Statement of Investment Principles

For the Trustee of the Shaw (S&W) Pension Plan

July 2021

01 Introduction

Purpose

This document constitutes the Statement of Investment Principles ("the SIP") required under *Section 35 of the Pensions Act 1995* for the defined benefit section of the Shaw (S&W) Pension Plan ("the Plan"). It describes the investment policy being pursued by the Trustee of the Plan 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 Plans (Investment) Regulations 2005*.

Plan details

The exclusive purpose of the Plan is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension plan, registered under Chapter 2 of Part 4 of the Finance Act 2004

Advice and consultation

Before preparing this Statement, the Trustee has sought advice from the Plan'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 Plan'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 set general investment policy but delegate responsibility for the selection of the specific securities and any financial instruments in which the Plan 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 Plan's assets. However, the Trustee retains control over some investments. In particular, the Trustee make decisions about pooled investment vehicles in which the Plan 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 Plan as and when they fall due.

> Having regard to the primary investment objective and subject to the strength of the employer covenant, the Trustee will seek to achieve a level of investment return which is consistent with that assumed in the recovery plan (or discount rates) from the most recent actuarial valuation.

> The Trustee will seek to use the skills of investment managers to reduce volatility and to increase diversity across asset classes where prudent to do so given the other investment objectives.

> The Trustee will seek to use the skills of investment managers and hedging strategies to reduce the interest rate risk and inflation risk of the Plan so far as practicable.

> The Trustee will seek to reach a "self-sufficiency" target over the long term.

> The Trustee will seek to reduce risk as the self-sufficiency funding level improves.

Expected returns

By undertaking the investment policy described in this Statement, the Trustee expects future investment returns will at least meet the rate of return underlying the recovery plan. The Trustee's expected returns on individual asset classes are set out in Appendix I.

Investment Policy

Following advice from the Investment Consultant, the Trustee have set the investment policy and objectives with regard to the Plan's liabilities and funding level.

The Trustee intends to achieve these objectives through investing in a diversified portfolio of assets. The Trustee recognises that the return on return-seeking assets, whilst expected to be greater over the long-term than that on liability matching assets, is likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk (of underperforming the liabilities) for the Trustee, and an acceptable level of cost to the Principal Employer.

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 III will ensure that the assets of the Plan 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 Plan holds a suitably diversified range of securities in each category, 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 Plan'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.

In addition to the allocation in Appendix I, the Trustee has also agreed a de-risking strategy with the Principal Employer. Details of this agreement are set out in Appendix II.

The Trustee will ensure that the Plan'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 Plan's investment managers. The Trustee requires the Plan'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 Plan, 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.

Voting rights

As the Plan invests in pooled funds, 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 Plan's investments to the investment managers.

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 Plan 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 proportion of the Plan in assets that are matching assets that will increase in value as interest rates fall.
- 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 assets such as equities that are expected to increase in value in the long term because of inflation and by holding index-linked gilts whose value increases as inflation expectations increase.
- Diversification risk - The risk that the Plan 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. This risk is addressed by investing in pooled funds that have minimum diversification requirements.
- Liquidity risk - The risk that liabilities cannot be met when due is considered too insignificant to measure. This risk is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Plan's investment is not disproportionate relative to the overall size of the pooled fund(s).
- 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 managed by investing in passive funds except where there is a reasonable expectation that a manager can add value and through the rebalancing policy.
- Market risk - The risk of the Plan 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. This risk is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.
- 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 managed by seeking to minimise the number of changes to the pooled funds.
- Sponsor risk - The risk that the Employer ceases to exist or otherwise is unable to fully support the Plan is measured by reference to the strength of the Employer covenant. This risk is managed by ensuring the asset allocation strategy considers the level of sponsor risk.
- Currency risk - The risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Plan to pooled funds with unhedged currency risk. This risk is managed by investing in sterling assets where possible and only taking currency risk where it increases the level of diversification to the extent that the benefit gained outweighs the increase in risk taken.
- 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 debt. This risk is managed by investing in pooled funds with a diversified list of credits.
- 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 and is managed by ensuring the investment managers choose counterparties with a strong credit rating.

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 Plan.

The Trustee have considered how easily investments can be realised for the types of assets in which the Plan is currently invested. As such, the Trustee believes that the Plan 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.

The Trustee will hold cash to the extent that it considers necessary to meet impending anticipated liability outflows.

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 Plan'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 from time to time to help meet cashflow requirements, and to support the Plan's liability-driven investment (LDI) portfolio.

In the event that the Plan needs to disinvest assets, the Trustee will determine the appropriate fund from which assets shall be sold, taking into account the impact on their investment objectives.

07 Investment manager arrangements and fee structure

Delegation to investment manager(s)

The Trustee will receive regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods.

This monitoring helps 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 a particular investment manager. Investment managers will also attend Trustee meetings as requested.

In addition, the Trustee will consider whether or not the investment managers are carrying out their rebalancing functions effectively.

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 regularly 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.

The Trustee requires the investment managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the investment manager expects and the reasons for any divergence.

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.

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 Plan'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 Plan. 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.

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 III.

> 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.

Investment managers' fee structure

The investment managers are remunerated by receiving a percentage of the Plan's assets under management and, in some cases, through the application of a flat fee. Performance related fee may be payable on certain investments. Details of the fee arrangements are set out in Appendix III. 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.

Portfolio turnover

The Trustee requires the investment managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, 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 plan, 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 plans.

Approved and adopted by the Trustee in July 2021.

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 Plan are invested in accordance with these Principles.

Appendix I
Investment Strategy

Overall strategy

The Trustee has identified the following long-term structure as appropriate to meet the objectives of the Plan:

Asset class	Fund	Benchmark asset allocation	Liability hedging?*	Best estimate net return above gilts (p.a.)
Multi Asset	LGIM Dynamic Diversified Fund	15%	x	+ 3.5%
Corporate bonds	LGIM Active Corporate Bond – All Stocks LGIM Active Corporate Bond – Over 10 Year	30%	✓	+ 0.8%
LDI Portfolio	LGIM Matching Core Funds LGIM Unleveraged Gilts LGIM Sterling Liquidity Fund	55%	✓	+ 0.0%
Total		**100%**		**+0.9%**

***The investment strategy targets a 100% hedge of the interest rates and inflation exposure of the Plan's liabilities, as calculated on the Low Risk basis.**

Best estimate returns have been set as those used when the current strategy was implemented; these represented the Investment Consultant's latest best estimate market assumptions as at 31 March 2021.

The Low Risk basis uses the same assumptions as the prevailing Technical Provisions basis, but with a discount rate assumption of gilts + 0.25% p.a. at all terms.

Rebalancing

The proportions invested in each pooled fund will be managed by the Investment Managers in line with the benchmark set by the Trustee.

Appendix II
Future De-risking Strategy

The Trustee has determined the following strategy in relation to the overall balance between the return-seeking and matching assets held by the Plan. As the Plan has surpassed the 100% funding level trigger, the de-risking strategy has now been implemented. The Trustee will continue to monitor the asset allocation, and monitor whether to de-risk further, depending on the progression of the Plan's objectives.

	Funding level on the Low Risk basis
Asset Class	**Over 100%**
Return-Seeking Assets	15%
Matching Assets	85%

Appendix III
Fund objectives and charges

Fund	Objective	Annual Management Charges (AMCs) and estimate of additional fund expenses
LGIM Dynamic Diversified Fund	The investment objective of the fund is to provide long-term investment growth through dynamic exposure to a diversified range of asset classes. The long-term expected annualised rate of return for this fund is the Bank of England Base Rate +4.5% per annum, over a full market cycle.	*Redacted from public version*
LGIM Active Corporate Bond – All Stocks	The fund aims to exceed the Markit iBoxx £ Non-Gilts Index by 0.75% p.a. (before fees) over a three year rolling period.	*Redacted from public version*
LGIM Active Corporate Bond – Over 10 Year	The fund aims to exceed the Markit iBoxx £ Non-Gilts Over 10 Year Index by 0.75% p.a. (before fees) over a three year rolling period.	*Redacted from public version*
LGIM Matching Core Fund Range	Form part of the overall LDI portfolio designed to provide specified level of hedging against the Plan's liabilities to interest rates and inflation expectations.	*Redacted from public version*
LGIM Unleveraged Gilts in LDI Portfolio		*Redacted from public version*
LGIM Sterling Liquidity Fund		*Redacted from public version*

Fees as at 31 March 2021. AMCs are charged using a tiered system, depending on amount invested; figures shown are estimated for the Plan.

Contact us
xpsgroup.com

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

Trigon Professional Services Limited, Registered No. 12085392.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

An XPS Group Company