Statement of Investment Principles – The Heygate Group Pension & Life Assurance Scheme (September 2020)

Introduction

1 This document is the Statement of Investment Principles ('SIP') made by the Trustees of the Heygate Group Pension & Life Assurance Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustees intend to take into account HM Treasury's revised "Myners Principles" published in October 2008, as recommended by the Investment Governance group chaired by the Pensions Regulator.

3 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took written advice from the Scheme's Fiduciary Manager (the 'Fiduciary Manager', currently Towers Watson Limited) and consulted Heygates Limited (the 'Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

Scheme objectives

4 The Trustees have the following investment objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Company, the cost of current and future benefits which the Scheme provides

- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis

- To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under the points above.

Investment strategy

5 The Trustees has received advice from the Fiduciary Manager to determine an appropriate investment strategy for the Scheme. The Trustees have a desire to diversify its risk exposures and to manage its investments efficiently.

6 The investment strategy makes use of three key types of investments:

- using a range of instruments that provide a better match to changes in liability values

- a diversified range of return-seeking assets, including (but not limited to) equities, corporate bonds, property, insurance and commodities

- actively managed portfolios.

7 The Trustees have appointed an investment manager to manage the Scheme's assets on a discretionary basis and to provide investment advisory services to the Trustees (the "Fiduciary Manager"). The balance within and between these investments and the use of active management will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustees within its Fiduciary Management Agreement (the "Agreement") with the Trustees. In exercising investment discretion, the Fiduciary Manger is required to act in accordance with its obligations set out in the Agreement, including the guidelines and any investment restrictions set out therein and, in doing so, is expected to give effect so far as reasonably practical to the principles contained in this SIP. This ensures appropriate incentivisation and alignment of decision-making with the Trustees' overall objectives, strategy and policies. The Fiduciary Manager's discretion is subject to guidelines set by the Trustees. The Trustees may also from time-to-time take opportunities to purchase bulk annuity policies as appropriate within the context of the Scheme's investment strategy.

8 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

9 The Trustees will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.

10 The expected return of all the Scheme's investments will be monitored regularly and will be directly related to the Scheme's investment objective.

11 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the allocation of the Scheme's overall investments, where possible.

Investment managers

12 The Trustees have delegated investment manager selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustees in the FMA. Investments will be made by the Fiduciary Manager on behalf and in the name of the Trustees, directly in pooled vehicles.

13 The Trustees consider the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustees expect the Fiduciary Manager to ensure that the portfolio, in aggregate, is consistent with the policies set out in this statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). Where relevant to the mandate, the Trustees expect the Fiduciary Manager to:

- ensure that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustees' policies contained in the SIP;

14 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to the Fiduciary Manager who may sub-delegate this responsibility to third party investment managers. The Fiduciary Manager and such investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

15 The Trustees and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance

targets. However, the Fiduciary Manager may provide investment recommendations to third party investment managers appointed by the Trustee where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against a measurable objective for each investment manager, consistent with the achievement of the Scheme's long term objectives.

16 The Trustees expect the Fiduciary Manager to select pooled funds with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a fund's performance, the Trustees expect the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustees' position as a long-term investor. Consistent with this view, the Trustees do not expect that the Fiduciary Manager would disinvest from a selected fund based purely on short-term performance but recognise that this may happen within a short timeframe due to other factors such as a significant change in business structure or investment team. The Trustees adopt the same long-term focus as part of its ongoing oversight of the Fiduciary Manager.

17 For most of the Scheme's investments, the Trustees expect the Fiduciary Manager to select pooled funds with a medium to long-term time horizon, consistent with the Scheme. In particular areas, such as equity and credit, the Trustees expect the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustees note that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustees expect that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

18 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Scheme's investment managers. However, the Trustees and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of financially material factors including Environmental, Social and Governance (ESG) issues.

19 Consequently the Trustees (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out in 21 to 23 below) seek to be an active long-term investor. The Trustees' focus is explicitly on financially material factors. The Trustees' policy at this time is not to take into account non-financial matters. The Trustees' policy at this time is to not seek or reflect members' views on ESG.

20 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on a periodic basis. The Trustees expect the Fiduciary Manager to assess the alignment of the each investment managers' approach to sustainable investment (including engagement) with its own before making an investment appointment of selection on the Scheme's behalf. The Trustees expect the Fiduciary Manager to engage with the Scheme's appointed investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including the capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings. In addition, the Trustees expect the Fiduciary Manger to review the investment managers' approach to sustainable investment (including engagement) on a periodic basis and engage with the investment managers to encourage future alignment as appropriate. The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degrees to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.

21 The Fiduciary Manager encourages and expects the Scheme's appointed investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

22 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to its investment managers. The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement.

23 The Trustees expect the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision-making process, both at the initial appointment of an asset manager and on an ongoing basis. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services, which includes consideration of long-term factors and engagement. The Trustees expect the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees expect the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Additional voluntary contributions (AVCs)

24 The Scheme provides a facility for members to pay AVCs to enhance their benefits at retirement.

25 The Trustees have made available a suitable mix of arrangements to provide for differing member requirements:

– A cash deposit account with the Nationwide Building Society

– A money purchase insurance policy with Norwich Union Life Insurance Society

26 The Trustees are of the opinion that the range of facilities outlined above are suitable to provide for the requirements of Scheme members. It is also the view of the Trustees that the facilities on offer are acceptable in terms of breadth of choice and performance. The Trustees will review the AVC's from time to time to ensure that they remain suitable for member's needs.

Other matters

27 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

28 The Trustees recognises a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager:

Solvency risk and mismatch risk:

– are measured through a qualitative and quantitative assessment of the expected development of the Scheme's funding level.

- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

Investment Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Scheme's assets to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the investment managers' investment process.

Custodial risk:

- is addressed through investment in pooled vehicles, with the pooled fund managers being responsible for selection of suitable custodians. In addition the Scheme's global custodian is responsible for sweeping un-invested cash balances into pooled cash funds, which are managed by a pooled fund manager who, in line with the Scheme's other pooled fund managers, is responsible for selecting the custodian for the cash funds.

Liquidity risk:

- is measured by the level of cashflow required by the Scheme over a specified period.
- is managed by the Scheme's administrators and the Fiduciary Manager assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme (through currency hedging carried out by some of the Scheme's investment managers) which reduces the impact of exchange rate movements on the Scheme's asset value.

Interest rate and inflation risk:

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives via pooled vehicles) that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing management and consideration of risks (such as derivatives risk) of this portfolio is undertaken by the Fiduciary Manager.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments.

- is managed through an agreed contribution and funding schedule.

Derivatives risk

- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.

- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustees for the backing assets and the investment managers' asset management capabilities.

- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.

- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustees take appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.

- The Trustees are also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of the Fiduciary Manager, the Trustees monitor these positions on a regular basis.

Agreed by the Trustees of the Heygate Group Pension & Life Assurance Scheme as at 9 September 2020