Fugro Holdings Limited Pension and Death Benefit Scheme Defined Benefit Section

Statement of Investment Principles

August 2020

1. Introduction

1.1. This is the Statement of Investment Principles prepared by Fugro Pensions Limited (the Trustee), the Trustee of the Fugro Holdings Limited Pension and Death Benefits Scheme (the Scheme). This Statement sets down the principles which govern the decisions about investments that enable the Defined Benefit Section of 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;
- the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. There is a separate Statement for the Defined Contribution section of the Scheme.

1.3. In preparing this Statement, the Trustee has consulted Fugro Holdings Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

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

1.5. The Trustee 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.

1.6. The investment powers of the Trustee are set out in Clause 3 of the Definitive Trust Deed & Rules, dated 30 March 2011. This Statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers 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 Appendix to this Statement. 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 Trustee reviews 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 Trustee will also consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the liability profile of the Defined Benefit Section of the Scheme as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives for the Defined Benefit Section of the Scheme are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels; and
- 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 Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives. The Scheme is also permitted to invest in derivatives including swaps and gilt repurchase agreements.

4.2. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Defined Benefit Section of the Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. The Trustee considers the merits of both active and passive 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 Trustee is 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 Trustee has considered the following risks for the Defined Benefit Section of 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 Trustee 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.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the 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 Trustee is 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.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors 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 Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
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 investments.
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. Currency hedging is employed in part to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Scheme's auditor considers the internal controls and processes of each of the investment managers as part of the review of the Scheme's annual accounts.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors this and will report on the managers' practices in their annual Implementation Statement.
Environmental, Social and Governance ("ESG") Factors, including climate risk	The Trustee has considered long-term financial risks to the Scheme and considers ESG factors, including (but not limited to) climate risk, as financially material across some asset classes and strategies. The Trustee will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments (e.g. individual equities) is delegated to the investment managers.

7.2. The Trustee recognises 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 Trustee recognises 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 Trustee monitors 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 Trustee meets the Scheme's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has 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 Trustee is 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. Environmental, Social and Governance factors, Engagement and Voting Rights

9.1. The Trustee has set out their policies in relation to these matters in Appendix 3.

10. Agreement

10.1. This Statement was agreed by the Trustee and the Employer, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the Employer, the investment managers, the Scheme Actuary and the Scheme's auditor upon request.

AGREED AT MEETING ON 1 SEPTEMBER 2020

Signed:.. **Date:**....................

On behalf of Fugro Pensions Limited as Trustee of the Fugro Holdings Limited Pension and Death Benefits Scheme

Appendix 1 Note on investment policy of the Defined Benefit Section of the Scheme as at August 2020 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Defined Benefit Section of the Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The assets are currently split into a growth and protection portfolio. The growth assets are held with the aim of achieving a good long-term return whilst the protection assets are held to protect against volatility in the Scheme's funding position. The Trustee has agreed to reduce the strategic allocation to growth assets from 80% to 70%, with a corresponding increase in protection assets from 20% to 30%, using a set of yield-based triggers.

Growth Portfolio

The strategic allocations within the growth portfolio are summarised in the table below:

Asset class (Manager)	% of growth portfolio	% of total Scheme (based on 80% growth allocation)	% of total Scheme (based on 70% growth allocation)
Equities (Legal & General)	**60%**	**48%**	**42%**
UK	10%	4.8%	4.2%
North America*	12.5%	6%	5.25%
Europe (ex-UK)*	12.5%	6%	5.25%
Japan*	5%	2.4%	2.1%
Asia-Pacific (ex-Japan)*	5%	2.4%	2.1%
Emerging Markets	5%	2.4%	2.1%
Diversified Multi-Factor Equity*	50%	24%	21%
Property (CBRE)**	**20%**	**16%**	**14%**
Multi Asset Credit (Royal London)	**10%**	**8%**	**7%**
Loans (Barings)	**10%**	**8%**	**7%**

*Half of the allocation to these funds is hedged against currency movements

** CBRE have announced that this fund is to be wound-up and the proceeds returned to investors over the next 2-3 years. The Trustees will consider where to reinvest these.

Protection Portfolio

The Trustee has adopted a strategic allocation to protection assets; comprising cash and Liability Driven Investment (LDI) funds.

The LDI funds are held specifically as assets which have a similar sensitivity to interest rates and inflation as the Scheme's liabilities. The objective of investing in LDI funds is to reduce the volatility of the overall funding position of the Defined Benefit Section of the Scheme.

The current aim of the protection portfolio is to hedge approximately 48% of the interest and inflation risk within the Scheme's liabilities, as measured on the technical provisions basis.

In July 2019, the Trustee adopted yield-based triggers to replace the suspended time-based triggers. Having already partially implemented hedging, it was agreed that it was reasonable for the Trustee to opt for more opportunistic yield-based triggers when they believe yields to be at more attractive levels. The table below details the agreed hedging schedule. If all of the yield-based triggers were hit, the strategic allocation to the protection portfolio would be expected to increase to 30%. The percentage of liabilities hedged is based on the funding level of the Scheme as at the most recent actuarial valuation.

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2.25% nominal yield	2.5% nominal yield	2.75% nominal yield
% of assets	60%	63%	67%	70%	73%	80%	85%	90%
% of liabilities	40%	42%	44%	46%	48%	53%	56%	60%
Status	Completed	Completed	Completed	Completed	Completed	To be implemented	To be implemented	To be implemented

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalancing.

2. Investments and disinvestments

Liquidity

With regard to ongoing cashflow management, with the exception of the CBRE property holding, all of the Scheme's investments are dealt either weekly or daily. This means that, in the event that cash is required quickly, there is sufficient liquidity within the Scheme's portfolio to meet cashflows under normal circumstances.

Cashflow policy

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation.

Whilst this policy covers the day to day cashflow management of the Scheme, it is acknowledged that there are a number of events under which a higher amount of cash may need to be paid from the Scheme's assets. These have been considered separately by the Trustee, and the respective policy outlined below.

- **Transfer values**
  This will be managed within the standard cashflow policy.

- **Liability management exercises**
  Liability management exercises can take several forms and the take up rates are very difficult to predict in advance. In the event of such an exercise occurring, the Trustee will consider the source of disinvestment separately, once the full details of the exercise are known.

- **Collateral Calls**
  Due to the LDI portfolio's use of leverage, as yields change there are times when the investment manager makes a collateral call in order to recapitalise the portfolio and re-align the amount of leverage within target.

  The Trustee has agreed to retain a cash buffer approximately equal to the expected amount required in the event of an urgent collateral call on the LDI funds. This level has been determined as relatively low so as not to disproportionately reduce the overall expected return from the assets but also sufficient to cover the likely level of a collateral call. This will be invested in the Insight Liquidity Plus Fund.

  The Trustee will monitor the size of the cash buffer required and the indicative yield to recapitalisation on a pragmatic basis.

3. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the assets of the Defined Benefit Section of the Scheme:

- Legal & General Investment Management;
- CBRE;
- Royal London Asset Management;
- Baring Asset Management[1];
- Insight Investment Management.

[1] *Formerly known as Babson Capital*

4. Objectives

The investment benchmarks and objectives for the growth assets are given below:

Investment manager	Fund	Benchmark	Objective
Legal and General	UK Equity Index Fund	FTSE All Share	All holdings are managed on a passive basis and have the objective of achieving the benchmark return within a tolerance band before deduction of fees. The tolerance band varies from +/- 0.25p.a. on the UK equity fund, rising to 0.75% p.a. on the Asian Equity Funds and +/-1.5% p.a. on the Emerging Markets Fund. All targets are for two years in three.
	North America Equity Index Fund	FTSE North America	
	Europe (ex UK) Equity Index Fund	FTSE Developed Europe (ex UK)	
	Japan Equity Index Fund	FTSE Japan	
	Asia Pacific (ex-Japan) Developed Equity Index Fund	FTSE Developed Asia Pacific (ex-Japan)	
	World Emerging Markets Equity Index Fund	FTSE Emerging	
	Diversified Multi-Factor Equity Fund	Comparator of 33% FTSE North America Index (50% GBP Hedged), 52% FTSE Developed ex North America Index (50% GBP Hedged) and 15% FTSE Emerging Index.	To improve returns and reduce risk versus a similar portfolio of regionally weighted market-capitalisation indices.
CBRE	Osiris Property Fund	AREF/IPD UK All Balanced Property Fund	Outperform benchmark by 0.5% p.a. before deduction of fees.

Royal London	Multi Asset Credit Fund	3-Month GBP LIBOR	Outperform benchmark by 4% - 6% p.a. over rolling three-year periods, before the deduction of fees.
Barings	Global Loan Fund	Weighted average of the Credit Suisse Leveraged Loan Index and the Credit Suisse Western European Leveraged Loan	To outperform the benchmark over a market cycle, after deduction of fees.

The investment benchmarks and objectives for the protection assets are given below:

Investment manager	Fund	Benchmark	Objective
Insight	Enhanced Selection Funds	n/a	To provide nominal, real and inflation-linked returns reflecting a typical liability profile with dynamic instrument selection between gilts and swaps on a partially-funded basis.
	Sterling Liquidity Plus Fund	3-Month GBP LIBID	Provide investors with stability of capital and income through investment in short-term fixed income and variable rate securities.

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

The Scheme has Additional Voluntary Contribution ("AVC") arrangements with Legal & General, Scottish Widows, Prudential and Equitable Life. AVCs are held in respect of individual members on a money purchase basis. A member making AVCs chooses to invest in the fund(s) of his/her choice. The AVC arrangements are reviewed from time to time.

5. Fee agreements

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Annual Management Charge (% p.a.)
Legal and General	UK Equity Index Fund	0.1% on the first £10m
	North America Equity Index Fund#	0.2% on the first £1.0m 0.175% on the next £1.5m 0.15% on the next £7.5m
	Europe (ex UK) Equity Index Fund#	0.25% on the first £1.0m 0.225% on the next £1.5m 0.2% on the next £7.5m
	Japan Equity Index Fund#	0.225% on the first £1.0m 0.20% on the next £1.5m 0.175% on the next £7.5m
	Asia Pacific (ex-Japan) Developed Equity Index Fund#	0.275% on the first £1.0m 0.25% on the next £1.5m 0.225% on the next £7.5m
	World Emerging Markets Equity Index Fund	0.45% on the first £5m
	Diversified Multi-Factor Equity Fund	0.25%
CBRE	Osiris Property Fund	0.2% though additional fees apply on underlying funds held
Royal London	Multi Asset Credit Fund	0.50%
Barings	Global Loan Fund	0.55%
Insight	Enhanced Selection Funds	N/A*
	Sterling Liquidity Plus Fund	N/A*

#Currency hedged allocations have an additional fee of 0.025% p.a.

*Cannot disclose as per the fee agreement signed between the Trustees and Insight.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters for the Defined Benefit Section. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

Appendix 2 Note on the objectives agreed for the purposes of the provision of investment consultancy services

This appendix sets out the objectives agreed between the Trustee and Barnett Waddingham LLP ("BW") for the purposes of the provision of Investment Consultancy Services to be provided by BW to the Trustee in respect of the Scheme. This appendix has been produced in order to comply with the requirements of The Occupational Pension Schemes (Governance and Registration) (Amendment) regulations 2019 ("the Regulations") and The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 ("the Order").Objectives

The Trustee has set the following strategic objectives and has weighted each objective as indicated.

Aspect of service (weighting)	Strategic objective
Overall service (30%)	Provide high quality advice that helps the Scheme to achieve its investment objectives
	Communicate advice clearly using plain English
	Produce advice and other papers in a timely fashion
Investment strategy design (30%)	Help the Trustee to define appropriate Aims, Beliefs and Constraints for the strategy
	Advise on the design of strategy in a manner that is consistent with these ABCs
	Appropriately allow for the Scheme's policy on ESG factors within the strategy
Manager selection and monitoring (15%)	Recommend appropriate investment managers and/or funds
	Report to the Trustee on major developments or change in opinion of managers/funds
	Appropriately allow for the Scheme's policy on ESG factors when selecting managers
Implementation (15%)	Arrange the implementation of asset transfers in an efficient and timely manner
	Advise the Trustee on the management of Scheme cashflow
Governance (10%)	Advise the Trustee promptly on new investment opportunities or emerging risks
	Provide training to enable the Trustee to make well informed investment decisions
	Advise the Trustee of any actions required to ensure compliance with regulations

Review

The Trustee acknowledges that they are required under the Regulations and the Order to review the Investment Consultancy Services provided by their consultant at least annually against these objectives and must review and, if appropriate, revise the objectives every three years (or without delay after any significant change in investment policy).

These objectives were agreed between the Trustee and BW to be effective from 9 December 2019. The objectives will be reviewed over each calendar year and over a rolling 5 year term to demonstrate value add.

Appendix 3 Environmental, Social and Governance Factors, Engagement and Voting Rights

1. Financial Materiality

The Trustee has received training from their investment advisors on the financial materiality of environmental, social and governance ("ESG") factors, including climate change, within their investment strategy. The Trustee considered the research findings presented when forming their views on the financial materiality of ESG factors as they apply to the Scheme's current investments.

The Trustee believes ESG factors are financially material and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments. The Trustee will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG in making their investment decisions. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

2. Trustee's Policy

The Trustee's policy on these matters, including engagement and the exercise of voting rights, is set out below. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Trustee has not considered it appropriate to take into account individual members' views when establishing the policy on ESG issues, engagement and voting rights.

The Trustee's view on how ESG factors are taken into account for the selection, retention and realisation of the Scheme's investments is set out below.

The Trustee has elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. As an investor in pooled funds, the Trustee delegates the consideration of all financially material factors in relation to determining the underlying holdings within the pooled funds, including ESG factors, to the Scheme's investment managers as part of their day-to-day management. The Trustee's policy on appointing, monitoring and replacing the managers are as follows:

- When selecting new investments, the Trustee will request information on ESG integration credentials as part of the proposals. However, an investment manager's excellence in this area will not necessarily take precedence over other factors, including (but not limited to) historical performance or fees.
- The Trustee monitors their investments regularly with the help of their investment consultant. If, as part of this monitoring process, any issues specifically related to the ESG factors are identified, the Trustee may request further information from the Scheme's managers and engage with them in relation to these matters.
- If any significant ESG related issues are identified for a fund or a manager, the Trustee may choose to replace them. However, as per the appointment of funds and managers, the investment manager's

shortcomings in this area will not necessarily be seen as sufficient reason for replacement and will not necessarily take precedence over consideration of other factors.

The Trustee will also take ESG factors into account as part of determining the strategic asset allocation, and consider these factors as part of ongoing reviews of the Scheme's investments.

The Trustee has considered the relevance of ESG factors to its different types of investments and this is set out below:

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustee believes this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit-worthiness assessment.

Property

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's property manager. The investment process for the property manager should take ESG into account in the selection, retention and realisation of investments. Whilst there are no voting rights attached to the underlying assets, the Trustee supports engagement activities by the Scheme's property manager. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Credit

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings, across both private and public markets. The Trustee recognises that fixed income assets do not include voting rights, however, they support engagement with companies by their managers, particularly in private markets where the manager may be responsible for a larger share of any investment. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Passive equities

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's exposure to passive equities. The Trustee accepts that the fund manager must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG.

3. Non-financially material considerations

The Trustee has not included any non-financial matters (such as ethical views) as constraints when setting investment strategy and/or when selecting or reviewing fund managers. The Trustee has not considered it appropriate to take into account the Scheme members' and beneficiaries' views on ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (i.e., "non-financial matters" in the relevant regulations) in the selection, retention and realisation of investments. The Trustee may review the policy on whether to take account of non-financial matters periodically.

4. Policy on stewardship, the exercise of voting rights and engagement activities

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

As an investor in pooled funds, the Trustee delegates the exercise of the rights (including voting rights) attaching to the Scheme's investments to the investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term stakeholder value. The Trustee will monitor how these delegated powers are exercised by the managers.

The Trustee also expects managers to engage with key stakeholders (which may include issuers of debt, equity, corporate management, regulators, and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.

The Trustee assesses the investment managers' approach to stewardship, engagement and voting rights based on information provided by the respective managers and with the support of their investment consultant. The Trustee considers these to be of a satisfactory standard. The Trustee will monitor and engage with the investment managers in relation to stewardship and engagement activities as follows:

- The Trustee will, with support from the investment consultant, request and review the stewardship policies, voting and engagement activities of the Scheme's investment managers periodically. In the event of any specific issues or questions being identified through this monitoring process, the Trustee will engage with the Scheme's investment managers for more information and discuss any remedial actions taken.

- The Trustee will ask managers to attend meetings from time to time to present and discuss their stewardship activities, including details of any voting rights exercised.

- When selecting and reviewing their investment managers, where appropriate and applicable, the Trustee will consider the investment managers' policies on stewardship and engagement, and how those policies have been implemented.

- The Trustee will take into account whether the Scheme's investment managers are signatories to the UN backed PRI and UK Stewardship Code (or equivalent).

The Trustee will ensure that the investment managers monitor the investee companies' capital structure as follows:

- When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

- The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and so too are the products available within the investment management industry to help manage these risks.

- The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustee uses pooled funds, the Trustee expects the investment manager to employ the same degree of scrutiny.

- The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring Employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustee has made the Sponsoring Employer aware of its attitude to ESG and climate related risks, how it intends to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

5. Policy on conflicts of interest

The Trustee will monitor actual and potential conflicts of interest in relation to their engagements as follows:

- The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, make the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

- The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustee believes it has managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

6. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

The Trustee will ensure that the arrangements with the investment managers incentivise the investment managers to align their investment strategy and decisions with the Trustee's investment policies as follows:

- Prior to appointing an investment manager, the Trustee will discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the investment manager and/or the Scheme's investment consultant, and consider how they are aligned with the Trustee's own investment aims, beliefs and constraints.

- When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee will also consider how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with its own investment objectives for the part of the portfolio being considered, it may use another manager for the mandate.

- The Trustee carries out a strategy review at least every 3 years where it assesses the continuing relevance of the strategy in the context of the Scheme and its aims, beliefs and constraints. The Trustee will monitor the investment managers' approach to ESG and climate related risks on an annual basis.

- In the event that the investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated.

- Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager from time to time as deemed appropriate.

Incentivising assessments based on medium to long term, financial and non- financial considerations

The Trustee will ensure that the arrangements with the investment managers incentivise the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term as follows:

- The Trustee is mindful that the impact of ESG and climate change may have a long-term nature. The Trustee has acknowledged this in its investment management arrangements.

- When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

- The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

Method and time horizon for assessing performance

The Trustee will ensure that the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for investment management services are in line with the Trustee's investment policies as follows:

- The Trustee monitors the performance of its investment managers over the medium- to long-term periods that are predetermined and consistent with the Trustee's investment aims, beliefs and constraints.

- The Scheme invests solely in pooled funds. The investment managers are remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. Details of the fee structures for the Scheme's investment managers are contained in the Fee agreements section mentioned above in Appendix 1.

- The Trustee believes that this fee structure enables the investment managers to focus on long-term performance without worrying about short-term dips in performance significantly affecting their revenue.

- The Trustee asks the Scheme's investment consultant to assess if the investment management fee is in line with the market when the manager is selected, and the appropriateness of the investment management charges are considered every three years as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. Where underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

For the pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers. The Scheme has had holdings with Legal & General since November 2007, Royal London since October 2007 CBRE since July 2011, Barings since September 2015 and Insight since December 2015.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review, the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.