

Slack & Parr Limited Group Pension Scheme

Statement of Investment Principles

November 2023

Statement of Investment Principles

The Trustee of the Slack & Parr Limited Group Pension Scheme (“the Scheme”) has prepared this Statement of Investment Principles (“the SIP”) in accordance with the Pensions Act 1995 (“the Act”) as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as amended, as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering defined benefit liabilities.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing the SIP, the Trustee has:

- Obtained and considered the written advice from the Scheme’s investment consultant, who is suitably qualified through ability and experience and has appropriate knowledge; and
- Consulted the sponsoring Employer.

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme’s liabilities and strength of the covenant when setting the investment strategy and policies.

The Trustee relies on the investment manager for the day-to-day management of the Scheme’s assets but retains control over all decisions made about the investments in which the Scheme invests.

Where investment managers have delegated discretion under Section 34 of the Act, they will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The investment manager is authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulations of the investment manager falls under the Financial Conduct Authority (FCA). Specific products in which the Scheme invests may also be regulated by the Prudential Regulatory Authority (PRA). For any non - UK investment manager, authorisation and regulation are undertaken by the home state regulator.

The investment manager will ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

The Trustee relies on the investment manager to appoint appropriate custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the investment manager to appoint appropriate administrators or registrars for pooled funds who are responsible for keeping records of the Scheme’s entitlement within the pooled funds.

Investment objective and strategy

Investment objective

The Trustee has set the following objectives:

- To implement an investment strategy targeting a return aligned with the actuarial funding position of the Scheme. The risk within the strategy will be influenced by the strength of the covenant, future de-risking policy and the longer-term aspirational objective of the Scheme;
- To implement a liability hedge that mitigates to a material extent the funding ratio risk arising from changes in the valuation of the Scheme's liabilities;
- To identify and acquire suitable assets to achieve the above objectives whilst controlling funding volatility and the long-term costs of the Scheme;
- To maintain sufficient liquidity to enable benefit payments to be met; and
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio that consists of government bonds, corporate bonds and liquidity (cash).

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in the long-term interest rates and inflation) including government bonds and corporate bonds;
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments;
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage; and
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of the Scheme's assets can be held in investments related to the sponsoring Employer;
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is used for risk mitigation purposes (e.g. for very short time period during an asset transition);
- Investment in derivatives instruments may only be made to contribute to risk reduction or facilitate efficient portfolio management; and
- Stock lending is permitted at the discretion of the investment manager in line with the overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Covenant risk;
- Liability risk, including: interest rate risk, inflation risk and longevity risk;
- Asset risk: currency risk, credit risk, interest rate risk and inflation risk;
- Strategy risk: asset allocation risk and liquidity risk; and
- Implementation risks: investment manager risk, fund risk, counterparty risk and operational risk.

These risks are measured and managed by the Trustee as follow:

- The Trustee has set an investment strategy that adheres to the policies outlined in this SIP;
- The Trustee receives advice from the investment consultant that may include risk modelling and quantification of the strategy (e.g. Value at Risk) whenever changes are considered;
- The Trustee undertakes periodic monitoring of the Scheme's investments supplemented by information provided by both the investment manager and investment consultant, as appropriate;
- The Trustee periodically assesses the strength of the covenant and uses external expertise where appropriate;
- The Trustee delegates the day-to-day management of some of these risks to the investment manager. This includes any voting rights;
- The Trustee considers the role and approach of investment managers to manage risk ahead of selecting them. They also seek advice from the investment consultant on such appointments;
- The Trustee utilises pooled funds with underlying custodian relationships to ensure the Scheme's assets are held securely; and
- The Trustee assesses whether appropriate controls are put in place by themselves, the investment consultant and the investment manager.

Realising investments

The Trustee recognises that assets may need to be realised to meet the Scheme's obligations at any time.

The Trustee will ensure that an appropriate amount of readily realisable assets is held at all times, and this will be part of the assessment for incorporating any changes within the strategy.

The Trustee will, from time to time, agree a policy for sourcing liquidity from the investments as required. Further details are set out in the Appendix.

Range of assets

The Trustee considers that the strategic asset allocation and the investment funds selected as detailed in the Appendix will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

Details of each specific fund mandate are set out in agreements and pooled fund documentation provided by the investment manager. The amount allocated to any individual category or security will be influenced by the overall benchmark and objectives.

The Trustee will ensure that the Scheme's assets are invested in regulated markets to maximise their security. The investment manager is incentivised to perform in line with the agreed objectives as maintaining the mandate and associated fees received are contingent on them doing so.

The Trustee encourages the investment manager to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with the management of the underlying issuers of corporate debt and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help investment managers to mitigate risk and improve long-term returns.

Investment Manager Arrangements

Review process

Investment manager appointments are not expected to be short-term. The Trustee will review the appointment of the investment manager in accordance with their responsibilities. Such reviews will include analysis of investment performance, internal processes and an assessment of the diversification of the assets held within each strategy. The review will include consideration of the continued appropriateness of the mandate given to the investment manager within the framework of the Trustee's investment policies.

Any significant changes relating to the criteria below that the investment consultant is aware of will be highlighted, which may lead to a change in the investment consultant's rating for a particular fund or mandate. These ratings help to determine an investment manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of the investment funds. The investment manager may also be invited to present at trustee meetings.

Investment manager remuneration is considered as part of the manager selection process. It is also monitored periodically with the help of the investment consultant to ensure alignment with the Trustee's policies and with a fee level deemed by the investment consultant to be appropriate for the particular asset class and fund type.

Selection / deselection criteria

The criteria by which the Trustee will select (or deselect) the investment manager and funds include:

- Ownership of the business;
- Leadership/team managing the strategy and client service;
- Key features of the investment and the role it performs in a portfolio;
- Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Current and historical asset allocation of the fund, and consideration that the fund in question is managed in line with its stated investment objectives;
- Past performance and track record;
- The underlying cost structure of the strategy; and
- Consistency and extent to which ESG and sustainability analysis is incorporated into the process of selecting underlying investments.

Portfolio turnover

The Trustee requires the investment manager to report on portfolio turnover at least annually, including details of the transaction costs, how turnover compares with expectations and the reasons for any divergence.

Environmental, Social and Governance ("ESG") / Sustainability

The Trustee has considered the approach to ESG and sustainability and believes there can be financially material risks resulting from both. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the investment manager. The Trustee requires the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investment, recognising that

how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the investment consultant on the extent to which their views on ESG and climate change risks may be taken into account in future fund selection. Furthermore, the Trustee, with the assistance of the investment consultant, will monitor periodically the processes and operational behaviour of the investment manager, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this SIP.

As the Scheme invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the security issuers in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment manager and encourages them to engage with the security issuers whenever it is practical to do so on financially material matters such as strategy, capital structure, conflict of interest policies, risk, social and environmental impact and corporate governance as part of their decision-making process. The Trustee requires the investment manager to report on significant votes made on behalf of the Trustee.

Should the Trustee become aware that the investment manager's engagement and voting practices are inadequate or that the results of such engagement are mis-aligned with the Trustee's expectations, the Trustee will engage with the investment manager to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of misalignment remains unsatisfactory, the Trustee may consider terminating the relationship with the investment manager or specific fund affected.

Further, the Trustee's policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiary of the Scheme, although they have neither sought nor taken into account the beneficiary's views on risks including (but not limited to) ethical, social and environmental issues. The Trustee will review this policy if any beneficiary views are raised in future.

Signed on behalf of the Trustee:

For and on behalf of the Trustee of the Slack & Parr Limited Group Pension Scheme

Appendix – Investment strategy

The strategic asset allocation and fund selection are summarised in the table below.

Asset class	Investment manager	Fund name	Rationale for investing**	Strategic allocation (%)
Government bonds	LGIM*	Over 15 Year Gilts Index	Provide exposure to changes in real and fixed interest rates with the aim of liability matching	34.0
Corporate bonds	LGIM	Investment Grade Corporate Bond - Over 15 Year – Index	Provide exposure to changes in fixed interest rates with the aim of liability matching	10.0
Government bonds	LGIM	5 to 15 Year Gilts Index	Provide exposure to changes in real and fixed interest rates with the aim of liability matching	6.0
Corporate bonds	LGIM	Investment Grade Corporate Bond All Stocks Index	Provide exposure to changes in fixed interest rates with the aim of liability matching	5.0
Government bonds	LGIM	5 to 15 Year Index-Linked Gilts Index	Provide exposure to changes in real and fixed interest rates with the aim of liability matching	23.0
Government bonds	LGIM	Over 5 Year Index-Linked Gilts Index	Provide exposure to changes in real and fixed interest rates with the aim of liability matching	17.0
Cash	LGIM	Sterling Liquidity	Provide readily available cash	5.0
Total				100.0

*Legal & General Investment Management

**The government and corporate bond funds each aim to track the performance of the respective indices to within no wider than +/-0.5% per annum. The Sterling Liquidity Fund aims to deliver performance in line with overnight money-market interest rates.

Rebalancing investments

The Scheme does not have any prescribed rebalancing arrangements in place. The Trustee will review the allocation periodically and if required will instruct the investment manager to rebalance towards the strategic allocation.

Realising investments

When the available balance in the LGIM Cash Fund is insufficient, future disinvestments should come from an equal split across the bond portfolio. This allocation should be reviewed periodically to avoid the Scheme becoming misaligned with the strategy and the liability hedge developing a mismatch over time.

Additional voluntary contributions

The Scheme provided a facility for members to pay AVCs to enhance their benefits at retirement. As there are no longer any members contributing to the AVC arrangements, this facility no longer exists.

All AVCs are invested in a Royal London Crest Secure policy designed to provide annual bonuses on individual member funds. The Trustee reviews the suitability of the AVC provider on a periodic basis.