

Imperial Tobacco Pension Fund

Statement of Investment Principles – Defined Benefits Section

January 2026

1. Introduction

- 1.1 Imperial Tobacco Trustees Limited (“the Trustee”), as the Trustee of the Imperial Tobacco Pension Fund (the “Fund”), has 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 the decisions about the Fund’s investments. The Trustee’s investment responsibilities are governed by the Fund’s Trust Deed and Rules.
- 1.2 In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written investment advice from its Investment Consultant Isio Group Limited (“Isio”). Where matters described in this Statement may affect the Fund’s funding policy, input has been obtained from the Fund Actuary. In addition, consultation has been undertaken with Imperial Tobacco Ltd (“the Sponsor”) in agreeing this Statement and changes to it, the Fund’s investment arrangements and, in particular on the Trustee’s objectives.
- 1.3 This Statement applies to the Defined Benefit (DB) section only. There is a separate Statement for the Defined Contribution (DC) section.
- 1.4 This Statement is available to Fund members on request and is published publicly at myimperialpension.com/library/.
- 1.5 The Trustee will monitor compliance with and review this Statement at least once every three years, and will review it without delay if there are relevant, material changes to the investment arrangements, the Fund and/or the Sponsor. Any such review will be based on written expert investment advice and will be in consultation with the Sponsor.

For and on behalf of Imperial Tobacco Trustees Limited, as Trustee of the Imperial Tobacco Pension Fund

Signed

Date

2. Fund Governance

- 2.1 The Trustee takes advice from its Investment Consultant, the Fund Actuary and other professional advisers as appropriate. Fees for the Investment Consultant are based on an annually agreed retainer fee, with any work not covered by the retainer charged as a fixed fee or on a time cost basis as agreed in advance.
- 2.2 The Fund purchased a bulk annuity policy in December 2021 to reduce risk. The policy is held as an asset of the Fund by the Trustee. After taking specialist advice, receiving a number of competitive insurance quotations, and consulting with the Sponsor, the Trustees agreed to purchase a bulk purchase annuity policy from Standard Life.
- 2.3 The Trustee is responsible for the investment of the Fund's remaining assets (outside the bulk annuity policy) and has ultimate control over the decisions on investment strategy. The Trustee decides what to delegate after considering whether it has the necessary internal skills, knowledge and professional support to make informed and effective decisions.
- 2.4 The Trustee reviewed its governance structure in 2024 and implemented an effective system of governance, in line with the applicable regulatory guidance. The Trustee also conducted gap analysis against the General Code of Practice. When considering governance, the Trustee recognises the benefits of dedicated oversight through establishing an Investment Committee. The Trustee has delegated certain investment powers to an Investment Committee with separate Terms of Reference. This governance structure is reviewed regularly.

3. Responsible Investment and Corporate Governance (Voting and Engagement)

- 3.1 The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The consideration of ESG matters (including climate factors) relating to the Fund's investments is included within the effective system of governance.
- 3.2 Standard Life is responsible for investing its assets underlying the bulk annuity policy, so this section relates to the remaining assets held by the Trustee outside the bulk annuity policy.
- 3.3 The Trustee has given appointed Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.
- 3.4 The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in the selection and retention of new managers and monitoring existing Investment Managers. Monitoring is undertaken on a regular basis and is documented at least annually. In particular, the Trustee makes use of ratings provided by Isio, the Fund's Investment Consultant, to facilitate this.

3.5 A separate ESG Policy, which was last updated by the Trustee in June 2025, sets out the Trustee's ESG beliefs and clarifies how they will be incorporated into investment decision making.

3.6 The Trustee has not set any investment restrictions on the appointed Investment Managers in relation to particular products or activities, but may consider this in future.

4. Investment Objectives

4.1 The Trustee's primary investment objective for the DB section is to invest the Fund's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as and when they fall due.

4.2 In consultation with the Sponsor, the Trustee has adopted the following specific objectives:

4.2.1 to target an expected return in excess of the growth in the liabilities, which in conjunction with any contributions to be paid by the Sponsor, is consistent with the following funding objective.

4.2.2 to maintain an ongoing funding level of at least 100% on a buy-out basis.

4.2.3 to increase liquidity over time so that there is flexibility to consider further bulk annuity transactions.

4.3 With advice from Isio and the Fund Actuary, the Trustee has determined a target mix of asset types set out in Section 7. It is the intention of the Trustee to review the investment strategy on a regular basis, taking account of all financially material considerations over the Fund's anticipated lifetime, in consultation with the Sponsor.

5. Investment Policies

5.1 Overall investment policy falls into two parts:

5.1.1 The strategic management of the assets, which is fundamentally the responsibility of the Trustee; and

5.1.2 The day to day management of the assets, which is delegated to professional investment management firms, described in Section 8.

5.2 Member views, when expressed, relating to all financial and non-financial matters are given due consideration.

5.3 In considering appropriate investments for the Fund, the Trustee has obtained and considered the written advice of its Investment Consultant, whom the Trustee believes meet the requirement of Section 35 (5) of the Pensions Act 1995. The advice received and arrangements implemented are, in the Trustee's opinion, also consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended) and subsequent legislation.

6. Risk and Return Targets

6.1 In order to meet the long-term funding objective, the Trustee takes investment risk in order to target a greater return than a pure liability matching portfolio.

6.2 Before deciding to take investment risk, the Trustee received appropriate advice and consulted with the Sponsor. In particular, the Trustee considered carefully the following possible consequences:

6.2.1 The assets might not achieve the excess return relative to the liabilities anticipated over the longer term, potentially resulting in a deterioration of the Fund's financial position. This may result in a requirement for contributions from the Sponsor.

6.2.2 The relative value of the assets and liabilities may be more volatile over the short term than if investment risk had not been taken. This volatility may expose the Fund to placing more reliance on the support of the Sponsor. This consequence is particularly serious if it coincides with the Sponsor being unable to make good an increased deficit.

6.2.3 This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor's contribution requirement set at successive actuarial valuations.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness and ability to contribute appropriately to the Fund. The financial strength of the Sponsor and its perceived commitment to the Fund is monitored, and the Trustee will review the investment strategy should either of these deteriorate.

6.3 In determining its investment policy, the Trustee has considered a number of financially material investment risks to which the Fund is exposed. As part of this, analysis has been undertaken to understand the Fund's funding level sensitivity to:

- Interest rates
- Inflation
- Credit risk
- Environmental, Social and Governance considerations

6.4 In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with longevity, exposure to overseas currencies and illiquidity. The Trustee also considered the strength of the insurer when purchasing the bulk annuity policy.

6.5 The Trustee has implemented the following measures to manage the risk associated with the investments:

6.5.1 To protect the Fund against changes to interest rates and market-implied inflation, the Trustee has implemented a Liability-Driven Investment ("LDI") strategy designed to replicate the majority of the sensitivities of the Fund's uninsured liabilities to these risk factors. The Trustee has considered the liquidity of the Fund's assets when setting the target level of liability hedging for the LDI strategy;

6.5.2 To diversify the risks that the Fund faces, the Trustee has set an investment strategy that uses multiple asset types, strategies, regions and sectors;

- 6.5.3 The Investment Managers are responsible for hedging any currency risk to reduce the potential impact of overseas currency exposure on the performance of mandates with exposure outside of the UK;
- 6.5.4 Counterparty risk in derivatives is mitigated by both the Fund and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of derivatives held;
- 6.5.5 The assets are divided between a number of Investment Managers. This reduces the risk associated with one manager having responsibility for all of the Fund's assets;
- 6.5.6 The Trustee has a written agreement in place with the custodian (Northern Trust), which provides reasonable assurances of the physical security of the Fund's assets held by the custodian;
- 6.5.7 The Trustee has considered the liquidity of the Fund's assets in the context of likely cash flow needs, and is comfortable that the Fund's assets strike a suitable balance between accessing higher expected returns from less liquid investments and being able to meet these cash flow needs.
- 6.6 The Trustee monitors these risks on a regular basis and will consider any new financially material risks that may emerge from time to time.

7. Investment Strategy

- 7.1 The Trustee reviewed the Fund's investment strategy. The agreed principles are as follows:
 - 7.1.1 Manage down the allocations to alternatives over time, either by waiting for the funds to return capital or by considering appropriate exit opportunities that may arise depending on market conditions.
 - 7.1.2 Increase overall liquidity gradually as the alternatives are managed down, investing in the Liability Driven Investment portfolio to support liability hedging, reducing the need for any external credit facilities, and to consider investing in corporate bonds and / or credit default swaps.
 - 7.1.3 Consider further risk reduction opportunities.
- 7.2 The target allocations for bonds and alternatives are reset at least quarterly to reflect the impact of market movements and the return of capital from the alternative investments over time. The allocations at 30 September 2025 are shown in the table below. These allocations are expected to drift over time and it is not the Trustee's intention to rebalance the asset allocation.

Asset Class	30 September 2025 (%)
Bonds	68.1
Liability Driven Investments* / Bulk annuity policy **	63.1
Buy & Maintain Credit	5.1
Alternatives	30.2
Property	10.0
Private Debt	5.4
Ground Lease Property	7.3
Secured Finance	7.6

Cash	1.6
Total	100.0

Note: Figures may not sum due to rounding.

* The value for the Liability Driven Investment portfolio is net of borrowing.

**In December 2021, the Trustee purchased a bulk annuity policy.

There are no set ranges around the asset allocation. The Trustee reviews the asset allocation at regular Investment Committee meetings and considers whether adjustments are appropriate. The Trustee recognises that some of the alternative investments have limited scope to redeem early.

7.3 Using capital market models, the above investment strategy is expected to strike the appropriate balance between expected return and risk, resulting in an acceptable probability of achieving the Trustee's objectives set out in Section 4.

7.4 The Trustee, with advice from the Fund's Investment Consultant and Fund Actuary, and in consultation with the Sponsor, reviews the Fund's investment strategy regularly. These reviews consider the Trustee's investment objectives, its ability and willingness to take risk and the appropriate mixture of the different types of investment risk.

8. Investment Manager Structure

8.1 Day-to-day management of the assets is delegated to professional Investment Managers who are all regulated.

8.2 The Investment Managers have full discretion to buy and sell investments on behalf of the Fund, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and each manages investments for the Fund to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.

8.3 The Trustee assesses the continuing suitability of the Fund's Investment Managers via quarterly reporting, the services provided by their Investment Consultant and when meeting each Investment Manager.

8.4 The Trustee invests the assets of the Fund via a mixture of pooled funds and direct holdings. The Trustee is satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments for risk management purposes.

8.5 The Trustee's policies in relation to the Fund's investment management arrangements with the investment managers are set out in Appendix A.

9. Cashflow Policy

9.1 The Trustee targets a cash allocation of around 1% of total Fund assets excluding the bulk annuity policy. Available cash above this level will be assessed on a case-by-case basis, depending on the liquidity requirements of the Liability Driven Investment portfolio. This is monitored at each Investment Committee meeting. The collateral management policy for the LDI portfolio is set out in Appendix B.

10. Additional Voluntary Contributions ("AVCs")

10.1 The Trustee has made available a range of unit-linked funds for members of the Fund to invest their AVCs, having taken account of factors such as expected investment

performance, risks, charges and administrative efficiency. Members' AVCs were moved to the Legal & General platform as part of a wider provider review for the DC Section.

11. Realisation of Investments

- 11.1 The Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. When disinvestment is required in order to meet benefit outgo etc, the Trustee's agreed policy is to first consider whether any alternatives can be liquidated within the required timeframe at an appropriate cost, and then consider disinvesting from the Liability Driven Investing portfolio, taking into account the Trustee's overall liability hedging objectives.

Appendix A

The Trustee has the following policies in relation to the investment management arrangements for the Fund (excluding the bulk annuity policy):

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• The Fund is invested in some pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund's strategic objective. • The Trustee also has some segregated arrangements with the investment managers, thereby allowing investment managers to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis. • The Fund's investments in the Hayfin Private Debt mandates are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee reviews the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are checked quarterly to make sure the correct amounts have been charged, and the fee rates are reviewed annually to ensure that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• Investment managers are asked to discuss portfolio turnover costs as part of their regular presentations to the Investment Committee. • In practice, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Fund's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Fund invests in. ○ For closed ended funds or funds with a lock-in period the Trustee ensures

	the timeframe of the investment or lock-in is in line with the Trustee's objectives and Fund's liquidity requirements. ○ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustee receives information from their investment advisers on the investment managers' approaches to engagement. • The Trustee will engage, via their investment adviser where appropriate, with investment managers and/or other relevant persons about relevant matters at least annually. For example if: ○ The manager has not acted in accordance with their policies and frameworks. ○ The manager's stewardship policies and priorities are not in line with any policies the Trustee has set and any priorities in this area, when appropriate. • Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which is considered at the Trustee and Investment Committee meetings. • The Fund's investment managers are invited from time to time to present to the Investment Committee on their performance, strategy and risk exposures. • Additional engagement with managers may be required if: ○ There are significant changes made to the investment strategy. ○ The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. ○ Underperformance vs the performance objective over the period that this objective applies.

Appendix B

Collateral management policy

The Trustee targets c.450-500bps of headroom within their segregated LDI mandate. The Fund will invest available cashflow into corporate bonds up to an initial target allocation. After this initial allocation has been reached, available cashflow will be invested into the LDI mandate, and as a result the LDI headroom is expected to increase above 500bps over time. Where headroom falls below 300bps, the Trustee will consider topping up the collateral using available cash or using corporate bond sales or derivatives, or reducing the hedge ratio. The segregated LDI manager is expected to call for additional collateral if headroom falls below 250bps.

The Trustee will review its collateral management policy approximately annually, or potentially more frequently following significant market movements.

The Trustee regularly assesses available cashflow and collateral headroom and expects the liquidity of the Fund to increase over time as the illiquid assets return cash.