

# HCA International Limited Final Salary Pension Scheme

## Statement of Investment Principles – April 2026

### 1. Introduction

The Trustees of the HCA International Limited Final Salary Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. The Statement of Investment Arrangements (“SIA”) document is available upon request.

This Statement replaces the previous statement dated March 2025.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, the Trustees have consulted the Sponsoring Company to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements and, in particular, on the Trustees’ objectives.

### 2. Nature of the Scheme

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustees’ investment powers. The investment powers do not conflict with this Statement.

The Scheme is contributory and provides benefits on retirement (or death) related to final salary.

### 3. Process for Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager to implement a Cashflow Driven Investment (“CDI”) solution whereby the Scheme invests in such a way that expected asset cashflows should broadly match a proportion of the Scheme’s expected liability cashflow profile, whilst still targeting a return in excess of the gilt-based liabilities to improve the level of funding over time.

In this capacity, and subject to agreed restrictions, the Scheme’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to sub-investment managers based in countries such as Ireland, UK and USA, and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme’s assets on a day-to-day basis. All of the Scheme’s non-insured assets are invested with Mercer as part of the CDI strategy.

In considering the appropriate investments for the Scheme, the Trustees have obtained and considered (and will continue to obtain and consider) the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

#### 4. **Investment Objectives**

The Scheme's long-term strategy is to fully fund all of its liabilities through a buy out (or buy in) exercise. The Scheme is pursuing opportunities with insurance providers, and has already funded bulk annuity policies for members who were pensioners as at August 2010 and December 2017.

Until the liabilities are fully insured, the Trustees' objective will be to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustees' primary objectives are as follows:

- To ensure the assets of the Scheme are sufficient to meet the liabilities as an ongoing scheme, ideally through natural cashflows from the Scheme's assets;
- To maintain the funding position of the Scheme on an ongoing basis at 100% or higher as measured on a Technical Provisions basis, ensuring a low degree of reliance on the Sponsoring Company;
- To limit the volatility of future pension costs caused by volatile asset returns, and the risk of cash calls on the Sponsoring Company in difficult trading conditions;
- The Trustees have a long-term objective to buy out (or buy in) all of the Scheme's liabilities. In light of the present level of Scheme funding, the Trustees recognise that this may take a number of years to achieve. The investment strategy was designed in 2021 with a view to achieving this by 2030-2033. The most recent review of the investment strategy in 2025 reaffirmed the expected viability of that timeframe.

## 5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees have considered the following risks:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustees aim to reduce this risk as much as practicable through implementation of a CDI solution, the specific objectives of which are set out in Section 6. In addition, the Trustees have funded bulk annuity policies, with Company support, for members who were pensioners as at August 2010 and April 2017.
- The Trustees' willingness to take on investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute to the Scheme. The strength of the Company and its perceived commitment to the Scheme is monitored by the Trustees and the overall level of risk being taken will be reviewed if either of these deteriorates.
- The risk of deterioration in the Scheme's funding level over the long-term. This is mitigated through the CDI solution, which is designed to lower risk to the extent possible whilst still targeting a sufficient level of expected return to meet the future objectives of the Trustees.
- The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active managers in some asset classes involves such a risk. However, they believe that this risk is outweighed by the potential gains from successful active management in certain asset classes. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in markets deemed efficient where the scope for added value is limited.
- The Trustees invest in leveraged Liability Driven Investment ("LDI") funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the hedge management portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk, the Trustees have delegated asset allocation decisions within the liability matching (“hedge management”) and credit portfolios (“non-hedge management”) to its fiduciary manager, Mercer (subject to certain restrictions). Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio (by manager, asset class and geographically) after obtaining and considering the written advice of Mercer. Due to the size of the Scheme’s assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the sub-investment managers appointed within the relevant Mercer Funds include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes outside their mandate without the Trustees’ prior consent.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the sub-investment managers appointed within the relevant Mercer Funds, to enable the monitoring of differences between the expected and experienced levels of risk and return.
- The safe custody of the Scheme’s assets is delegated to professional custodians (via the use of pooled vehicles). State Street Custodial Services (Ireland) Limited is the custodian appointed by MGIM for the assets invested in the Mercer pooled funds, and MGIM is responsible for keeping the suitability of State Street under ongoing review.
- Currency risk will arise through investment in non-Sterling assets, given that the Scheme’s liabilities are denominated in Sterling, because changes in exchange rates will impact the relative value of the assets and liabilities. Within the context of the Mercer Funds used in the CDI solution, to limit currency risk, non-sterling exposure is removed using currency hedging derivatives such as forwards and swaps.
- Environmental, Social and Governance risks (including but not limited to climate change) – the Trustees recognise that these risks are considered to be financially material. Further information is set out in Section 11.

The risk and other factors set out above are those that the Trustees determine to be financially material over the Scheme’s anticipated lifetime.

On a periodic basis (typically every 12-18 months), or should there be a material change in the Scheme’s circumstances, the Trustees will review based on advice from Mercer whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

## 6. Investment Strategy

The assets of the Scheme are divided into two sections, the “Buy-in portfolio” and the “Main portfolio”, and both are monitored on a standalone basis. Please note there is no rebalancing between the two portfolios.

### *The Buy-in portfolio*

The Trustees have invested a proportion of the Scheme’s assets into the Buy-in portfolio in order to match the liabilities of those pensioner members insured under the insurance contracts taken out in August 2010 and December 2017, that are held as assets of the Scheme. This accounted for c. 29% of the Scheme’s assets as at 31 March 2024.

### *The Main Portfolio*

For the Main Portfolio, the Trustees, with advice from the Scheme’s Investment Consultant and the Scheme Actuary, reviewed the Scheme’s investment strategy in consultation with the Company during 2021 and agreed to implement a CDI strategy for the Main portfolio. This review considered the Trustees’ investment objectives, their ability and willingness to take risk (the risk budget) and how this risk budget should be allocated and implemented. The Buy-in portfolio was considered as part of this review, to ensure that in conjunction with the Main portfolio this delivered an investment strategy that was appropriate bearing in mind the objectives of the Trustees, with the CDI strategy reviewed periodically to ensure it remains appropriate.

The CDI strategy aims to:

- Match a high proportion of the Scheme’s expected liability cashflows;
- Generate an expected return of approximately gilts + 0.8%\* p.a., with a view to gradually improving the level of funding such that a full buy-out (or buy-in) could be targeted by 2030-2033;
- Initially support a discount rate of approximately gilts + 0.55% p.a., which subsequently changed to gilts +0.5% p.a. as part of the 2024 actuarial valuation\*
- Allocate to a diversified portfolio of credit-based Mercer fixed income funds, cash funds and any other Mercer funds in proportions determined at Mercer’s discretion, to generate the target level of investment return whilst minimising investment risk to the extent possible, whilst also generating cashflows to help meet benefit payments as they fall due.
- Target a liability hedge ratio of 100% (measured as a proportion of uninsured Technical Provisions liabilities), to minimise to the extent possible the risk associated with changes to interest rates and inflation expectations.

\*The expected return and discount rate will be reviewed periodically as its subject to change due to market conditions

The Scheme's target allocation for the CDI strategy as at 31 March 2025 is set out in the following table:

<b>Portfolio</b>	<b>Target Asset Allocation (%)</b>	<b>Implementation Range (%)</b>
Hedge Management	47.0	+/-5.0%
Non-Hedge Management	53.0	+/-5.0%
<b>Total</b>	<b>100.0</b>	-

There is no automatic re-balancing between the Hedge Management portfolio and the Non-Hedge Management portfolio, and the asset allocation will vary over time as asset performance and market conditions vary.

Within the Hedge Management portfolio, the Trustees have agreed that the Scheme's investment portfolio should be constructed so that it provides a broad liability hedge through a range of diversified investments managed by Mercer rather than accumulate exposure in any single part of the interest rate or inflation curve (i.e. to avoid "curve" risk). The Trustees have delegated the responsibility for constructing, managing and monitoring the Scheme's liability hedging arrangements to Mercer.

The Non-Hedge Management portfolio includes a diversified credit portfolio, which is expected to include a diversified portfolio of investments which may include, amongst other asset classes, multi-asset credit, trade finance, secured finance, and emerging markets debt. In addition, the Non-Hedge Management portfolio includes a tailored credit portfolio comprised of corporate bonds. The tailored credit portfolio seeks to generate income by investing in fixed income securities, primarily denominated in Sterling and also provide interest rate sensitivity which is taken into account when designing the Hedge Management portfolio.

The Trustees believe that the Scheme's investment strategy is consistent with the investment policy, objectives and risk management decisions set out in Sections 4 and 5.

Responsibility for monitoring the Scheme's asset allocation is delegated to Mercer. Mercer reports quarterly to the Trustees on its activities.

Details of the holdings within the Scheme's portfolios and the rebalancing policy relating to the portfolios can be found in the SIA.

## 7. Portfolio Construction

As noted in Section 6, the assets of the Scheme are divided into the Buy-in portfolio and the Main portfolio, and both are monitored on a standalone basis.

### *The Buy-in portfolio*

The Trustees have purchased insurance policies with two insurers that have agreed to pay the Scheme an amount equal to the pensions in payment for those members covered under the policies, although the pension liability remains a liability of the Scheme. The insurance contracts are held as an asset of the Scheme.

### *The Main Portfolio*

The Trustees have delegated the day-to-day management and the discretion within the Hedge Management and Non-Hedge Management portfolios to Mercer. For the Main portfolio, the Trustees have adopted the following risk control framework in structuring the Scheme's investments subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with the agreed level of risk (outlined in sections 4 and 5):

- There is a role for both active and passive management. Passive management will be used for one of a number of reasons, including:
  - To diversify risk;
  - To invest in markets deemed efficient where the scope for active management to add value is limited; and
  - To limit overall Scheme costs and charges;

The benefits of using active management include:

- The potential to achieve enhanced investment performance (on an absolute or risk-adjusted basis);
  - Scope to reduce downside risk by avoiding potential “blow ups” or out of favour sectors. This is particularly important given the focus of the CDI strategy on credit investment, and therefore avoiding defaults.
- All other things being equal there is a preference to invest via pooled funds, however segregated investments will be considered as circumstances require.
  - To help diversify manager specific risk, multiple manager appointments within a single asset class managed actively are preferred where practical.
  - At the total Scheme level investments should be broadly diversified to ensure there is not a concentration of exposure to any one market or issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt.

- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies is allowed (other than any such securities held within a pooled fund in which the Trustees invest).
- Investment in derivatives is permitted within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- The Trustees have agreed that the use of leverage is appropriate as part of the Scheme's CDI solution to enable target hedge ratios (for interest rate and inflation exposure) to be achieved and maintained. The Trustees have not set a formal target with respect to the use of leverage but Mercer monitor actual leverage levels over time. The Trustees will not borrow for any other purpose, except to cover short term liquidity requirements although recognise the underlying managers utilised by Mercer may be permitted to borrow. The Trustees review the leverage and borrowing for the pooled funds prior to investment.

At the time of writing, the LDI portfolio targets a hedge of 100% of the Scheme's interest rate and inflation related liability risks (measured as a proportion of the Scheme's Technical Provisions liabilities).

## **8. Rebalancing and Cashflow Policy**

There is no pre-defined or automatic rebalancing between the Hedge Management and Non-Hedge Management portfolio, nor between the funds within the Hedge Management Portfolio, except where required for liability hedge ratio management.

If a recapitalisation event occurs (where the Hedge Management Portfolio requires additional capital in order to maintain leverage), Mercer will review the Scheme's overall asset allocation and has discretion to implement any trades/rebalancing deemed to be appropriate. Mercer will seek to notify the Trustees as soon as practicable, ideally prior to implementation of the relevant trades (if this is possible).

In the event of cashflows into, or out of, the Scheme, Mercer will invest or disinvest these as soon as reasonably practicable from the underlying funds at Mercer's discretion. For investments or disinvestments of more than £1,000,000, Mercer will seek to notify the Trustees via email as soon as possible. A buffer of £100k will be maintained within the Trustees' Bank Account. For the Scheme's full Cashflow policy, please refer to the Investment Management Agreement where this is set out.

## 9. Realisation of investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying sub-investment managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

## 10. Investment Managers

### **Aligning manager appointments with investment strategy**

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 6, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 6. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so, and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

### **Evaluating investment manager performance**

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Scheme's funding level and the Mercer funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception (as applicable). The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Assessments of the medium to long-term financial and non-financial performance of an issuer of debt or equity are made by the underlying sub-investment manager appointed by MGIE to manage assets within the Mercer Funds. Those sub-investment managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term, consistent with their formal performance objectives and how they are critically assessed and rated by Mercer or a third-party evaluator where applicable. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying sub-investment manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the sub-investment managers' policies on voting and engagement, where relevant.

Section 11 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The sub-investment managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

### **Time horizon**

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

### **Portfolio Turnover Costs**

The Trustees monitor, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 6. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management (for the Main portfolio) which covers the design and annual review of the CDI strategy, and investment management of the assets. Where Mercer or MGIE directly manage funds that the Scheme invests in, additional fees apply based on the value of assets under management in those holdings. In addition, the underlying sub-investment managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the external and/or internal underlying sub-investment managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to sub-investment manager managing assets invested in the Mercer Funds on a regular basis, with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the sub-investment manager, fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related to the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE. MGIE reviews the turnover of the investment managers used in the Mercer Funds and the associated transaction costs incurred. The total transaction costs in the management of the Scheme's assets are reported to the Trustees through the annual cost and charges statements.

#### **11. Environmental, Social and Corporate Governance Issues, Stewardship, and Climate Change**

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

As noted above Trustees have appointed Mercer to act as discretionary manager in respect of a majority of the Scheme's assets (and such assets are invested in a range of Mercer Funds managed by MGIE). The sub-investment managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practise, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's and MGIE's investment processes, and those of the underlying managers used within the Mercer funds, in a regular quarterly monitoring process. Mercer is expected to provide reporting on their funds, on a regular basis and at least annually, on ESG integration, stewardship monitoring results, and climate-related metrics and/or climate scenario analysis (where relevant). The Trustees will review the extent to which ESG, climate change and stewardship is integrated within their investment managers' processes on a broadly annual basis.

Non-financially material considerations (e.g. member views around ethical considerations) are not taken into account in the selection, retention and realisation of investments. However, the Trustees believe that the delegation of portfolio construction, for the majority of the Scheme's assets, to Mercer will lead to ESG considerations that are in the best interests of the Scheme as a whole.

For the assets managed by Mercer, within the Mercer portfolios, the appointed investment managers have been given restrictions in relation to particular products or activities.

**12. Additional Assets**

Under the terms of the trust deed the Trustees are responsible for the investment of AVCs paid by members. The Trustees take advice as to the providers' continued suitability.

**13. Compliance with this Statement**

The Trustees will aim to monitor compliance with this Statement regularly, including an assessment of whether the Scheme's investment arrangements (as managed by Mercer and the sub-investment managers) are in line with the investment principles in this Statement, so far as reasonably practicable.

**14. Review of this Statement**

The Trustees will review this Statement at least once every three years and after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. In addition, any such review will be in consultation with the Sponsoring Company.

Signed on behalf of the Trustees of the HCA International Limited Final Salary Pension Scheme.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

Name: \_\_\_\_\_