Robert Horne Group Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

September 2020

Contents

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustee of the Robert Horne Group Pension Scheme (the Scheme). This statement sets down the principles governing decisions about investments for 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 (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and incorporates changes as required by The Pension Protection Fund (Pensionable Service).
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement the Trustee has obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 The Trustee has also consulted with the Pension Protection Fund (the PPF) in preparing this statement. The Scheme's liabilities and assets are expected to pass to the PPF after an Assessment Period.

1.4 Upon entry to the PPF Assessment Period, the Scheme consisted of a Defined Benefit and Defined Contribution Section. The Trustee intends to discharge the assets and liabilities relating to the Defined Contribution Section during the Assessment Period. This statement therefore relates to the Defined Benefit Section only.

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

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

1.7 The investment powers of the Trustee are set out in Clause 20 of the Definitive Trust Deed & Rules, dated 26 March 2004. 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 fund managers. The Scheme's fund managers are detailed in Appendix 1 of this statement. The fund 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 fund managers with respect to performance within any guidelines set.

2.4 The Trustee considers any guidance set out by the PPF, including the PPF's own Statement of Investment Principles, when choosing the Scheme's investments during an Assessment Period.

2.5 The sponsoring employer is insolvent and so there is no requirement for employer consultation.

3 Investment Objectives

3.1 The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements as they fall due, in accordance with the Trust Deed and Rules and overriding PPF requirements during an Assessment Period;
- to manage the expected volatility of the returns achieved;
- to invest in assets of appropriate liquidity.

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 at any time. 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 can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 The sponsoring employer is insolvent and so there is no employer-related investment.

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 within Appendix 1 of 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 Appendix 1 of 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 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 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. During the PPF Assessment Period, the investment strategy will be set with consideration of an appropriate level of risk, having consulted with the PPF.
Asset Allocation risk	The asset allocation is detailed in the Appendix to this statement and is monitored on a regular basis by the Trustee.
Fund manager risk	The Trustee monitors each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
Concentration risk	Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Loss of investment	The risk of loss of investment by each fund manager and custodian is assessed by the Trustee.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
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 cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
Covenant risk	The sponsoring employer has entered liquidation and the investment strategy is no longer set with reference to the employer covenant. Rather it is set with reference to guidance set by the PPF.
Solvency and mismatching	Risk is addressed through the asset allocation strategy. 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 PPF 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.

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 is delegated to the fund 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 fund 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 fund 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 fund 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 Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1 The Trustee has set policies in relation to these matters. These matters are set out in Appendix 2.

10 Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1 Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2 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 also considers how ESG and climate risk are integrated into these. If the Trustee deems

any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3 The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

10.4 In the event that an 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 will be reviewed.

10.5 Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

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

10.6 The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

10.7 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 a 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 longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8 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 managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

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

10.10 The Scheme invests exclusively in pooled funds. The investment manager is 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.

10.11 The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

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

Portfolio turnover costs

10.13 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.

10.14 During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When 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

10.15 For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.16 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.

11 Agreement

11.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the PPF, the fund managers, the actuary and the Scheme's auditor upon request.

Signed:..... **Date:** 30 September 2020

On behalf of the HR Trustees Limited, Trustee of the Robert Horne Group Pension Scheme

Appendix 1. Note on investment policy of the Scheme as at September 2020 in relation to the current Statement of Investment Principles

1. Choosing investments

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the fund:

- Newton Investment Management;
- CBRE Limited;
- PIMCO;
- BMO Global Asset Management.

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters.

The Trustee also has Additional Voluntary Contribution (AVC) contracts with various AVC providers for the receipt of members' AVCs. The Trustee intends to discharge the assets and liabilities in respect of these AVC contracts during the PPF Assessment Period.

2. Kinds of investments to be held

The Trustee has considered the main available asset classes and has gained direct exposure to the following asset classes:

- UK equities;
- Overseas equities;
- Long dated corporate bonds;
- Property;
- Swaps and gilt derivatives;
- Cash.

3. The balance between different kinds of investment and rebalancing

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

Fund manager	Benchmark	Objective
Newton		
UK Opportunities Fund	FTSE All-Share	Outperform by 5% p.a. over rolling five year periods (before the deduction of fees)
Global Equity Fund	MSCI AC World Index	Outperform by 2% p.a. over rolling 5 year periods (before the deduction of fees)
CBRE		
Eurosiris Fund	8% p.a. target return	Performance in line with benchmark
PIMCO		
UK Long Term Corporate Bond Fund	Bank of America Merrill Lynch Sterling Non-Gilts 10+ Index	No official outperformance target
BMO		
Real Dynamic LDI Fund	Bespoke leveraged liability benchmarks in swap and gilt terms	No official outperformance target but would expect performance at least in line with the better performing of gilts and swaps over the long-term
Nominal Dynamic LDI Fund	Bespoke leveraged liability benchmarks in swap and gilt terms	
Sterling Liquidity Fund	7-day LIBID	No official outperformance target

The performance of fund 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 Trustee has set an initial asset allocation as set out on the following page. The Trustee does not intend to rebalance the asset allocation during the PPF Assessment Period with the exception of ensuring that the equity allocation does not increase substantially above the 10% maximum allocation recommended by the PPF.

Portfolio	Asset class	Allocation (%)
Growth Portfolio	Newton Global Equities Fund	5.8
	Newton UK Opportunities Fund	2.2
	CBRE Eurosiris Fund*	0.0
	Sub-total	**8.0**
Protection portfolio**	PIMCO UK Long Term Corporate Bond Fund	29.3
	BMO Real Dynamic LDI Fund	18.4
	BMO Nominal Dynamic LDI Fund	11.6
	BMO Sterling Liquidity Fund	32.7
	Sub-total	**92.0**
Total		**100.0**

* The amounts reported above for CBRE have been converted to sterling using the sterling-euro spot rate given on the Bank of England's website at the relevant dates. However performance has been reported in euro terms.
** BMO performance applies to the funds, not Scheme holdings. Benchmark returns for the LDI funds shown as a 50:50 weighting of the implied returns from relevant gilt and swap curves.

4. Investment of new money

The Trustee is not expecting any significant new monies, for example from any dividend payable in respect of the insolvency of the sponsoring employer. However, any new monies that become due are likely to be invested in the BMO Sterling Liquidity Fund, unless it is a substantial figure relative to the value of the total assets.

5. Realisation of investments

During the Assessment Period, the Scheme's cash flow requirements are expected to be met by regular disinvestments from the Scheme's assets. Disinvestments will be taken from the Newton Global Equity Fund until such time as there are no longer any assets in that fund, following which the Sterling Liquidity Fund should be used.

The CBRE Eurosiris Fund is undergoing an orderly wind down and capital repayments have been ongoing for a number of years. The fund is intended to be fully liquidated by 2021.

Appendix 2. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially Material Considerations

The Trustee believes that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) are potentially financially material for the Scheme. The Trustee acknowledges that the Scheme is in the PPF Assessment Period and therefore the impact of ESG factors is not expected to be hugely significant. In part, this is due to the fact that the time horizon for the investment strategy is not expected to be long.

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. The Trustee, and the managers of the underlying funds, takes into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:-

- The Trustee will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

The Trustee will be reliant on the information presented by the investment managers 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. Non-financially material considerations

The Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future qualify of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

The Trustee will review its policy on whether or not to take account of non-financial matters on an annual basis.

3. The exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including business performance, strategy, capital structure, management of conflicts of interest, ESG and corporate governance matters), through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

4. Engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. 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 along with them 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 managers invest 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.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. 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 Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes 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 they have 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.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

Appendix 3. Statement of Investment Principles of the DC Section