Hotchkiss Group Pension Scheme

Statement of Investment Principles

Date prepared: October 2020

Date signed: October 2020

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1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Hotchkiss Group Pension Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.2. In preparing this statement the Trustees have consulted the Hotchkiss Group, the Principal Employer, and obtained advice from IEP Financial Limited, the Trustees' investment consultants. IEP Financial is authorised and regulated by the Financial Conduct for a range of investment business activities.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The Trustees' investment powers are set out in Section 9 of the Definitive Trust Deed & Rules, dated 24 September 1999. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Scheme Accounts. The investment managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to take account of the long-term risks, including those relating to non-financial factors, when making investment decisions;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Technical Provisions as per the 31 March 2018 Actuarial Valuation assume that once the member retires the investments will yield 0.1% more than 15 years gilts, prior to retirement they will return 1.5% more.

3.3 Additional allowance for outperformance is made within the Recovery Plan that lasts until 30 June 2028 and this reflects the Scheme's current investment strategy. Under the Recovery Plan, it is assumed that the Scheme's assets outperform the yield assumed for the Technical Provisions by:

- 1.0% p.a. for the return after retirement and
- 2.0% p.a. for the return prior to retirement.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a range of assets including:

- Equities;
- Bonds;
- Cash; and
- Property.

4.2. Trustees do not expect that there will be any employer-related investment content in their portfolio. However, this will be reviewed from time to time.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained in the Scheme's Statement of Investment Strategy.

5.2. The Trustees consider the merits of both active and passive ("index-tracking") management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each Actuarial Valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Asset allocation risk	The asset allocation is set and monitored on a regular basis by the Trustees and their advisers.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. Each manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme 's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Covenant risk	The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal Employer's earnings are monitored on a regular basis. The

	appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Governance risk	Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
Environmental, Social and Governance ("ESG") risk and climate risk	The Trustees consider ESG factors and climate risk to be financially material. Going forward, the Trustees will assess these risks alongside other financially material risks when selecting or reviewing the Scheme's investments.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. ESG considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1 The Trustees' policy on ESG is set out in Appendix 1 for ease of disclosure.

9.2 The Trustees' policy on stewardship is set out in Appendix 1 for ease of disclosure.

9.3 The Trustees believe their duty is to act in the best financial interests of the Scheme's beneficiaries, and in the majority of the Scheme's investments the Trustees have not made any specific provision for non-financial considerations to be taken into account. However, this is something that the Trustees continue to review.

10 Agreement

10.1 This statement was agreed by the Trustees and replaces any previous statements. Copies of this statement and any subsequent amendments will be published on a publicly accessible website and thereby be available to the Principal Employer, the investment managers, the Scheme Auditor and Scheme members.

Signed: Giles Woolley

Date: 16 October 2020

On behalf of the Hotchkiss Group Pension Scheme

Appendix 1: The Scheme's policies on Environmental, Social and Governance ("ESG") considerations, Stewardship and investment manager arrangements

This note relates to the Statement of Investment Principles of the Hotchkiss Group Pension Scheme (the "Scheme") as at October 2020.

1. Policy on ESG

1.1 The Trustees believe that if it manages the long-term financial risks, including those relating to Environmental, Social and Governance factors, including climate change (referred to together as "ESG factors"), inherent in the investments it holds it will produce better member outcomes. In addition, the Trustees believe that if it exercises good stewardship of those investments it will also improve investment outcomes.

1.2 Without prejudice to the Trustee's legal obligations, the Trustees delegates full discretion to the investment managers it uses around the evaluation of ESG factors within the investment process

1.3 The Trustees believe that ESG factors within an investment context can be financially material, however, the Trustees appreciate that taking ESG into account within an investment strategy and process will yield different returns and/or risks for different asset classes across different investment timeframes. The Trustees are also cognisant of the limits of their ability to influence the behaviour of an investment manager. The Trustees have considered the financial materiality of ESG factors within the Scheme and its assets.

1.4 The Trustees accept that when investing totally passively in equity index tracker funds, the manager cannot use ESG factors to inform the selection of stocks within the investment process. However, the Trustees believe that positive engagement on ESG factors can lead to improved risk-adjusted returns alongside better environmental, social or governance outcomes more generally. Therefore, the Trustees looks to the investment managers, as part of its wider due-diligence process, how the passive equity manager positively engages with companies where there is scope to improve the way ESG factors are taken into account when running a company.

1.5 Where assets are actively-managed, the Trustees look to the investment manager to consider how the investment process takes ESG into account in the selection, retention and realisation of investments where possible in addition to how the manager positively engages with companies where there is scope to improve the way ESG factors are taken into account when running a company.

1.6 The Trustees also recognise the time horizons for the investment of the schemes' assets. As part of this, the Trustees believe that ESG factors, and particularly climate change factors, are more likely to influence the risk adjusted returns of those members who are further from retirement, as the financial materiality of such factors will have a greater impact over a longer timeframe.

1.7 Based on information from the investment managers used, the Trustees are comfortable that the current investment managers are taking ESG factors into account where possible within the applicable guidelines and restrictions as defined in the governing literature of each underlying fund.

2. Policy on Stewardship

2.1 Stewardship encompasses the exercise of rights (including voting rights) attached to the Scheme's investments, and the engagement by and with investment managers.

2.2 Without prejudice to the Trustee's legal obligations, the Trustees delegate to the investment managers the responsibility for the stewardship activities that apply to the Scheme's investments. The investment managers are also expected to engage with key stakeholders relating to their investments (which may include how engagement factors fit into a buy/sell/hold weighting decision for an asset) aimed at mitigating financial risks, but also to improve corporate behaviours and governance, improve performance and social and environmental impact.

2.3 The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council. The Trustees expect the Scheme's investment managers to have corporate governance policies in place which comply with these principles set out in this Code.

3. Non-Financial Matters

3.1 The Trustees do not explicitly take account of non-financial matters (such as member ethical views) within the investment strategy. The Trustees may however consider the views of members if those views can be shown to be representative of a significant proportion of the membership.

4. Asset Manager Arrangements

4.1 The Trustees have appointed the following investment fund managers to carry out the day-to-day investment of the Scheme's assets:

- Legal & General Investment Management
- First State Investments (UK)
- Lazard Global Active Funds
- Clerical Medical Investment Group
- JLT Benefit Solutions

4.2 The investment managers are authorised and regulated by the Financial Conduct Authority and are all signatories to the UN Principles of Responsible Investment (UN PRI).

Investment benchmarks and objectives

The investment benchmarks and objectives for each fund manager are given below:

Fund	Benchmark	Objectives
L&G Managed Property	AREF/IPD UK Quarterly All Balanced Property Funds Index	The fund aims to exceed the AREF/IPD UK Quarterly All Balanced Property Fund Index (UK PFI) over three and five year periods.
L&G Over 15 Year Gilts Index Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/-0.25% p.a. for two years out of three.
L&G AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	The fund aims to produce a total return in line with the performance of a subset of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index, this being the gilts with maturities of 15 to 35 years and capture the yield spread over gilts of AAA-AA rated fixed interest securities.
Lazard Infrastructure Fund	MSCI World Core Infrastructure	Lazard's Global Listed Infrastructure Equity Fund is an actively managed portfolio that typically invests in equity securities of infrastructure companies with a minimum market capitalization of $250 million. The Fund uses a "Preferred Infrastructure" philosophy that focuses primarily on equity securities of companies that own physical infrastructure assets that meet certain preferred criteria, such as revenue certainty, profitability and longevity.
First State Infrastructure Fund	FTSE Global Core Infrastructure 50/50 Index	The Fund aims to provide income and grow your investment. The Fund invests in shares of companies that are involved in infrastructure around the world. The infrastructure sector includes utilities (e.g. water and electricity), highways and railways, airports services, marine ports and services, and oil and gas storage and transportation.
L&G World Emerging Markets Equity Index Fund	FTSE Emerging Index	The investment objective of the fund is to track the performance of the FTSE Emerging Index (less withholding tax where applicable) to within +/-1.5% p.a. for two years out of three.
L&G Global Equity Fixed Weights (50:50) Index Fund	Composite of 50/50 distribution between UK and overseas	The investment objective of the fund is to provide diversified exposure to the UK and overseas equity markets. The fund will invest 50% in the UK and 50% overseas. The fund's overseas asset distribution is fixed with 17.5% in North America, 17.5% in Europe (ex UK), 8.75% in Japan and 6.25% in Asia Pacific (ex Japan).

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Aligning the investment strategy and decisions of the asset manager with the Trustees' investment policies

When choosing an investment manager, the Trustees select the manager taking into account past investment performance and the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

The Trustees recognise that when investing in pooled funds there is limited scope to influence the investment managers' strategy and decisions but has resolved to:

- Monitor the performance of the Funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustees' expectations.
- In the event that the investment manager ceases to invest in line with the Trustees' policies and expectations, including the management of ESG and climate related risks, their appointment will be reviewed.

How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for investment management services are in line with the Trustees' policies

Evaluation of investment managers' performance

From time to time the Trustees review the investment managers' performance on a net of fees basis. This is considered over 3-5 year periods, which is consistent with the Trustees' wider investment policies. This review reflects not only fund returns, but also whether the investment managers continue to invest in line with the Trustees' expectations in terms of their investment approach, philosophy and process. This includes the investment managers' approaches to ESG and climate risk.

Remuneration of asset managers

The Scheme invests exclusively in pooled funds. In all cases, the investment manager's remuneration is linked to the value of the assets they manage on behalf of the Scheme. Therefore, as the asset grow in value, due to successful investment by the investment manager, the manager receives more in fees and as values fall they receive less. The Trustees believe that this fee structure incentivises the manager to invest in a way that benefits the Scheme; in particular, it enables the investment manager to focus on long-term performance.

The Trustees ask the Scheme's Investment Consultant to assess whether the investment management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time to time.

The duration of the arrangement with the investment manager

All of the Scheme's investment are in open-ended pooled funds and as such there are no pre-agreed timeframes for investment. However, the Trustees' approach to investing means that investments are expected to be held over a period of 3 years or more.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed periodically as appropriate. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.