

Hallmark (1998) Retirement Benefit Scheme (the 'Scheme')

Defined Contribution Annual Governance Statement

for the period from 1 January to 31 December 2022

Under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by The Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee of the Hallmark (1998) Retirement Benefit Scheme (the 'Trustee') is required to prepare an annual statement regarding governance of the Defined Contribution ('DC') Section of the Scheme.

This statement covers the period 1 January to 31 December 2022 and describes how the Trustee has met the statutory governance and charges requirements in relation to:

- The suitability of the Scheme's default investment arrangement,
- Processing of core financial transactions,
- Charges and transaction costs paid by DC Section members,
- Return on Investments,
- Illustrations of the cumulative impact of costs and charges,
- Value for Members assessment, and
- Trustee Knowledge and Understanding.

Default Investment Arrangement

The Trustee is responsible for setting and reviewing the investment strategy for the DC Section of the Scheme. As the Scheme is not used as a Qualifying Scheme for auto-enrolment and there have been no contributions paid into the DC section of the Scheme since the relevant Regulations took effect, the DC Section did not have a 'default investment arrangement' as defined by the Regulations prior to this Scheme Year.

During the Scheme Year, the Trustee agreed and implemented a number of changes to the investment strategy, resulting in the creation of a 'default investment arrangement', as defined by the Regulations. These changes are outlined below.

Changes to the DC Section Investment Strategy

A review of the DC Section investment strategy began in December 2020 with a report from our professional advisers. This report looked at the appropriateness of the investment funds available and the lifestyle strategies in light of the characteristics of the Scheme's membership. An additional report from our professional advisers was produced during the Scheme Year, leading to the changes outlined below being agreed and the implementation of the changes taking place during Q3 of 2022:

- The five Lifestyle Options which were available at the start of the Scheme Year were replaced with three Aegon LifePath target date Funds - LifePath Flexi, LifePath Retirement and LifePath Capital.
- LifePath Flexi replaced the Medium Risk Drawdown Lifestyle as the Scheme's default investment option, with LifePath Flexi also becoming a 'default investment arrangement', as defined by the Regulations.
- Members who were invested in one of the previous Lifestyle Options were automatically transferred to LifePath Flexi unless they chose an alternative option.

The Trustee believes that the new LifePath Funds have the potential to provide better outcomes for members compared to the previous Lifestyle Options, for the following reasons:

- The LifePath Funds are more actively reviewed and updated by Aegon and BlackRock, compared to the previous Lifestyle Options, which the Trustee believes should provide better outcomes for members and “future-proof” these options.
- While the period during which assets are de-risked will increase from 23 to over 35 years, the underlying investments have a higher allocation to growth assets over this period, compared to the previous Lifestyle Options (except the Higher Risk Drawdown Lifestyle).
- The new LifePath Funds have a single charge of 0.36% p.a, while the previous Lifestyle Options had charges between 0.28% - 0.60% p.a. This should result in lower overall charges for most members. Where charges are higher, the Trustee believes that this is due to the improved investment approach available through LifePath.
- The use of the new LifePath Flexi Fund will make it easier for members who are invested in that Fund and wish to move to Income Drawdown at retirement, to move directly into the LifePath Flexi Fund within an individual drawdown policy with Aegon without any transaction costs or out of market risk.
- Environmental, Social and Governance considerations are significantly improved within the LifePath Funds, which the Trustee believes should help mitigate risks in these areas.

The lifestyle range was reduced from five to three options as a result of these changes. The Trustee believes that this is appropriate because:

- LifePath Flexi is more closely aligned with the Medium Risk Drawdown Lifestyle, which was used by the majority of members.
- The Higher Risk Drawdown Lifestyle and Lower Risk Drawdown Lifestyle options were not used by many members.
- LifePath Retirement is similar to the Annuity Lifestyle and targets the same retirement outcome.
- LifePath Capital is similar to the Cash Lifestyle and targets the same retirement outcome.

Processing of Core Financial Transactions

In line with the requirements of regulation 24 of the Regulations, the Trustee has a specific duty to ensure that core financial transactions for the DC Section are processed promptly and accurately. These include, but are not limited to:

- Transferring assets relating to members into and out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme,
- Making payments from the Scheme to or on behalf of members.

The Trustee has appointed a professional third party administrator, Aegon, to the DC Section and has Service Level Agreements ('SLAs') in place with Aegon, which cover all core administration processes, including the accuracy and timeliness of all core financial transactions described above. Aegon reports performance against the SLAs to the Trustee on a quarterly basis and this allows the Trustee to monitor whether core financial transactions are processed promptly and accurately. Aegon's reports also detail any complaints raised by members, along with any administrative issues or legislative/regulatory breaches. The SLA targets and proportion of tasks carried out within the SLA targets over the Scheme Year are shown in the table below:

| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Total Scheme Year | SLA Target Scheme Year |
|------------------------------------|------------|------------|------------|------------|-------------------|------------------------|
| Core Financial Transactions | 86% | 92% | 89% | 94% | 91% | 91%* |
| Other Administration Tasks | 65% | 67% | 69% | 76% | 71% | 95%* |
| Total | 82% | 88% | 86% | 90% | 87% | 92% |

* Weighted SLA target.

During the period covered by this statement, 91% of tasks relating to core financial transactions for the DC Section were processed within agreed timescales, which is in line with the SLA target. Performance in relation to other administration tasks fell behind the weighted SLA target, which led to Aegon's overall performance being behind the SLA target for the Scheme Year.

The Trustee has noted the more material SLA underperformance in Q1 2022, but that improvements have been made in subsequent quarters and is monitoring the situation.

The Trustee are keen that all members receive a high quality experience when interacting with the Scheme and have been working closely with Aegon during the Scheme year and during 2023 to improve performance levels. Meetings have been held either monthly or bi-weekly with Aegon to monitor live cases and ensure that processes and communications with members are improved in order to aid member understanding and improve timeliness of delivery. As a result, improved internal processes and checklists have been implemented and we will soon be implementing updated member communications.

The Trustee is formally meeting quarterly with Aegon and has met with senior members of the team to understand the causes of the underperformance vs SLAs and the plans that Aegon have in place to improve the service provided. The Trustee has requested monthly updates on SLA performance and will be monitoring the situation closely until performance levels are close to target.

Although a number of complaints were received from members of the DC Section, the majority were resolved within SLA and no administrative issues or legislative breaches relating to core financial transactions for the DC Section of the Scheme were reported.

During the Scheme year, the Trustee was concerned about underperformance versus SLA targets and the overall member experience when interacting with Aegon. Action has been taken during the year to address this and post year end, we are confident that processes are more robust. Core financial transactions have been, in the main, processed promptly and accurately over the period covered by this Statement.

Charges and transaction costs paid by DC Section members

The Trustee is required to set out the on-going charges paid by members of the DC Section, which are:

- (i) the explicit charges (such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio),
- (ii) transaction costs (i.e. the costs of buying and selling investments in the fund) these costs are not explicit but they do impact the unit price of the fund).

Aegon has provided full cost and charges information for all funds in which members of the DC Section were invested during the Scheme Year. Where no members were invested in an available investment option during the Scheme Year we have provided charges information, however transaction cost information is not available.

The costs and charges borne by DC Section members over the period covered by this statement are shown in the table below:

| Investment option | Total Expense Ratio (% p.a.) | Transaction Costs (%) |
|--|---|----------------------------------|
| Lifestyle Strategies¹ | | |
| Medium Risk Drawdown Lifestyle | 0.31 – 0.60 | 0.036 – 0.370 |
| Lower Risk Drawdown Lifestyle | 0.35 – 0.60 | 0.048 – 0.370 |
| Higher Risk Drawdown Lifestyle | 0.31 – 0.33 | 0.036 – 0.042 |
| Cash Lifestyle | 0.28 – 0.60 | 0.015 – 0.370 |
| Annuity Lifestyle | 0.31 – 0.60 | 0.036 – 0.370 |
| LifePath Funds² | | |
| LifePath Flexi | 0.36 | 0.014 – 0.092 |
| LifePath Retirement | 0.36 | 0.096 |
| LifePath Capital ³ | 0.36 | N/A |
| Self-Select Funds | | |
| Aegon BlackRock World (ex-UK) Equity Index | 0.31 | 0.000 |
| Aegon BlackRock (50:50) Global Equity Index | 0.31 | 0.036 |
| Aegon BlackRock UK Equity Index | 0.31 | 0.066 |
| Aegon HSBC Islamic Global Equity Index Fund ³ | 0.60 | N/A |
| Aegon BlackRock Diversified Growth Fund | 0.60 | 0.370 |
| Aegon BlackRock Market Advantage Fund | 0.42 | 1.214 |
| Aegon BlackRock Over 15 Years Gilt Index | 0.31 | -0.013 |
| Aegon BlackRock Over 15 Years Corporate Bond Index | 0.32 | 0.107 |
| Aegon BlackRock Index Linked Gilt | 0.40 | 0.000 |
| Aegon BlackRock Cash Fund | 0.28 | 0.015 |
| Aegon BlackRock Long Gilt ³ | 0.40 | N/A |

¹ Transaction costs for the lifestyle strategies are determined by the transaction costs on the underlying funds and therefore depend upon the term to retirement. Transaction costs provided are for the full Scheme year, despite these options having been removed in August 2022.

² Transaction costs for the LifePath funds are based on the target date funds which members invested in over the Scheme Year and depend upon the term to retirement. Transaction costs provided are for the full Scheme Year, despite these options only being available from August 2022.

³ No members were invested in the fund during the Scheme Year, so transaction costs are not available.

Because transaction costs are incurred when the fund manager buys and sells assets within the fund, we would expect actively managed funds to have higher transaction costs than index-tracking funds. The transaction costs reported for the actively managed funds (the Diversified Growth Fund and the Market Advantage Fund) are consistent with this.

Return on Investments

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') introduce new requirements for trustees of 'relevant' occupational pension schemes.

From 1 October 2021 trustees of all relevant pension schemes are required to calculate and state the return on investments from the scheme's investment options, net of transaction costs and charges. This information must be recorded in the annual chair's statement and published on a publicly accessible website.

The tables below show performance, net of all charges and transaction costs, of all funds which members invested in during the Scheme Year.

Default Investment Arrangement

The table below shows the performance of the previous default investment arrangement (Medium Risk Drawdown) combined with the new default investment arrangement (LifePath Flexi).

| Medium Risk Drawdown Lifestyle / Lifestyle Flexi | Returns to December 2022 (%) | | |
|--|------------------------------|----------------|-----------------|
| Age of member | 1 year | 5 years (p.a.) | 10 years (p.a.) |
| 35 | -8.0 | 3.8 | 8.1 |
| 45 | -9.0 | 2.7 | 5.6 |
| 55 | -11.5 | 0.4 | 1.1 |

Lifestyle Strategies

The tables below shows the performance of the lifestyle strategies which were available to members over the year, but were closed in August 2022.

| Lower Risk Lifestyle | Returns to August 2022 (%) | | |
|----------------------|----------------------------|-------------------------------|--------------------------------|
| Age of member | 1 year ^(a) | 5 years (p.a.) ^(b) | 10 years (p.a.) ^(c) |
| 35 | -5.8 | 3.9 | 6.0 |
| 45 | -6.2 | 3.2 | 4.7 |
| 55 | -7.4 | 1.0 | 1.1 |

| Higher Risk Lifestyle | Returns to August 2022 (%) | | |
|-----------------------|----------------------------|-------------------------------|--------------------------------|
| Age of member | 1 year ^(a) | 5 years (p.a.) ^(b) | 10 years (p.a.) ^(c) |
| 35 | -4.0 | 5.1 | 9.1 |
| 45 | -4.0 | 5.1 | 9.1 |
| 55 | -4.0 | 3.7 | 6.7 |

| Annuity Lifestyle | Returns to August 2022 (%) | | |
|-------------------|----------------------------|-------------------------------|--------------------------------|
| Age of member | 1 year ^(a) | 5 years (p.a.) ^(b) | 10 years (p.a.) ^(c) |
| 35 | -4.0 | 5.1 | 8.9 |
| 45 | -4.8 | 3.9 | 6.3 |
| 55 | -7.1 | 1.0 | 1.0 |

| Cash Lifestyle | Returns to August 2022 (%) | | |
|----------------|----------------------------|-------------------------------|--------------------------------|
| Age of member | 1 year ^(a) | 5 years (p.a.) ^(b) | 10 years (p.a.) ^(c) |
| 35 | -4.0 | 5.1 | 8.9 |
| 45 | -4.6 | 4.2 | 7.0 |
| 55 | -6.4 | 2.9 | 4.2 |

^(a) Returns shown from 31 December 2021 to 31 August 2022.

^(b) Returns shown from 31 December 2017 to 31 August 2022.

^(c) Returns shown from 31 December 2012 to 31 August 2022.

LifePath Funds

The table below shows the performance of the LifePath Funds, which members invested in over the year. The LifePath funds were available from August 2022.

| LifePath | Return from 31 August 2022 to 31 December 2022 (%) |
|-------------------------------|--|
| LifePath Retirement 2025-2027 | -5.3 |

Source: Aegon and Mercer estimates.

Performance shown net of all charges and transaction costs. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle, with the weightings as at the ages shown.

LifePath Capital performance is not disclosed as no members invested in this fund.

| Self-select fund | Annualised returns to December 2022 (%) | | |
|---|---|---------|----------|
| | 1 year | 5 years | 10 years |
| BlackRock 50:50 Global Equity Index | -3.3 | 4.6 | 8.6 |
| BlackRock UK Equity Index | -0.6 | 2.5 | 6.2 |
| BlackRock World (ex-UK) Equity Index | -9.6 | 8.6 | 12.5 |
| BlackRock Index Linked Gilt | -38.4 | -5.5 | 1.6 |
| BlackRock Over 15 Year Gilt Index | -40.5 | -6.9 | 0.1 |
| BlackRock Over 15 Year Corporate Bond Index | -34.6 | -4.5 | 1.4 |
| BlackRock Cash | 1.1 | 0.4 | 0.3 |
| BlackRock Diversified Growth | -9.0 | 2.0 | 2.8 |
| BlackRock Market Advantage | -13.8 | -0.6 | 2.0 |

Source: Aegon

Performance shown net of all charges and transaction costs. Performance of standalone self-select options is independent of age, therefore performance is shown in a different format to the Lifestyle and LifePath performance above.

Although the HSBC Islamic Global Equity Index Fund and BlackRock Long Gilt Fund are available for members to select, no members or assets were invested in these funds over the Scheme year.

Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of the costs and charges typically paid by a DC Section member on the value of their fund at retirement (as a “pounds and pence figure”).

The Regulations allow the Trustee to exercise their discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme’s membership.

The statutory guidance has been taken into account when preparing these illustrations, which have been provided by Aegon.

Members should be aware that the assumptions used when producing the illustrations may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on a typical member of the DC Section of the Scheme, they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

We have illustrated one example member of the DC Section of the Scheme:

- The youngest member (age 35), with a retirement age of 65;
- Current fund value £19,000 (which is based on the median account value in the DC Section).

Illustrations show the effect of costs and charges on the Aegon BlackRock LifePath Flexi Strategy, (which is the default). The Aegon BlackRock Cash Fund and the Aegon BlackRock HSBC Islamic Global Equity Index Fund are illustrated to show the effect of costs and charges on funds with different charges. Of the funds available, the Aegon BlackRock Cash Fund has the lowest charges and the Aegon BlackRock HSBC Islamic Global Equity Index Fund has the highest charges.

The table below shows the estimated impact of transaction costs, charges and expenses on accumulated fund values for the example member.

| Year | LifePath Flexi | | Aegon BlackRock Cash | | Aegon HSBC Islamic Global Equity Index | |
|------|----------------|-----------------------|----------------------|-----------------------|--|-----------------------|
| | Before Charges | After Costs & Charges | Before Charges | After Costs & Charges | Before Charges | After Costs & Charges |
| 1 | £19,342 | £19,265 | £18,753 | £18,699 | £19,551 | £19,428 |
| 3 | £20,045 | £19,805 | £18,269 | £18,110 | £20,701 | £20,314 |
| 5 | £20,773 | £20,361 | £17,797 | £17,541 | £21,919 | £21,240 |
| 10 | £22,711 | £21,820 | £16,670 | £16,193 | £25,288 | £23,744 |
| 15 | £24,830 | £23,384 | £15,614 | £14,949 | £29,173 | £26,543 |
| 20 | £27,146 | £25,059 | £14,625 | £13,801 | £33,656 | £29,672 |
| 25 | £29,679 | £26,855 | £13,699 | £12,741 | £38,827 | £33,169 |
| 30 | £32,448 | £28,779 | £12,831 | £11,762 | £44,793 | £37,079 |

Assumptions and data for illustrations:

Values shown are estimates and are not guaranteed.

All illustrations assume no further contributions are paid, as the DC Section of the Scheme is closed to further contributions.

Projected pension fund values are shown in today's terms and so do not need to be reduced further for the effects of inflation.

Inflation is assumed to be 2.0% p.a.

The projected annual growth rates, and total costs and charges for each fund are:

| Investment strategy / fund | Assumed growth rate ¹ | Total charges ² |
|--|----------------------------------|----------------------------|
| LifePath Flexi | -1.30% to 3.00% ³ | 0.40% |
| Aegon BlackRock Cash | -1.30% | 0.29% |
| Aegon HSBC Islamic Global Equity Index | 2.98% | 0.63% |

¹ Assumed growth rate after taking into account the assumed inflation of 2% per annum.

² TER plus the average annual transaction costs over the period from 1 January 2018 to 31 December 2022.

³ Range shown, as this will depend on how far away the member is from retirement age.

Value for Members assessment

The Trustee is required to assess the extent to which the Scheme delivers value for members across three key areas:

| Assessment area | Type of assessment |
|-------------------------------|---|
| Costs and charges | Comparative assessment against three larger DC arrangements, considering the level of ongoing member-borne charges and transaction costs. |
| Net investment performance | Comparative assessment against three larger DC arrangements, considering investment performance net of all member-borne costs and charges. |
| Governance and administration | Standalone assessment of the Scheme's governance and administration arrangements, covering: core financial transactions; record keeping; default investment strategy; investment governance; trustee knowledge and understanding; member communications; and management of conflicts of interest. |

The Trustee has carried out a value for member assessment in May 2023 to review the year to 31 December 2022, with the assistance of their advisor, Mercer. The conclusions of this assessment are set out in the table below:

| Assessment area | Type of assessment |
|-------------------------------|--|
| Costs and charges | <p>The Trustee has assessed the Scheme as offering reasonable value from a costs and charges perspective.</p> <p>The Trustee notes that charges are higher than available within the comparator schemes and will investigate whether fund charges within the Scheme could be reduced.</p> <p>The Trustee also notes the GMP underpin within the Scheme which requires additional admin and services for members (such as the provision of at retirement annuity broking at no charge to members) which would not be accommodated in the larger comparator schemes.</p> |
| Net investment performance | <p>The Trustee has assessed the Scheme as offering reasonable value from a net investment performance perspective.</p> <p>Over the five year period to 31 December 2022, the Scheme's default arrangement has outperformed the majority of comparator arrangements for younger members, but underperformed for older members. The Scheme's default investment strategy was changed in August 2022 and so it is not yet clear what impact the new strategy will have on long-term net investment performance. Performance of the self-select fund range has been mixed compared with the comparator arrangements.</p> <p>The Trustee will continue to monitor the performance of the funds, in particular the default arrangement, in which the majority of members are invested.</p> |
| Governance and administration | <p>The Trustee has assessed the Scheme as offering reasonable value from a governance and administration perspective:</p> <ul style="list-style-type: none"> • The majority core financial transactions were processed promptly and accurately over the Scheme Year, although we note some deviation from SLAs. • The Scheme holds all of the data required by law and has appropriate controls in place, although improvements were identified. |

| | |
|---------|--|
| | <ul style="list-style-type: none"> • A review of the investment strategy was concluded within the Scheme Year, which led to the LifePath target date funds being introduced to replace the previous lifestyle strategies. • The Scheme has appropriate investment governance procedures and policies in place and the parties involved understand their roles and have awareness of their authority, although improvements were identified. • The Trustee Directors have a wide range of backgrounds, experience and skills and are confident that their combined knowledge and understanding enables them to exercise properly their function as the Trustee to the Scheme. • Members are communicated with appropriately via a range of media, members have online access and planning tools are available. Action is being taken to improve the clarity of at retirement communication and to highlight to members the additional online support and tools available in annual newsletters and benefit statements. • The Trustee has a Conflict Management Policy in place and a Conflicts of Interest Register. |
| Overall | Overall, considering all three areas set out above, the Trustee has assessed the Scheme as offering reasonable value for members. |

Following the value for members assessment, the Trustee plan to take the following actions over the next year to improve the service provided to members:

- Continue to monitor investment performance, particularly that of the default strategy and consider adopting specific policies in relation to ESG.
- Engage with Aegon to investigate if any improvements can be made to fund charges.
- Work with Aegon to improve the clarity of member communications.
- Continue to meet with Aegon regularly to monitor and improve the promptness of core financial transactions and ensure the member experience is positive.
- Focus on the requirements of the Pension Regulator's General Code to ensure effective governance, including a focus on the risk register and reviewing the administrator's AAF report.

Trustee Knowledge and Understanding

In accordance with Section 247 of the Pensions Act 2004, the Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee Director must:

- Be conversant with the trust deed and rules, statement of investment principles and any other document recording policy adopted by the Trustee relating to administration of the Scheme generally.
- Have knowledge and understanding of the law relating to pensions and trusts and the principles relating to the investment of the assets of occupational pension schemes, to the extent appropriate for exercising their functions as a Trustee.

The Trustee Board is comprised of five Trustee Directors. The Chair of Trustees is also the Company Secretary and she has overseen all Trustee activity during the Scheme Year. On appointment, she went through an induction with the previous Chair of Trustees, who has remained on the Trustee Board. Three of the other Trustee Directors are retired, and bring complementary skills from their professional backgrounds in HR, Field Merchandising and Company Secretarial. These Trustee Directors have been Trustee Directors of the scheme for many years and have extensive knowledge of the Scheme and its governing documentation

The fifth Trustee Director, is a Professional Trustee, represented by Karein Davie, who was appointed during the previous Scheme Year and gives the trustee body access to additional technical and market knowledge. This also ensures that the Trustee has the confidence and knowledge to challenge advisers appropriately and understand when additional advice is required. Karein has worked in the pensions industry as an actuary for over 19 years and in July 2020, became a Fully Accredited Professional Trustee under the new accreditation regime run by the Association of Professional Pension Trustees (APPT). On appointment, Karein was given access to all Scheme documents and held meetings with the Trustee, Sponsor and all key advisers to become fully conversant with the specifics of the Scheme.

The Trustee Directors are familiar with all key documents for the Scheme. Documents are held electronically, and access is granted as soon as an individual becomes a Trustee. This helps to ensure that all Trustee Directors maintain a working knowledge of the Scheme.

The Trustee Directors have completed the Pension Regulator's Trustee Toolkit on the following dates and have committed to refresh their knowledge of the modules on a rolling basis:

Phillipa Dixson (Chair of Trustees) – July 2020

Karein Davie (representing Clarity Trustees Limited, part of the Independent Governance Group) – August 2019

Pat Gardiner - 2006

David Haenlein – 2005

Neil Miles – July 2021

Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration during the Scheme Year. The Scheme's professional advisers provide regular training on changes to regulatory requirements or any other relevant matter.

The Trustee Directors carry out their own self-assessment of training needs and will discuss training needs as part of the monthly Trustee meetings. An action plan on required training is then implemented following each meeting regarding training gaps that have been identified. As part of Karein's APPT accreditation, she is also required to demonstrate a minimum 25 hours of CPD a year.

Over the Scheme Year, the Trustee:

- Maintained a training log for each Trustee Director,
- Attended webinars to remain up to date and understand topics that are relevant to Scheme activities, such as the single code of practice and GMP equalisation,
- Signed off the Trustee Report and Accounts for the year ending 31 December 2021,
- Reviewed Aegon's quarterly administration reports to monitor service delivery against agreed service levels standards and to assess the member experience,
- Reviewed Aegon's quarterly investment reports to assess fund performance against benchmarks and the aims of the strategies, as set out in the Statement of Investment Principles, and
- Finalised the review of the DC Section's investment strategy and implemented the changes.

Given the professional background of the Trustee Directors, the length of time we have spent as Trustee Directors of the Scheme, the training activities we have completed individually and collectively as a board and taking into account the professional advice available to us, I am confident that the combined knowledge and understanding of the Trustee enables us to exercise our functions properly.

This statement was approved and signed by the Chair of Trustees on 31st July 2023

Hallmark (1998) Retirement Benefits Scheme

Statement of Investment Principles – DB Section

August 2022

Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) **for the Defined Benefit ("DB") Section of the Hallmark (1998) Retirement Benefits Scheme ("Hallmark 1998" or "the Scheme")**. It describes the investment policy being pursued by the Trustee of the Schemes and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Matthew Pinkney of Aon Limited, the Investment Adviser is Schroders Solutions (collectively termed 'the Advisers').

The Trustee confirms that, before preparing this SIP, they have consulted with Hallmark Cards PLC ('the Sponsoring Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser.

The Trustee is responsible for the investment of the Scheme's assets and where they are required to make an investment decision, the Trustee always receives advice from the relevant Advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but have delegated day-to-day investment of the Scheme's assets to be undertaken through the fiduciary management service of Schroders IS Limited ('Schroders Solutions'), hereafter referred to as the 'Investment Manager'.

The SIP constitutes two parts - the DB Section and the DC Section. Both parts together constitute the Scheme's Statement of Investment Principles.

Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisers as appropriate.

The Trustee will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the Investment Manager or Adviser as part of such a review.

Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustee has taken advice from the Advisers to ensure that the proposed strategy, and the assets held by the Scheme through that strategy, are suitable given its liability profile, the Trustee's objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Scheme (the Trust Deed).

Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustee will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustee have set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this Statement, which will generate income and capital growth to pay, together with contributions the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long-term having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustee invests in a blend of Growth assets (including Secured Growth assets) that broadly targets 4% above cash), a portfolio of Investment Grade credit that targets 1% above cash and a liability hedge which aims to mitigate the change in the liabilities. The Trustee decides the blend of these funds to target the appropriate return for the Scheme. This Scheme currently targets an Investment Objective of LBP+1.8%.

Implementation of investment strategy

The Trustee has delegated the investment of the Scheme assets to the Investment Manager, which has discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers of pooled funds (hereafter referred to as the 'Underlying Managers') to run the portfolio on a day-to-day basis. The Trustee has acknowledged and considered with sufficient diligence the potential conflict that may arise from the Investment Manager and the Investment Adviser being the same organisation.

Monitoring

The Trustee will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustee, or any other suitably qualified Adviser on behalf of the Trustee, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

The review will be carried out at least annually and will involve a review by the Trustee against the agreed performance objectives and a review by a third party fiduciary oversight adviser.

As part of this review, the Trustee will consider whether or not the Investment Manager:

- Is carrying out their function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with the Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, the Trustee will remove the Investment Manager and appoint another.

Corporate Governance and Stewardship

The Trustee and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee has appointed the Investment Manager to implement the Scheme's investment strategy. The Investment Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically reviews the overall value-for-money of using Schroders Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustee is satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustee's long-term performance objectives.

The Scheme's investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee's objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here:

<https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/>

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its

ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

Realisation of Investments

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so require. The Investment Manager is not permitted to hold illiquid (as defined in the Investment Management Agreement) on-risk assets.

Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. All references to ESG also include climate change.

The Trustee policy is to delegate consideration of financially material factors, including ESG to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. As part of their ongoing monitoring, the Trustee reviews some key metrics on a regular basis that are provided by the Investment Manager covering ESG which enable them to engage with the Investment Manager and understand the impact of ESG on the portfolio.

ESG factors and stewardship are considered, in the context of long-term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

Risks

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
 - A liability benchmark 'LBP' is used as a proxy for the liabilities in order to measure

the approximate changes in the liabilities (due to changes to the relevant gilt yields only). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The LBP is reviewed following each actuarial review, or when significant market or Scheme events (e.g. a significant change in inflation expectations) imply that an amendment may be appropriate.

- The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
 - When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LBP and can therefore also be assessed as part of the quarterly review process.
 - This risk is also monitored through regular actuarial and investment reviews including monthly portfolio updates.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
- Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
 - The use of instruments and strategies designed to control the extent of downside exposure.
 - The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
 - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.
- **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
- The Trustee has also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments.
- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.
- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustee mitigates this risk by electing to allow the Investment Manager to use currency hedging.

- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Manager and Underlying Managers, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
- **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager’s ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.
- **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Manager. This is addressed in the agreement with the Investment Manager, and in turn by the Investment Manager with the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Investment Manager or Underlying Managers may invest in.
- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Investment Manager and Advisers by the Trustee, and of the Underlying Managers by the Investment Manager.
- **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly review the covenant of the Sponsoring Employer.

The Trustee will keep these risks and how they are measured and managed under regular review.

Non-financial matters

The Trustee does not at present take into account non-financial matters (such as members’ ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustee has no intention to seek the views of the membership on ethical considerations.

This Statement of Investment Principles was reviewed and approved by the Trustee of the Hallmark (1998) Retirement Benefits Scheme on 7 September 2022.