly away from the Target Asset Allocation or Target Hedging Ratios. Maintaining the Target Hedge Ratios will take precedence over maintaining the Target Asset Allocation.

Policy

Employer Related Investments	The Trustee's policy is not to hold any employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Scheme (Investment) Regulations 2005.
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Details of the investment strategy are set out in the **Appendix** to this Statement.

The Trustees have decided to invest in pooled funds because:

- the Scheme is not large enough to justify direct investment in equities or bonds on a cost-effective basis,
- pooled funds allow the Scheme to invest in a wider range of assets which serves to reduce risk, and
- pooled funds provide a more liquid form of investment than certain types of direct investment.

5 Realisation and Rebalancing of Assets

The assets are held in a combination of pooled funds and are fully and readily realisable.

The Trustees make disinvestments from the Investment Managers with the assistance of Broadstone, their administrators and investment adviser, as necessary, to meet the Scheme's cashflow requirements.

Investments or disinvestments required in connection with the Scheme's cashflow management will be made to maintain the Target Asset Allocation and Target Hedging Ratios, as far as possible.

6 Expected Returns

The Trustees' objective is for the Scheme's assets to produce a return in excess of the growth in the value of its Technical Provisions. The Trustees expect the assets to produce a return in excess of the long-term growth in the value of the Technical Provisions.

Over the long-term, the Trustees' expectations are to achieve the following rates of return from the asset classes they make use of:

Asset Class	Expected Returns
Equities	In excess of UK price inflation, as measured by the Retail Prices Index (RPI), and in excess of the yield available on long-dated gilts.
Return-seeking bonds	In excess of the return expected on cash, using a diversified range of fixed income investments, with low levels of volatility.
Corporate bonds	To achieve a long-term return in excess of the yield available on a comparable portfolio of UK gilts to compensate for the additional risk associated with investing in a diversified portfolio of corporate bonds.
LDI funds	In line with the sensitivity of the low dependency liabilities to changes in interest rates and inflation expectations, allowing for the target level of hedging specified by the Trustees from time to time.
Government bonds	To achieve a long-term return in line with the yield available on a comparable portfolio of UK gilts or index-linked gilts.

7 Risks

The Trustees have considered various risks the Scheme faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that the Target Asset Allocation strikes a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of the strength of the Principal Employer's covenant and the long-term nature of the Scheme.

The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's Technical Provisions and low dependency liabilities.

The calculation of the Scheme's Technical Provisions and low dependency liabilities uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions and low dependency liabilities are both sensitive to changes in the price of these assets as market conditions vary and can have a volatile value.

While the Trustees target high hedging ratios, they accept that their investment strategy may result in volatility in the Scheme's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Scheme's Technical Provisions or low dependency liabilities.

To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes and stocks in the investment strategy with their investment adviser, Broadstone.

The Trustees invest in a wide range of asset classes through the funds and strategies they use and consider the Scheme's strategy to be well diversified.

The Trustees will monitor the investment, covenant and funding risks faced by the Scheme with the assistance of their investment advisers and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.

In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

8 Security of Assets

The day-to-day activities that the Investment Managers carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.

Safe-keeping of the Scheme's assets held with the Investment Managers is performed by custodians appointed by them.

The Trustees have considered the security of the Scheme's holdings with the Investment Managers, allowing for their status as reputable regulated firms, and consider the associated protection offered to be reasonable and appropriate.

9 Responsible Investment & Stewardship

The Trustees believe that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, they must act as a responsible asset owner.

The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees therefore do not explicitly seek to reflect any specific views through the implementation of the investment strategy, both financial and non-financial.

The Trustees' policies in respect of responsible investment are set out below:

Policy	
Financially Material Considerations	The Trustees recognise that Environmental, Social, and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets. The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets. In addition, the Trustees and Principal Employer have agreed that the equity assets of the Scheme will be managed with a focus on a wide range of ESG issues, favouring those companies that positively address these ESG issues. The Trustees do not currently impose any other specific restrictions on the Investment Managers regarding ESG issues but will review this position from time to time. The Trustees receive information from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues. With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. Furthermore, the equity fund will consider climate change risks within its mandate to favour companies that positively address a wide range of ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a material financial risk in the context of the development of the Scheme's funding position, and have taken initial steps in updating the investment strategy to address the impact of climate change risk. The Trustees will continue to monitor market developments in this area, along with any other investment opportunities to address climate change risk, in conjunction with their adviser.
Non-Financially Material Considerations	Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect the Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment.

Policy

Engagement and Voting Rights The Trustees' voting and engagement policy is to use their investments to improve the Environmental, Social and Governance behaviours of the underlying investee companies. These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustees believe that having this policy and aiming to improve how companies behave in the medium and long term will protect and enhance the value of their investments and is in the members' best interests.

The Trustees will aim to monitor the actions taken by the Investment Managers on their behalf and if there are significant differences from the policy detailed above, they will escalate their concerns which could ultimately lead to disinvesting their assets from the Investment Managers.

Capital Structure of Underlying Companies Responsibility for monitoring the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitors capital structure to be appropriate to the nature of the mandate.

The voting policies of L&G and M&G, as the Investment Managers, can be found at the following websites:

<https://am.landg.com/en-uk/institutional/responsible-investing/investment-stewardship/>

<https://www.mandg.com/who-we-are/mandg-investments/responsible-investing-at-mandg-investments>

The Trustees' views on how ESG issues are taken account of in each asset class used is set out below:

Asset Class	Active/ Passive Managed	ESG Views
Equities	Passive	The Trustees acknowledge that the Investment Manager must invest in-line with specified indices and, therefore, may not be able to disinvest from a particular security if it has concerns relating to ESG. The Trustees do expect the Investment Manager to take into account ESG considerations by engaging with companies that form the indices, and by exercising voting rights on these companies. The Trustees have also chosen to invest in ESG-focused global equity funds. The equity funds are managed on a passive index-tracking basis, where the underlying indices are constructed using ESG criteria which reduces exposure to or excludes companies which do not meet minimum ESG standards. The funds are tilted towards investment in companies that score highly on several ESG metrics and have explicit carbon emission reduction targets.
Return-seeking bonds / corporate bonds	Active	The Trustees expect the Investment Managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use their discretion to generate higher risk-adjusted returns. The Trustees also expect their Investment Managers to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights.

Asset Class	Active/ Passive Managed	ESG Views
LDI	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.
Government bonds	Passive	The underlying assets of the government bond funds consist of UK government bonds. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

10 Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and conflicts register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

11 Duration of Investment Arrangements

The Trustees are long-term investors and have not set an explicit target to review the duration of their arrangement with the Investment Managers. However, the arrangements will be reviewed in conjunction with any review of the investment strategy.

12 Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers are selected so that, in aggregate, the risk-adjusted returns produced are expected to meet the Trustees' objectives.

Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

13 Portfolio Turnover Costs

The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.

14 Monitoring

The Trustees employ Broadstone to assist them in monitoring the performance of the Scheme's investment strategy and Investment Managers.

The Trustees receive quarterly reports from the Investment Managers and meet with their representatives periodically to review their investment performance and processes.

The Trustees and Broadstone will monitor the Investment Managers' performance against their performance objectives.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

The Trustees will consider on a regular basis whether or not the Investment Managers remain appropriate to continue to manage the Scheme's investments.

The Investment Managers will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.

15 Review of Statement

The Trustees will review this Statement if there is a significant change in the Scheme's investment strategy or a significant change in the regulations that govern pension scheme investment.

For and on behalf of the Saffron Building Society Pension Scheme

Date:

Appendix A Investment Strategy Implementation Summary

A.1 Target Asset Allocation

The Target Asset Allocation for the Scheme's assets is as follows:

Asset Class	Target Asset Allocation
Equities	5.0%
Return-seeking bonds	26.0%
Corporate bonds (maturing buy and maintain)	
LDI funds	69.0%
Government bonds	
Total	100.0%

The balance between the corporate bonds, LDI solution, and government bond funds will vary over time. The target split between these protection assets is indicative only and the underlying objective for these assets will be to maintain the Target Hedging Ratios, which protect against changes in long-term interest rates and inflation expectations, as well as providing a sustainable level of investment income to meet the Scheme's benefit outgo requirements.

A.2 Investment Managers

The Trustees entered into a contract with L&G in August 2007. L&G also provides an investment platform for the Scheme through which the M&G Total Return Credit Investment Fund is invested. The Investment Managers undertake day-to-day investment management of the Scheme's assets.

The Investment Managers are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

A.3 Strategies and Funds

The Trustees use the following funds operated by the Investment Managers:

Asset Class	Funds
Global equities	L&G Future World Global Equity Index Fund L&G Future World Global Equity Index Fund – GBP Hedged
Return-seeking bonds	M&G Total Return Credit Investment Fund
Corporate bonds (maturing buy and maintain)	L&G Maturing Buy & Maintain Credit 2035-2039 Fund L&G Maturing Buy & Maintain Credit 2040-2054 Fund
LDI funds	L&G Matching Core Fixed Long Fund L&G Matching Core Real Short Fund L&G Matching Core Real Long Fund

Government bonds	L&G Under 15 Year Index-Linked Gilts Index Fund
	L&G Over 15 Year Index-Linked Gilts Index Fund

A.4 Target Hedging Ratios

The target hedging ratios against the interest rate risk and inflation risk associated with the Scheme's total low dependency liabilities are summarised below:

	Target Hedging Ratio
Interest rate risk	100%
Inflation risk	100%

A.5 Fund Performance Benchmarks and Objectives

The equity and government bond funds are passively managed index-tracking funds, meaning that their objectives are to track the total return on a specified market index within an agreed margin over a specified timescale. The benchmark and tracking criterion for the funds are given below:

Fund	Benchmark	Performance Target
L&G Future World Global Equity Index Fund	Solactive L&G ESG Global Markets Index	To track the benchmark to within $\pm 0.6\%$ p.a. for every two years out of three*
L&G Future World Global Equity Index Fund – GBP Hedged	Solactive L&G ESG Global Markets Index – GBP Hedged	To track the benchmark to within $\pm 0.6\%$ p.a. for every two years out of three*
L&G Under 15 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index Linked Gilts up to 15 Years Index	To track the benchmark to within $\pm 0.25\%$ p.a. for every two years out of three
L&G Over 15 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index Linked Gilts Over 15 Years Index	To track the benchmark to within $\pm 0.25\%$ p.a. for every two years out of three

*Net of withholding taxes, where applicable.

The return-seeking bond fund used by the Trustees is actively managed, with an objective to outperform a specified market benchmark, as summarised below:

Fund	Benchmark	Performance Target
M&G Total Return Credit Investment Fund	SONIA	To outperform the benchmark by 3-5% p.a. (gross of fees) over 5-year periods.

The L&G corporate bond funds do not have an explicit benchmark but aim to capture the yield on a diversified portfolio of predominantly investment grade corporate bonds.

The L&G Matching Core Funds aim to provide a prescribed level of hedging against changes in the value of liabilities for a typical defined benefit pension scheme caused by interest rate and inflation risks. The practical implementation of hedging and income generation is delegated to L&G, with the expectation that L&G will choose the most cost-effective method.

A.6 Investment Management Charges

The annual management charges for each of the funds used, based on the assets under management at the date of this Statement, are given below:

Fund	Annual Management Charge*
L&G Future World Global Equity Index Fund	0.185% p.a.
L&G Future World Global Equity Index Fund – GBP Hedged	0.210% p.a.
M&G Total Return Credit Investment Fund	0.430% p.a.**
L&G Maturing Buy & Maintain Credit Funds	0.130% p.a.
L&G Matching Core Funds	0.200% p.a.
L&G Index-Linked Gilts Index Funds	0.075% p.a.

*Annual management charges shown in the table include fee discounts applied to the Scheme's holdings and may not reflect the respective funds' standard annual management charges.

**Includes L&G platform fee of 0.03% p.a.

L&G also charge a flat fee of £1,000 p.a.