

Provident Financial Staff Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

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1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the Provident Financial Staff Pension Scheme ("the Scheme"). This Statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004.
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted Vanquis Banking Group PLC. ("the Employer") and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees will review this Statement at least every three years or if there is a significant change in any of the areas covered by the Statement.
- 1.5. The investment powers of the Trustees are set out in the Scheme's Trust Deed & Rules. This Statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their investment managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's managers are detailed in the Appendix to this Statement. The managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights (where applicable).
- 2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- To target over the long-term a return on the investments which aims to improve the funding level of the Scheme such that it is sufficiently well funded to be run with minimal risk.
- To seek to preserve the security of member's benefits having regard to the risks associated with the target levels of return.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including (but not limited to) equities, bonds, cash, alternatives and annuity policies.
- 4.2. The Trustees monitor from time to time the Employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

- 6.1. The Trustees have considered the following risks to the Scheme with regard to its investment policy and the Scheme's liabilities, and have considered ways of managing and monitoring these risks as set out below.

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer covenant.

Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each manager, which contains a number of restrictions on how each manager may operate.
Governance risk	Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
Environmental, social and governance ("ESG") and climate risk	The Trustees have considered long-term financial risks to the Scheme and view ESG factors, as well as climate risks, to be potentially financially material and will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's in-house team assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (such as default risk, operational errors or fraud).

7. Expected return on investments

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position.

8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

- 9.1. The Trustees have set policies in relation to these matters. These policies are set out in the Appendix.

10. Policy on arrangements with the investment managers

Incentivising alignment with the Trustees' investment policies

- 10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, alongside how their policies are aligned with the Trustees' own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may consider using another manager for the mandate.
- 10.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.
- 10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated.

- 10.5. The investment managers' ESG policies are reviewed in the context of best industry practice and feedback may be provided to the managers as part of this process.

Incentivising assessments based on medium to long-term, financial and non-financial considerations

- 10.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter-term than climate change itself. The Trustees acknowledge this in their investment management arrangements.
- 10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically three to five years, is consistent with ensuring the manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter-term target, this is generally supplementary to a longer-term performance target. In the case of assets that are actively managed, the Trustees expect this longer-term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.8. The Trustees expect their investment managers to be voting (where relevant) and engaging on behalf of the Scheme's holdings and the Trustees monitor this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the managers in an effort to achieve any short-term targets.

Method and time horizon for assessing performance

- 10.9. The Trustees monitor the performance of their investment managers over medium to long-term periods that are consistent with the Trustees' investment aims, beliefs and constraints.
- 10.10. The Scheme currently invests solely in pooled funds. The investment managers are remunerated based on the assets they manage on behalf of the Scheme. As the funds grow, due to successful investment by the manager, they receive more in fees and, as values fall, they receive less in fees.
- 10.11. The Trustees believe that this fee structure enables the investment manager to focus on long-term performance without worrying about short-term dips in performance significantly affecting their revenue.
- 10.12. The Trustees ask the Scheme's investment consultant to assess if the investment management fees are in line with the market when a manager is selected. The appropriateness of the annual management charges are considered on an ongoing basis as part of the review of the Statement of Investment Principles and other monitoring activities.

Portfolio turnover costs

- 10.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as liability-driven investment ("LDI"), a higher

turnover of contracts (such as repurchase agreements) can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangements

- 10.15. For the pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.
- 10.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

- 11.1. This Statement was agreed by the Trustees and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made publicly available in line with the requirement to publish a copy of the Statement on a publicly accessible website.

Signed:.....

Date:.....

On behalf of the Provident Financial Staff Pension Scheme

Appendix 1: Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

1. The balance between different kinds of investments

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification. Please note, this excludes any additional voluntary contributions or annuity policies held by the Scheme.

Portfolio	Asset class	Allocation
Return-seeking portfolio		45%
	<i>Equities</i>	10%
	<i>Multi-asset credit ("MAC")</i>	15%
	<i>Asset-backed securities ("ABS")</i>	20%
Hedging portfolio		55%
	<i>Liability-driven investment ("LDI")</i>	40%
	<i>Buy & maintain ("B&M") credit</i>	15%
Liquidity		Not applicable
Total		100%

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with the strategic target and limiting the costs of rebalances.

Additional Voluntary Contributions (AVCs)

The Scheme's AVC providers are Aegon, Aviva, Royal London and Utmost Life and Pension.

2. Choosing investments

The Trustees have appointed the following investment managers to carry out the day-to-day investments of the Scheme:

- Legal & General (“L&G”)
- Barings
- Aegon Asset Management (“Aegon”)

The managers are authorised and regulated by the Financial Conduct Authority.

The benchmarks and objectives for each fund are given below.

Investment Manger	Fund	Benchmark	Objective
L&G	Developed Balanced Factor Equity Index Fund	SciBeta Developed Low-Carbon & ESG High-Factor Intensity Multi-Beta Maximum Deconcentration Index (GBP Hedged)	Track the return of the benchmark
	Bespoke Fund (LDI and collateral portfolio) ¹	Not applicable	Provide protection against changes in interest rates and inflation expectations, relative to a specified liability benchmark
	Bespoke Fund (B&M credit portfolio) ¹	Not applicable	Capture the credit and liquidity risk premium available in credit markets through investing in a diversified portfolio of bonds, whilst minimising defaults and downgrades
	Sterling Liquidity Fund	Sterling Overnight Index Average	Provide diversified exposure and a competitive return in relation to the benchmark
Barings	Global High Yield Credit Strategies Fund	Secured Overnight Financing Rate (SOFR) + 5.0% p.a.	Provide current income and, where appropriate, capital appreciation
Aegon	European ABS Fund	Bloomberg Barclays Capital Euro ABS Fixed and Floating Index (GBP Hedged)	Invest in ABS listed in euros, or converted to euros, distributed over different issuers, collaterals, sectors and countries.

¹ Funds do not have a formal performance benchmark.

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

3. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the strategic asset allocation, but alternative rebalancing approaches may be considered from time to time as appropriate.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially material considerations

The Trustees consider factors such as ESG issues (including, but not limited to, climate change) to have the potential to be financially material for the Scheme over the length of time during which the benefits provided by the Scheme for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement.

The Trustees have elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information and proposals, as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustees may request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustees may also take those factors into account as part of their investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustees will continue to monitor and assess ESG factors, alongside the risks and opportunities arising from them, as follows:

- The Trustees may obtain training on ESG considerations in order to understand fully how ESG factors, including climate change, could impact the Scheme and its investments.
- As part of the ongoing monitoring of the Scheme's investment managers, the Trustees may use ESG ratings information available within the pensions industry or as provided by its investment consultant in order to assess how the Scheme's managers take account of ESG issues.
- Through their investment consultant, the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, on an annual basis.

2. Non-financially material considerations

The Trustees do not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or the present and future quality of life of the members and beneficiaries (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

3. The exercise of voting rights

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including (where appropriate) engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance) through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the managers. Where possible and appropriate, the Trustees may engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

4. Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers, they provide their managers with a benchmark or objective that they expect the managers to either follow or outperform. The manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities (that is, that they apply to equity, credit and property instruments or holdings). The Trustees also recognise that ESG and climate-related issues are constantly evolving and, along with them, so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Employer's business. Through their consultation with the Employer when setting this Statement, the Trustees have made the Employer aware of their policy on ESG and climate-related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant, Barnett Waddingham LLP, does not provide asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest. Barnett Waddingham LLP is wholly owned by Howden UK&I Jersey Limited, which has business relationships with a wide range of organisations and their pension schemes. Barnett Waddingham LLP will explicitly notify any potential conflicts that they perceive have arisen in the advice they provide to the Scheme. Such relationships do not affect the advice or recommendations made by Barnett Waddingham LLP and they do not believe this compromises their independence.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustees believe they have managed the potential for conflicts of interest in the appointment of the managers and conflicts of interest between the Trustees/ manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees may consider investment managers' policies on engagement and how these policies have been implemented.