Hill & Smith 2016 Pension Scheme

Statement of Investment Principles

October 2024

Statement of Investment Principles

The Trustee of the Hill & Smith 2016 Pension Scheme ("the Scheme") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 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 and AVCs.

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

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Investment (part of the XPS Group), who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the principal 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 Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers 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 are delegated discretion under Section 34 of the Act, the Investment Managers will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Investment Managers are authorised and regulated to provide investment management services to the Scheme. Within the UK, the authorisation and regulation of the Investment Managers 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 non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

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

The Trustee relies on the Investment Managers 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 Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

[1] *As amended 31st March 2019*

Investment objective and strategy

Investment objective

The Trustee has set the following objective:

- To achieve a fully funded position on a Technical Provisions basis as outlined in the Recovery Plan. In particular, the discount rate used in calculating the value of assets required underpinning that target is variable and is defined in more detail in the Statement of Funding Principles.
- To implement an investment strategy generating a return in excess of the expected progression of the Scheme's liabilities.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Scheme.
- To hedge c.85% (broadly in line with the funding level as at 30 June 2024) against changes in interest rates and inflation expectations measured against the total liabilities on 2022 Technical Provisions basis.
- 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 of return-seeking and liability-matching assets.

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 long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- 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.
- 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, is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).

- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

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

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk Credit risk, Interest rate risk, Inflation risk, credit default risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment Manager risk, Counterparty risk, Operational risk

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

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assesses the strength of the principal employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

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

The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

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

Range of assets

The Trustee considers that the combination of the investment policy detailed in 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. In setting out the mandates for the Investment Managers, the Trustee will ensure that the Scheme holds a suitably diversified range of securities in each category, avoiding an undue concentration of assets.

Based on the structure set out in Appendix, 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 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 through asset allocation parameters set by the Trustee or governing the pooled funds in which the Scheme is invested.

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

The Trustee regularly evaluates the Investment Managers' performance against the specific mandate that was agreed. The Investment Managers are incentivized to perform in line with the agreed objectives as maintaining the mandate and associated fees are contingent on them doing so.

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. 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 below, 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.

Investment Manager Arrangements

Review Process

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. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. 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.

The Trustee receives quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, 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 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 a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

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.

Selection/Deselection Criteria

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 of the fund;
> 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.

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.

Responsible investment

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme 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 Investment Managers. The Trustee requires the Scheme Investment Managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, 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 Adviser 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 Adviser, will monitor the processes and operational behaviour 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.

As the Scheme invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme investments to the Investment Managers and 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.

Should the Trustee become aware that an 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 manager further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Trustee may consider terminating the relationship with that Investment Managers.

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 they have neither sought nor taken into account the beneficiaries' 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.

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

Approved and adopted by the Trustee of the Hill & Smith 2016 Pension Scheme on 24th October 2024.

Appendix – Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below.

Asset class	Allocation as at 30th September 2024	Manager and fund	Manager Objective
Multi Sector Credit	15%	LGIM Global Diversified Credit SDG - GBP Hedged Fund	Provide a long term return consisting of a combination of growth and income by investing in a broad range of fixed income securities including investment grade credit, high yield and short duration emerging market debt. The Fund also seeks to align its invested portfolio with the UN Sustainable Development Goals ("SDGs"). The Fund is managed to a composite benchmark.
LDI & Cash	32%	LGIM LDI Portfolio	Provide a suite of funds including leveraged and unleveraged gilts and index-linked gilts to provide a smooth hedging against interest rate and inflation risks.
		LGIM Sterling Liquidity Fund	Provide diversified exposure and a competitive return in relation to SONIA.
Secure Income	26%	LGIM Secure Income Assets Fund	Provide long-term, stable cashflows by directly investing across a wide range of secure income opportunities, targeting Gilts + 2.5% p.a. (gross) over a full market cycle. The fund seeks to achieve its objective by primarily investing in a diversified portfolio of sterling infrastructure debt, private corporate debt and real estate debt.
Multi Asset	18%	LGIM Dynamic Diversified Fund	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.
Leveraged Equities	9%	LGIM Synthetic Leveraged Equity - GBP Hedged Fund	Provide leveraged exposure to global equity markets by investing in equity futures and/or equity index total return swaps (TRS) and/or equity index futures. The Fund is managed against a custom currency hedged Markit MSCI World Index as the reference benchmark.
	100%		

Liability hedging

This strategy is designed to achieve liability hedging of:

- c.85% of the interest rate risk, as a proportion of the total Scheme's liabilities, as assessed against 2022 Technical Provisions basis (estimated as at 30 June 2024).
- c.85% of the inflation risk, as a proportion of the total Scheme's liabilities, as assessed against 2022 Technical Provisions basis (estimated as at 30 June 2024).

The liability hedging and leveraged equities utilise leveraged instruments and derivatives. This will be managed by the Investment Manager and supported through the use of collateral made available from other assets. The primary source of collateral will be the LGIM Sterling Liquidity Fund, the secondary source will be the LGIM Dynamic Diversified Fund and the third source - LGIM Global Diversified Credit SDG - GBP Hedged Fund.

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place. The Trustee will review the allocation quarterly and if required will instruct the Investment Managers to rebalance towards the strategic allocation.

Realising investments

The Trustee is aware of their responsibility to meet members' benefits as they fall due. This may involve the disinvestment of assets from time to time.

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments. The liquidity and trading costs of such disinvestments will also be taken into account. It is envisaged that disinvestments will be sourced from the cash held in the Trustee's bank account, with any further monies to be taken from the LGIM Sterling Liquidity Fund.

AVCs

The Trustee objective has been to provide vehicles that enable these members to generate suitable long-term returns, consistent with their reasonable expectations. The Trustee considers that, in making a number of funds available, they provided these members with sufficient options to meet their reasonable expectations.

Currently members have holdings in the following AVC providers:

- Utmost
- Royal London
- Prudential

The Trustee will review the AVC providers, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustee is aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

The Trustee considers that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

Registration

Authorisation