Statement of Investment Principles

For the Trustee of the Shaw Group UK 1997 Pension Scheme

March 2024

01 **Introduction**

Purpose

This document constitutes the Statement of Investment Principles ("the SIP") required under *Section 35 of the Pensions Act 1995* for the Shaw Group UK 1997 Pension Scheme ("the Scheme"). It describes the investment policy being pursued by the Trustee of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of *Occupational Pension Schemes (Investment) Regulations 2005*.

Scheme details

The exclusive purpose of the Scheme is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension scheme, registered under Chapter 2 of Part 4 of the Finance Act 2004. The Scheme entered a buy-in arrangement with Legal and General Assurance Society ("LGAS") in August 2023, which is held alongside the Scheme's other assets.

Advice and consultation

Before preparing this Statement, the Trustee has sought advice from the Scheme's Investment Consultant, XPS Investment Limited. The Trustee has also consulted the Principal Employer. The Trustee will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Scheme's Trust Deed and Rules set out the investment powers of the Trustee. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restricts the Trustee's investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy but delegates responsibility for the selection of the specific securities and any financial instruments in which the Scheme invests to the investment managers.

02 Strategic investment policy and objectives

Choosing investments

The Trustee relies on professional investment managers for the day-to-day management of the Scheme's assets. However, the Trustee retains control over some investments. In particular, the Trustee makes decisions about pooled investment vehicles in which the Scheme invests and any AVC investment vehicles.

The Trustee's policy is to regularly review the investments over which they retain control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the investment managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The Trustee's primary investment objective is to seek to be able to meet all current and future liabilities from the assets of the Scheme as and when they fall due.

Since the Scheme has entered a buy-in arrangement with LGAS, the Trustee no longer aims to grow the assets to ensure the Scheme is able to meet benefit payments as they fall due. Instead, the income required to meet benefit payments is expected through the bulk annuity buy-in policy.

Expected returns

The Scheme has entered into a buy-in policy with an insurer covering all member benefits and it is therefore not expecting to invest to generate additional returns. Surplus assets are invested for future operational use and to meet expenses as required.

Investment Policy

The Scheme entered a buy-in policy with LGAS and consequently all members benefits are expected to be met by payments to the Scheme from LGAS. The Scheme still holds assets as part of the investment strategy and is invested in accordance with the Trustee's objectives.

The specific Investment Manager mandates against which performance of the assets will be assessed are specified in Appendix II.

Range of assets

The Trustee considers that the combination of the investment policy detailed in Appendix I and the specific manager mandates detailed in Appendix II will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives. In setting out the mandates for the investment managers, the Trustee will ensure that the Scheme is exposed to a suitable range of risks, avoiding an undue concentration of assets.

Based on the structure set out in the Appendices, the Trustee considers the arrangements with the investment managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements, and pooled fund documentation with each investment manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the investment managers' tactical asset allocation preferences at any time, within any scope given to them.

The Trustee will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

03 Responsible investment

Environmental, Social and Corporate Governance

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") factors and believes there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustee requires the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognizing 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 its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Consultant, will monitor the processes and operational behavior of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

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

As most of the Scheme's assets are invested in a buy-in policy, the Trustee acknowledges that much of the ESG risk management is delegated to LGAS.

Oversight of investment manager approach

In order to ensure sufficient oversight of the engagement and voting practices of its managers, the Trustee may periodically meet with its investment managers to discuss engagement which has taken place. The Trustee will also expect its investment adviser to engage with the managers from time to time as needed and report back to the Trustee on the stewardship credentials of its managers. The Trustee will then discuss the findings with the investment adviser, in the context of its own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustee recognises the Code as an indication of a manager's compliance with best practice stewardship standards.

Voting rights

As the Scheme invests in pooled funds and a buy-in policy, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers (and insurance provider).

The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the investment managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an investment manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee's expectations and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that investment manager.

04 Risk measurement and management

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme including but not limited to:

> Interest rate risk - The risk that liabilities will increase because of a fall in interest rates is measured by reference to the percentage of liabilities that are interest rate hedged. This risk is addressed by holding a buy-in policy with LGAS which matches the cashflows (and therefore interest rate risk) of the liabilities.

> Inflation risk - The risk that liabilities will increase because of an increase in the expected rate of inflation is measured by reference to the percentage of liabilities that are inflation hedged. This risk is managed by holding a buy-in policy with LGAS which matches the cashflows (and therefore inflation risk) of the liabilities.

> Diversification risk - The risk that the Scheme is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund. Whilst the Trustee is primarily invested in one asset, the buy-in policy with LGAS, it is comfortable with this level of diversification given the security of paying member benefits which the buy-in policy provides.

> Liquidity risk - The risk that liabilities cannot be met because of a lack of liquidity in the invested assets is managed through holding the buy-in policy, given that it is expected to meet the liability cashflows. The Employer is expected to meet expense requirements. The Trustee does not therefore expect additional liquidity demands on the Scheme's invested assets.

> Underperformance risk - The risk of pooled funds failing to achieve their target returns is measured by reference to how much discretion the manager of each pooled fund has relative to the benchmark and by regularly reviewing the asset allocation against the target. This risk is not applicable for the buy-in policy as liability cashflows are guaranteed, subject to the insolvency of the insurance provider. Outside of this policy, this risk is addressed through investing in a low volatility cash fund with a strong track record of performing in line with its target, which may be used to meet expense requirements.

> Market risk - The risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets. The payments from the buy-in policy with LGAS are not linked to market movements; the surplus assets are held in secure assets with the intention to keep market exposure low.

> Organisational risk - The risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses. This risk is addressed through regular monitoring of the investment manager(s), the Investment Adviser, and the buy-in policy provider.

> Sponsor risk - The risk that the Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Employer covenant. This risk is managed by holding the buy-in policy with LGAS as liability cashflows are secured without the requirement for additional input from the Employer.

> Currency risk - The risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme's invested assets to unhedged currency risk. This risk is managed by investing in assets which primarily invest in sterling assets, and only taking currency risk where it increases the level of diversification such that the benefit gained outweighs the increase in risk taken. The risk is not applicable for the buy-in policy given the Trustee has no discretion over the investments of the insurer.

> Credit risk – The risk that a bond issuer will default on its obligations is measured by reference to the exposure of pooled funds to corporate or emerging market/high yield debt. This risk is managed by investing in pooled funds with a diversified list of credit holdings and high-quality bond issuers. The risk is not applicable for the buy-in policy given the Trustee has no discretion over the investments of the insurer.

- Counterparty risk - The risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties. This risk is managed by entering a buy-in arrangement with LGAS, who have their own counterparty arrangements, and ensuring that the investment manager(s) have appropriate counterparties in place for the surplus assets.

05 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustee will monitor closely the extent to which any assets not readily realisable are held by the investment managers and will limit such assets to a level where they are not expected to prejudice the proper operation of the Scheme.

The Trustee has considered how easily investments can be realised for the types of assets in which the Scheme is currently invested. As such, the Trustee believes that the Scheme currently holds an acceptable level of readily realisable assets. The Trustee will also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future.

Investment restrictions

The Trustee has no explicit investment restrictions in place.

The investment managers impose internal restrictions that are consistent with their house style.

06 Liquidity and cashflow management policy

Liquidity

The Scheme's assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Despite this, the Trustee may also hold cash in the Scheme bank account from time to time to help meet cashflow requirements.

The Trustee does not expect expenses and cashflow to be required to be paid from the Scheme's invested assets. However, the residual assets left over following the buy-in policy are invested to help provide additional liquid funds to the Trustee as required.

07 Investment manager arrangements and fee structure

Delegation to investment manager(s)

The Trustee will receive regular updates from the Investment Consultant as needed, to determine an investment manager's ongoing role in implementing the investment strategy for the surplus assets invested outside of the buy-in policy. If there are concerns, the Trustee may carry out a more in-depth review of a particular investment manager.

If the Trustee is not satisfied with the performance of one or more pooled funds, they will ask the investment manager to justify any underperformance. If the investment manager is not able to offer a satisfactory explanation which gives comfort that the underperformance will be reversed, the Trustee will ask the Investment Consultant to advise on an alternative pooled fund that is likely to meet the investment objectives.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Appointments of investment managers are expected to be long-term, but the Trustee will review the appointment of the investment managers in accordance with their responsibilities. The buy-in policy that the Scheme entered is considered irreversible.

Performance objectives

Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as investment managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustee encourages investment managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

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.

As covered in more detail in this document, the Trustee also requires the investment managers to take ESG factors and climate change risks into consideration within their decision making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of investment managers, accordingly.

The buy-in policy that the Scheme has entered does not have any investment performance objectives. Instead, the purpose of the policy is to guarantee member benefits for the Scheme into the future.

Selection / deselection criteria

As advised by the Investment Consultant, the criteria by which the Trustee will select (or deselect) the investment managers include:

> Parent – Ownership of the business.

> People – Leadership/team managing the strategy and client service.

> Product – Key features of the investment and the role it performs in a portfolio.

> Process – Philosophy and approach to selecting underlying investments including operational risk management and systems.

> Positioning – Current and historical asset allocation.

> Performance – Past performance and track record.

- Pricing – The underlying cost structure of the strategy.
- ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An investment manager may be replaced, for example (but not exclusively), for one or more of the following:

- The investment manager fails to meet the performance objectives set out in Appendix II.
- The Trustee believes that the investment manager is not capable of achieving the performance objectives in the future.
- The investment manager fails to comply with this Statement.

There is no selection/deselection criteria for the buy-in policy as the policy is irreversible.

Investment managers' fee structure

The investment managers are remunerated by receiving a percentage of the Scheme's assets under management and, in some cases, through the application of a flat fee. Performance related fees may be payable on certain investments. Details of the fee arrangements are set out in Appendix II. It is felt that this method of remuneration provides appropriate incentives for the investment managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustee.

LGAS will not be remunerated on an ongoing basis for holding the buy-in policy for the Scheme. Instead, LGAS were remunerated via the initial buy-in premium that the Scheme paid to enter the arrangement.

Portfolio turnover

The Trustee may elect to commission a report on actual portfolio turnover of the funds held by investment managers. In this report the Trustee may review how turnover compares with the range that the investment manager expects and the reasons for any divergence.

Investment Consultant's fee structure

The Investment Consultant is remunerated for work completed on a fixed fee basis, a time-cost basis or via a project fee. It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustee in undertaking their responsibilities.

08 Compliance Statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the Trustee of a pension scheme, they must have consulted with the Principal Employer and obtained and considered the written advice of a person who is reasonably believed by it to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes.

Trustee declaration

The Trustee confirms that this Statement of Investment Principles reflects the investment strategy they have decided to implement. The Trustee acknowledges that it is their responsibility, with guidance from the Investment Consultant, to ensure the assets of the Scheme are invested in accordance with these Principles.

Appendix I
Investment Strategy

Overall strategy

The majority of the Scheme's assets are invested in a buy-in policy with LGAS. This insurance policy exactly covers the liabilities of the Scheme. The remaining surplus assets are held in the LGIM Sterling Liquidity Fund.

Appendix II
Fund objectives and charges

LGIM Sterling Liquidity Fund

Benchmark	SONIA
Objective	Provide diversified exposure and a competitive return in relation to SONIA
Fees	AMC: *redacted from public version*
	OCF: *redacted from public version*
Execution cost	Bid/Offer spread 0.00%

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