

Hickson UK Group Pension Scheme

Statement of Investment Principles – September 2020 (replaces September 2019)

1. Introduction

The Trustee Directors (“Trustees”) of the Hickson UK Group 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 and associated Regulations. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. A separate Statement of Investment Arrangements (“SIA”) detailing the specifics of the Scheme’s investment arrangements has also been drawn up and is available on request.

In preparing this Statement the Trustees have consulted the Sponsoring Company.

2. Process For Choosing Investments

The Trustees have considered their objectives for investing the Scheme assets. They have considered their Investment and Funding objectives together to ensure that the two are compatible.

They have then constructed a portfolio of investments consistent with these objectives and which they hope will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements they are prepared to manage).

In doing so the Trustees take into account what they believe to be financially material considerations, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a potential impact on the income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme over the Trustees’ investment time horizon. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of Mercer Limited 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).

3. Investment Objectives

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 Scheme can meet its obligations to the beneficiaries of the Scheme.*
- *To pay due regard to the interest of the Sponsoring Company on the size and incidence of contribution payments.*

These are ongoing commitments. The Trustees have not adopted a specific time horizon for securing all benefits (e.g. by eventual transfer of remaining obligations to an insurance company) but given the long term nature of the benefits anticipate investing for a period that could exceed ten years.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is set out below. The Trustees consider these to be financially material considerations over the Trustees' investment time horizon:

The main risk is of the Scheme winding-up with insufficient assets to secure accrued liabilities in full with an insurance company, or that the Scheme does not have sufficient access to liquid assets to meet liability payment as they fall due.

The Trustees take investment risk with a view to generating additional return and hence to grow the Scheme's assets relative to liabilities, but recognise in so doing the risk that through adverse experience, the assets may fall in value relative to the liabilities.

The primary investment risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities. The key strategic investment risks inherent in the current investment strategy are as follows:

- Equity (and other) market risk (uncertainty over the return that will be achieved on equities and other "risk" assets including a) the risk that returns fall short of assumed returns and b) the risk of more substantial losses);
- Interest rate risk (the risk that changes in the value of the assets do not move in line with changes in the value placed on the Scheme's liabilities in response to changes in interest rates);
- Inflation risk (similar to interest rate risk but concerning inflation);
- Credit risk (the risk that payments due to corporate bond investors are not made in full);
- Manager risk (the risk that individually appointed investment managers do not perform in line with the Trustees' expectations). Ongoing monitoring is conducted to manage and mitigate the potential impact of this.

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 policy in place results in an adequately diversified portfolio.

Considerations specific to Environmental, Social and Governance issues are addressed in section 11.

The Trustees acknowledge the interest rate and inflation risks referred to above. To address these risks, a liability driven investment ("LDI") framework has been developed which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The Trustees recognise that the target LDI portfolio will not produce a perfect match for the liability values even on a pro-rata basis. Furthermore, the Trustees acknowledge that there are different measures for calculating the liabilities that may not be perfectly matched by the LDI assets held.

There is currency risk inherent in investment in overseas markets. The Trustee Directors have considered this risk in relation to overseas equities and agreed to hedge a proportion of the Scheme's developed overseas equity currency exposure. Other currency risks, related to overseas exposure via the Scheme's diversified growth mandates, is taken into consideration by the Scheme's investment managers.

In relation to active management, there is a risk that the day to day management of the assets will not achieve the performance expected by the Trustees net of fees. They recognise that the use of an active manager involves such a risk, and invest in a combination of active and passive investments accordingly.

The Trustees manage the main investment risks through the investment strategy set out in Section 6 and review the appropriateness of this strategy on a regular basis taking into account funding and covenant considerations. Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk and return profile remains appropriate.

The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

Safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).

5. Portfolio Construction

The Trustees have adopted the following principles, subject to overall objectives and the Trust Deed and Rules.

- There is a role for both active and passive management. **Passive management** involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. **Active management** involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both the Trustees aim to take advantage of active management where they believe it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.
- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments.
- **Specialist managers** are preferred over generalists because of the potential to access a higher level of expertise.
- At the total Scheme level investments should be broadly **diversified** to ensure there is not a concentration of exposure to any one issuer, to the extent that this is not protected (e.g. by collateral) and excluding UK Government debt. Appropriate diversification between markets will also be ensured.
- In line with regulatory requirements, investment in **derivatives** is allowed in principle for efficient portfolio management but they are not permitted to be

used for the purpose of speculation. Where investing in derivatives, the Trustees will seek to ensure exposures are at levels such that settlement of any losses should not lead to unintended disruption of other assets held by the Scheme. Investment may be made in securities that are not traded on **regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets. The Trustees will allow investment in Diversified Growth Funds and property as part of a diversified strategy.

- The Trustees will limit percentage exposure to investment in illiquid assets (such as property) so as not to jeopardise the ability to realise cash for the ongoing management of the Scheme.
- The Scheme will not directly invest in securities issued by the Sponsoring Company, or any of its associated companies.
- The Trustees (or any fund manager to whom any discretion has been delegated by the Trustees under section 34 of the 1995 Act) will not borrow directly, except to cover short term liquidity requirements. However, the Trustees recognise that there are circumstances where borrowing may take place indirectly (i.e. other than by the Trustees or any fund manager to whom any discretion has been delegated by the Trustees under section 34 of the 1995 Act) under unit trusts (or similar arrangements). The Trustees will ensure that any such borrowing is consistent with the overall risk and return objectives of the Scheme.

6. Investment Strategy

The target strategic allocation is shown below. Actual allocations will deviate over the short term due to relative market movements.

Asset Class	Current Benchmark (%)
Equities*	17.5
DGF	7.5
Growth Portfolio	25.0
Matching Portfolio	75.0
LDI	35.0
Corporate Bonds	40.0
Total Scheme	100.0

*Approximately 40% of Developed Overseas Equity exposure is hedged back to Sterling

The Trustees have designed the matching portfolio to target a hedge ratio within a range of 60%-80% of total liabilities measured on a "gilts flat" basis. The LDI funds that the Scheme invests in make use of gearing to achieve the required levels of hedging. The Trustees will monitor the level of gearing periodically. Further detail may be found in the SIA.

Consistent with the Trustees' funding and investment objectives, the Trustees' longer term policy is to reduce exposure to growth assets over time. The Trustees will consider the appropriateness of the investment strategy periodically.

7. Day-to-Day Management of the Assets

The Trustees delegate the day to day management of the assets, including selection, retention and realisation, to professional investment managers in accordance with Section 5 and detailed in the Summary of Investment Arrangements document. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which the appointed investment managers may operate.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers. They do so via regular reports and presentations from the appointed managers with the assistance of the Scheme's appointed investment advisor. Any adjustment would be done with the aim of ensuring consistency with this Statement.

8. Expected Return

The return earned on the Scheme's investments is dependent on the markets in which the Scheme invests and the proportions held in them. Over the long term, gilt returns are dependent on prevailing market yields (which at the date of this Statement are trading in the region of around 1.3% to 1.6% p.a. for medium to long dated gilts). Based on the current investment strategy we believe this is consistent with delivering a long term expected return of c1.3% in excess of gilts. This is in excess of the level of return adopted for ongoing valuation purposes using a more prudent (rather than best estimate) approach. Over the short term performance may deviate significantly from the long term expectations. The Trustees will reassess performance prospects periodically.

9. Additional Voluntary Contributions ("AVCs")

The Trustees review the Scheme's AVC arrangements from time to time. Current holdings are summarised in the SIA.

10. Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement. In particular the Trustees' policy for portfolio construction ensures sufficient assets are held in readily realisable assets.

Within individual mandates, the investment managers have discretion over the timing of investment decisions and in considerations relating to the liquidity of those investments subject to the relevant appointment documentation and pooled fund prospectuses.

11. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the

time horizon consistent with their investment objectives and increasingly may require explicit consideration.

The Trustees have delegated the day-to-day management of the assets to investment managers, including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including 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 practice, including the UK Corporate Governance Code and UK Stewardship Code. . This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. The Trustees engage with existing investment managers on these issues through (amongst other things) regular meetings and periodic correspondence and will monitor investment manager engagement activity (such as voting) at least annually. The Trustees will consider ESG factors as part of the selection of any new investment managers or annuity providers based on information and advice provided by their investment advisers. The relative importance of these factors compared to other factors will depend on the asset class being considered.

As part of the Trustees' ongoing review and retention of its existing investment managers they will review how ESG, climate change and stewardship are integrated within the investment managers' investment processes and in the monitoring process. The Trustees will review the ESG credentials of their managers usually on a quarterly basis using the investment reports provided by their investment advisors which are expected to include an assessment of each manager; and via periodical presentations to the Trustees. The Trustees will challenge managers who they believe are taking insufficient account of ESG considerations in implementing their mandates.

The Trustees will not consider the ESG policies of existing annuity providers and AVC providers as these contracts are a small proportion of total assets.

12. Non-financial matters

Non-financial matters are not taken into account when determining investment policy. Members' views are not sought. The Trustees would review this policy in response to significant member demand.

13. Investment Manager Arrangements

The Trustees aim to have in place investment manager arrangements that are consistent with the Scheme's overall long term objectives and investment principles. These manager arrangements variously comprise such things as contractual terms with managers, the associated fee structures and accountability measures (eg performance and other reporting). Under these arrangements, various measures are in place to incentivise the asset manager to align its investment strategy and decisions with the Trustees' policies mentioned throughout the SIP. The Trustees monitor manager performance and performance prospects against targets that are consistent with these objectives and principles accordingly. The ability to replace a failing manager (and hence deprive the manager of fee income) incentivises each manager to achieve these targets. The following paragraphs set out the Trustees' policy in more detail.

Aligning Investment Manager Appointments with the Trustees' Investment Strategy, including incentivisation of a suitably medium to long term focus, and duration of appointments:

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

The Trustees seek expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

The Trustees invest in multi-investor pooled investment vehicles and accept that they have little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustees' own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice.

For each appointment retention is dependent upon the Trustees having ongoing confidence that the investment manager will achieve its investment objective. The Trustees make this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Replacing a manager will deprive that manager of fee income. Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees' policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. Given the Trustees' relatively long term focus, which is reflected in investment manager objectives, this also incentivises investment managers to take a suitably long term view when making decision and assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Performance Assessment & Fees

The Trustees' method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services is in line with the trustees' policies mentioned throughout the SIP. This is on the basis that the method and time horizon are designed with the Scheme's overall long term objectives, policies and investment principles in mind.

The Trustees receive reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports (typically provided on a quarterly basis) and presentations from the investment managers.

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more benchmarks and targets chosen to reflect the investment manager's role in achieving the Trustees' overall objectives. Returns are considered net of fees and ongoing transaction costs.

As well as assessing investment returns the Trustees will consider a range of other factors, with the assistance of their investment adviser, when assessing investment managers, which may include:

- Personnel and business change
- Portfolio characteristics (including risk and compatibility with objectives) and turnover
- Voting and engagement activity
- Service standards
- The adviser's assessment of ongoing prospects based on their research ratings

The majority of investment managers are typically remunerated by way of a fee calculated as a percentage of assets under management. For liability hedging a fee is payable calculated as a percentage of the hedged exposure. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive the associated fee. The Trustees will consider any performance related fees on a case by case basis and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Portfolio turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate:

- a. The Trustees have not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees will seek explicit reporting on ongoing costs and turnover for all appointed managers.. Appropriate levels of turnover will vary by mandate and the Trustees do not specify explicit targets but will investigate if turnover levels appear unduly high.
- b. The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via their investment consultant.

14. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually. The Trustees will periodically check that the investment managers have given effect to the investment principles in this Statement and SIA where relevant, and so far as reasonably practicable

15. 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. 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.

Nicholas Carter

Signed: 25/09/2020

Alison Creasy, For Capital Cranfield
Pension Trustees Limited

Signed: 25/9/2020

For and on behalf of the Trustees of the Hickson UK Group Pension Scheme