DFDS Logistics Pension Scheme

Statement of Investment Principles – February 2025

Introduction

The Trustees of the DFDS Logistics 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 Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to confirm the investment principles that govern decisions about the Scheme’s investments. In preparing this Statement the Trustees have consulted DFDS A/S (the ‘Employer’), who acts on behalf of DFDS Logistics Limited, the Scheme’s Principal Employer.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees’ investment consultants, Capita Pension Solutions Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Scheme’s assets in the best interest of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Scheme’s assets which is sufficient, in conjunction with the Scheme’s existing assets and employer contributions, to pay all members’ benefits in full. In practice this means seeking to achieve full funding against a conservative “long-term proxy buyout” measure of the Scheme’s liabilities by the time the Scheme is “significantly mature” i.e. by the time that almost all members have retired. Fully funded on a long-term proxy buyout liability basis would be when the Scheme is estimated to be well positioned to fully secure all member benefits with an insurer i.e. remove dependency on support of the Employers;
- To maintain a reasonable level of investment risk, which is supported by the Scheme’s time horizon and Employer covenant (which is the Employer’s legal obligation and financial ability to support the Scheme now and in the future);
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer’s contribution requirements.

The Trustees understand, following discussions with the Employer, that the Employer is willing to accept a degree of volatility in the Employer's contribution requirements in order to aim to reduce the long-term cost of providing the Scheme's benefits.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Scheme's liability profile and the strength of the Employer's covenant. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. The Trustees' principal focus in setting investment strategy is therefore taking into account the nature and duration of the Scheme's liabilities.

- The Trustees recognise that whilst increasing risk can potentially increase long-term returns, it can also increase the short-term volatility of the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation strategy in place results in an adequately diversified portfolio. 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 managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk can be outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Scheme's assets are managed through a mixture of active and passive management which may be adjusted from time to time.

- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether the current risk profile remains appropriate.

Investment Strategy

Given their investment objectives the Trustees have agreed to a strategic asset allocation (excluding any annuity policies held) as detailed in the table below. The Trustee believes the risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset class	Strategic asset allocation*
Liability Driven Investments	35.0%
Index Linked Gilts	
Long-dated Active Physical Corporate Bonds	27.2%
Leveraged Synthetic Credit (4 x leveraged)	5.0%
Absolute Return Bonds	10.0%
Cash equivalents	22.8%
Total	100.0%

**The investment strategy aims to hedge c.100% of liabilities (measured on a long-term proxy buyout liability basis) against interest and inflation rate risks. As market conditions change and leverage within the leveraged LDI funds changes, the allocations between the different matching assets will be allowed to drift to maintain the target level of hedging. As such, a detailed breakdown of the target strategic allocation for the individual LDI and index-linked gilts funds is not shown or applied.*

The Liability Driven Investment ('LDI') and synthetic credit funds employ leverage (i.e. the £ amount of exposure to changes in longer-term interest rates, inflation expectations and credit spreads is greater than the £ amount invested). Should the leverage within the LDI or synthetic credit funds deviate substantially from the target leverage level, LGIM will rebalance the funds back to their target leverage level. These leverage rebalancing events could result in money being requested or released from the funds and the Trustees have established a default cash management policy for these events (see below).

The Trustees also hold annuity policies in respect of certain pensioner members. The annuity policies, which are insurance contracts held in the name of the Trustees, remain permitted assets of the Scheme under the control of the Trustees and are not individually allocated to members.

Further details on the investment funds can be found in the Appendix.

Cash management policy

In the event of a LDI or synthetic credit leverage rebalancing event, the collateral waterfall in place at LGIM will look to source the cash required from the following funds in this order: LGIM Sterling Liquidity Fund and LGIM Absolute Return Bond fund. Cash distributions should be directed towards the LGIM Absolute Return Bond Fund. The Trustees may decide to change this cash flow policy from time-to-time, subject to receiving the necessary advice from their investment consultant.

There may be times when the Scheme will require cash disinvestments to meet ongoing Scheme cashflows needs. Where there are sufficient holdings in the LGIM Sterling Liquidity fund, this fund will be used as the primary source to meet such cash disinvestment requests.

Expected Return

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect the Scheme's assets to generate net of expenses returns, over the long term, of circa 0.4% per annum. These are the returns expected above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Scheme's liability value. This return is a 'best estimate' of future returns that has been arrived at given the Scheme's strategic asset allocation targets and in the light of advice from the investment consultant.

The Trustees recognise that over the short term, actual performance may deviate significantly from this long-term expectation. This 'best estimate' should be higher than the assumption used for funding purposes for the actuarial valuation of the Scheme's technical provisions. For funding purposes, a prudent estimate of returns is used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustees have appointed Legal and General Investment Management ('the Platform Provider') to administer all of the assets of the Scheme. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected Legal and General Investment Management ('LGIM') as the Investment Manager ('the Investment Manager') to manage the assets of the Scheme. The Investment Manager is regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their Investment Manager.

The Trustees monitor the performance of their Investment Manager on a quarterly basis. This monitoring is contained in a report provided by their Platform Provider.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that are paid to their Investment Manager and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

Investment Manager Philosophy and Engagement

The Trustees monitor the Investment Manager process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the fund manager is incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the Investment Manager is incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and will look to monitor the costs breakdown regularly, as long as the Investment Manager provide these costs using the Cost Transparency Initiative template. The Trustees will also ensure that, where appropriate, its investment manager monitor the frequency of transactions and portfolio turnover. If there are any targets then the Trustees will monitor compliance with these targets.

Corporate Governance

The Trustees wish to encourage best practice in terms of activism. The Trustees accept that by using pooled investment vehicles the day-to-day application of voting rights will be carried out by the Investment Managers. Consequently, the Trustees expect the Investment Manager to adopt a voting policy that is in accordance with best industry practice.

The Trustees will monitor the voting being carried out by Investment Manager and custodians on their behalf. They will do this by receiving reports from their Investment Managers which should include details of any significant votes cast and proxy services that have been used.

Compliance with Myners' Principles

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Platform Provider and the Investment Manager are paid a management charge on the basis of the assets under management. No additional performance fees are payable.

The investment consultant is paid on a time-cost or fixed fee basis, as agreed between the Trustees and the investment consultant from time-to-time.

Financially material considerations over the Scheme's time horizon

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme's members. The Trustees believe that ESG (Environmental, Social and Governance) considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Scheme. The Trustees recognise that this is a DB scheme closed to new entrants and future accruals with an ageing membership. Accordingly, the Trustees have formed the view that the appropriate time horizon of this Scheme is over 10 years.

The Trustees have elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest. However, the Trustees will consider these policies in all future selections and will seek to deepen their understanding of their existing managers' policies by reviewing these at least regularly. In cases where they are dissatisfied with a manager's approach, they will take this into account when reviewing them. The Trustees are keen that their managers are signatories to the UK Stewardship Code which they are.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their manager can explain when, and by what practical methods, the manager monitors and engages with relevant persons about relevant matters in this area. They will be liaising with their manager to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf).

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment manager. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustees expect the Schemes Investment Manager to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

Non-financial matters, including members' views are currently not taken into account.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will not necessarily be revised to reflect a change in asset allocation after a de-risking trigger has been hit, where such de-risking is in line with the strategy set out in this Statement. 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.

Trustee

Date

Signed on behalf of the Trustees of the DFDS Logistics Pension Scheme

Appendix – Investment Mandate

The Trustees have selected the Investment Managers to manage the assets (excluding any annuity policies held) of the Scheme via a single policy with the Platform Provider. The Platform Provider/ Investment Managers is regulated under the Financial Services and Markets Act 2000. The Investment Manager's mandate is below:

Asset class	Investment Manager	Fund	Management style
Absolute Return Bonds	LGIM	Absolute Return Bond Fund	Active
Corporate Bonds	LGIM	Active Corporate Bond > 10 year	Active
	LGIM	Synthetic Leveraged Credit	Passive
Index Linked Gilts	LGIM	Over 5 Year Index Linked Gilts Index Fund	Passive
LDI	LGIM	Matching Core Fund Range	Mechanistic
Cash	LGIM	Sterling Liquidity Fund	Active