Mouchel Superannuation Fund

Statement of Investment Principles

September 2020

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Contents

1 Introduction

This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 of the Pension Act 1995 (as amended) for the Mouchel Superannuation Fund ("the Scheme"). It describes the investment policy being pursued by Kier Group Pension Trustees Limited (the "Trustee") and is in compliance with the Governments voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulation 2018.

The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme has been closed to future benefit accrual since 31 March 2017. Detail on how the investment strategy is implemented is set out in a separate Statement of Investment Implementation (the "SII") document (which is maintained by the Trustee).

The Trustee's advisers (the "Advisers") are John Sydenham of Aon Hewitt (the "Scheme Actuary"), River and Mercantile Solutions (the "Investment Adviser"), and Hogan Lovells (the "Legal Adviser").

The Trustee confirms that, in preparing or updating this SIP, it has consulted with Kier Group Plc (the "Sponsoring Company") and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustee believes the Advisers to be qualified by their ability in, and practical experience of, financial matters and have the appropriate knowledge and experience of pension scheme investment arrangements.

The Trustee is responsible for the investment of the Scheme's assets and where the Trustee is required to make an investment decision, it always consults with and receive written advice from the Investment Adviser first. The Trustee believes that this, together with it's own collective expertise, ensures that it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ("FSMA"), the Trustee sets general investment policy, but has delegated the day-to-day investment of the Scheme's assets to professional investment managers (the "Investment Managers").

2 Scheme Governance

The Trustee is responsible for the governance and overall investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects (other than cash balances held for administration and benefit payments) to the Investment Managers or the relevant Advisers as appropriate.

The Trustee has appointed an Investment Committee (the "IC") to deal with investment matters delegated to it by the Trustee Board, in particular those which require timely resolution, and acts as a co-ordinator between the Investment Adviser, the Investment Managers and the Trustee Board.

The IC makes proposals to the Trustee Board for ratification on investment decisions including the asset allocation within the strategic banding, the appointment of one or more investment manager(s) or termination of existing investment managers. However, overall investment strategy remains the sole responsibility of the Trustee Board.

The responsibilities of each of the parties involved in the Scheme's governance are detailed in the Statement of Investment Implementation ("SII") document.

The Trustee will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change the SIP, the investment managers or the Advisers as part of such a review.

3 Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the liabilities of the Scheme.

The Trustee has taken advice from the Advisers to ensure that the assets held by the Scheme and the investment strategy are suitable given the liability profile of the Scheme, the Trustee's objectives, legislative requirements, regulatory guidance and specifications in the Trust Deed for the Scheme.

4 Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any Statutory Funding requirements.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustee will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

5 Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustee has set the following qualitative objectives:

- The acquisition of suitable assets which will generate income and capital growth to meet, together with any agreed contributions from the Sponsoring Company, the cost of current and future benefits which the Scheme provides as they fall due.
- To limit the risk of the assets failing to meet the liabilities over the long term, including in relation to the Statutory Funding Objective.
- To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives shown above.

In seeking to meet their objectives, the Trustee has due regard to the risks set out in this document.

Having considered advice from the Advisers, and also having due consideration for the Trustee's objectives, the attitude to risk of the Trustee and Sponsoring Company and the liabilities of the Scheme, the Trustee has implemented an investment strategy explicitly benchmarked against the Scheme's liabilities. In quantitative terms, the Trustee invest in a blend of Growth assets that targets between 2% and 4% above cash, a portfolio of cash flow matching assets that target 1% above cash and a liability hedge which aims to mitigate the change in the liabilities. The Trustee decides the blend of these funds and the underlying investment managers to target the appropriate return for the Scheme, this is shown in the Quarterly Monitoring Report.

6 Implementation of investment strategy

The Trustee has delegated the investment of the Scheme assets to the Investment Managers, which have discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers.

The Trustee has received advice on the appropriateness of each investment managers' target, benchmark and risk tolerance from the Investment Adviser and believe them to be suitable to implement the Scheme's investment principles.

In designing the overall asset allocation strategy, the Trustee has notionally split the Scheme's physical assets into:

- Growth Assets, which aims to deliver outperformance relative to a cash benchmark, consisting of the following building blocks:
    - Market Return portfolio, which aims to retain directional exposure to deliver higher return over the long term;
    - Stable Return portfolio, which aims to generate additional return with lower volatility;
    - Cashflow Related portfolio, which aims to increase over time to address negative net cash flow needs.
- A Liability Hedge portfolio which aims to broadly mirror the movements in the liabilities of the Scheme owing to changes in interest rates and inflation expectations, thereby helping to stabilise the Scheme's funding level over time.

7 Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee have taken advice on the suitability of the contracts and have delegated responsibility to the relevant investment manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio

8 Realisation of Investments

The majority of Growth Assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so requires. The Trustee assesses the liquidity of each of their investment managers on a regular basis. This helps to ensure that there is an appropriate balance between holding illiquid assets and liquid assets to pay the benefits as and when they fall due.

9 Monitoring

The Trustee will monitor the performance of the investment managers against the agreed performance objectives.

The Trustee, or any other suitably qualified Adviser on behalf of the Trustee, will regularly review the activities of the investment managers to satisfy themselves that the investment managers continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustee will consider whether or not each investment manager:

- Is carrying out their function competently.
- Has regard to the need for diversification of investments.

- Has regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with an investment manager it will ask the investment manager to take steps to rectify the situation. If the investment manager still does not meet the Trustee's requirements, the Trustee will remove the investment managers and appoint another.

10 Corporate Governance and Stewardship

The Trustee and the investment managers have agreed, and will maintain, formal Manager Agreements or fund documentation setting out the scope of each Investment Manager's activities, its charging basis and other relevant matters.

As part of the appointment of the investment managers to the Scheme, the Trustee has entered formal manager agreements or accepted the terms of pooled investment vehicles, setting out the scope of each investment manager's and pooled investment vehicle's activities, their charging basis and other relevant matters. The appointment of the investment managers is ongoing. The Trustee periodically reviews the overall value-for-money of using the Investment Adviser (as specified in the Scheme Investment Consulting objectives) and investment managers and information in relation to costs associated with investing.

The Scheme investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the investment managers.

The investment managers where appropriate adopt an active approach to corporate governance. The Trustee would prefer to engage with companies rather than boycott particular shares or companies. The Trustee is aware of the policies of the investment managers concerned regarding corporate governance and have delegated the responsibility for activity in this area to the investment managers.

The Trustee has retained the use of voting (and other) rights attached to their mandates; however the respective managers of the mandates retain responsibility for voting on their underlying holdings.

The Trustee and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustee review the governance structures of the investment manager, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustee and Investment Adviser assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects each investment manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement and pooled fund investment documentation, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with the issuers to improve this medium- to long -term performance. The success of such engagement will contribute to the Scheme's performance, which is reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such

requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflict of Interest policy is available publicly here:
https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Trustee oversees the turnover costs (where available) incurred by the investment managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Where there are material deviations the Trustee engages with investment managers to understand the rationale for such deviations and take appropriate action.

11 Non-Financial matters

The Trustee does not at present take into account non-financial matters when making investment decisions. These include members' ethical beliefs and beliefs on the potential impact of social and environmental matters for the future quality of life for members and beneficiaries. In the Trustee's view there is not likely to be a common view on ethical matters amongst the membership. At this time, the Trustee has no plans to seek the views of the membership on ethical and other non-financially material factors.

12 Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates the day to day consideration of financially material factors to the investment managers who consider these when constructing their portfolios. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Trustee as part of the investment manager selection criteria. This review occurs before investment managers are approved for investment in the portfolio. Once an investment manager is appointed, the Investment Adviser and Trustee will monitor the investment manager for ongoing compliance with the expected standards at appointment and with other factors, such as stewardship, as a part of overall governance and engagement.

13 Risk

The Trustee recognises a number of risks involved in the investment of assets of the Scheme. These risks, and how they are measured and managed, include:

1. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is addressed through the asset allocation strategy (including the use of the Liability Hedge portfolio to hedge the interest rate and inflation risk), regular actuarial and investment reviews, and by monitoring asset performance relative to performance of the Scheme's liabilities.
2. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is addressed through regular investment reviews, advice from the Investment Adviser, close monitoring of the performance of the Investment Managers and taking necessary action when this is not satisfactory, and by the use of more than one investment manager to avoid overexposure to one organisation.

3. **Manager risk** – the risk of adverse investment activity by the Investment Managers. This risk is addressed through the diversification of the assets between Investment Managers, the ongoing monitoring of the Investment Managers and the negotiation of clearly defined investment management agreements (where relevant), containing a series of restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.
4. **Country/political risk** – the risk of an adverse influence on investment values from political intervention. This risk is addressed by diversification of the assets across several countries.
5. **Concentration and diversification risk** – the risk of an adverse influence on investment values from a concentration of holdings. The asset allocation and manager structure have been designed to ensure diversification of the risks associated with different asset classes and managers. Mandates have been structured with each of the Investment Managers to ensure that each portfolio is adequately diversified across a range of individual securities and other risks. The Trustee monitors the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.
6. **Currency risk** – the risk that fluctuations in the value of the overseas currencies affect the total return on investments when compared to a Sterling benchmark. This risk is addressed through granting discretion in managing currency exposures to a number of the Investment Managers within their portfolio (subject to the provisions and restrictions in the respective Investment Manager Agreements or fund governing documents), and also the use of a currency overlay, which hedges currency exposure across a number of mandates. Further details of the currency hedging arrangements can be found in the SII.
7. **Default risk** – the risk of income from assets not being paid when promised. This risk is addressed through the restrictions on the Investment Managers and by investing in a diversified portfolio of bonds.
8. **Organisation risk** – the risk of failing internal systems or processes. This risk is addressed through regular monitoring of the Investment Managers and Advisers.
9. **Sponsor risk** – the risk of the Sponsoring Company ceasing to exist. For reasons of prudence, the Trustee has taken this risk into account when setting the asset allocation strategy.
10. **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the ESG assessment at the point of investment with the investment managers and as part of the ongoing investment manager monitoring process.
11. **Liquidity risk** – the risk that the Scheme is unable to realise sufficient assets to pay cash flow requirements when required. This risk is addressed by the administrators monitoring the level of cash held in order to limit the impact of the cash flow requirements on the investment policy, and taking into account the liquidity of assets and the Scheme's net cash flow requirements when setting the asset allocation strategy. The Trustee has also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments
12. **Counterparty risk** – the risk of the counterparty to an agreement not settling their liability with the Scheme. Where derivatives are used, this risk is addressed through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties (either by the Trustee or by the underlying pooled managers as relevant) and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty. The Trustee also uses several counterparties in order to diversify counterparty risk.
13. **Custody and investment administration risk** – the risk of loss caused by the insolvency, negligence or fraudulent action of the custodian. This risk is addressed through the agreement with the custodian and ongoing monitoring of the custody and investment administration arrangements. Restrictions are applied limiting who can authorise transfer of cash and the account(s) to which transfers can be made.

14. **Realisation of assets** - The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so requires. The Trustee does not allow the use of stock lending on directly held assets. Some pooled funds in which the Trustee's invest may undertake stock lending.
15. **Derivatives risk**. The Trustee may enter into contracts with counterparties including investment banks in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and set restrictions on the use of derivatives. From time to time the Trustee may mandate one of the Investment Managers, including transition managers, to effect short term derivative positions to reduce risk in the portfolio, as part of efficient portfolio management or to aid a transition process. The Trustee will take suitable advice as part of the decision and implementation process, but owing to the potentially market sensitive nature of such transactions may not detail these, or the specifics of the short term manager mandates, within this SIP or SII.

The Trustee will keep these risks (and how they are measured and managed) under regular review.

14 Manager Agreements

The Trustee and the Investment Managers have agreed, and will maintain, formal agreements setting out the scope of the Investment Managers activities, their charging basis and other relevant matters where appropriate.

Where this is for a pooled fund or vehicle, where no Investment Management Agreement is in place, the Trustee has provided a signed application form and accepted the standard terms of engagement with the relevant investment managers (as set out in the fund or vehicle's governing documentation).

The Investment Managers have been provided with a copy of this SIP and are required to exercise their powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

15 Additional Voluntary Contributions ("AVC")

The Scheme historically provided a facility for members to pay AVCs to enhance their benefits at retirement. The proceeds from the final salary AVC arrangement, which was closed to new applicants on 1 April 1998, are invested in the main Scheme assets. From 1 April 1998 members were able to invest in AVCs in an Equitable Life money purchase scheme as well as with Clerical Medical.

The Trustee reviews these legacy arrangements periodically having regard to their performance, the objectives and the views of the Advisers.

With effect from 1 December 2000 the Equitable Life Scheme was closed to new applicants. From 1 March 2001 a new Clerical Medical money purchase AVC scheme was made available and members previously investing in Equitable Life were permitted to invest contributions backdated to 1 December 2000 in the new arrangement. Although the Clerical Medical option closed to new members from 6 April 2006 and also closed to further contribution, it currently remains operational for all members who had applied to contribute prior to that date. The money purchase AVC assets are held separately from the main Scheme's assets.

From 1 January 2020, assets with Equitable Life were transferred to Utmost Life and Pensions Limited.

16 Declaration

The Trustee confirms that this Statement of Investment Principles reflects the investment strategy it has implemented for the Scheme. The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed:.....Mike Jaffe..... **Date:**....23 September 2020

For and on behalf of Kier Group Pension Trustees Limited as Trustee of the Mouchel Superannuation Fund