Wolseley Group Retirement Benefits Plan

Statement of Investment Principles – February 2021

1. Introduction

The Trustees of the Wolseley Group Retirement Benefits Plan ("the Plan") have drawn up this Statement of Investment Principles ("the SIP") to comply with the requirements of the Pensions Act 1995 as amended by the Pensions Act 2004 ("the Act") and the Occupational Pension Scheme (Investment) Regulations 2005 (as amended). As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Limited ("the Investment Advisor"). The Trustees in preparing this Statement have also consulted Wolseley Limited ("the Principal Employer") as the nominated representative of the participating employers.

The Plan's Trust Deed and Rules govern the Trustees' responsibilities. Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice, and is driven by their investment objectives as set out in Section 4 below. The remaining elements of policy are part of the day-to-day management of the assets that is delegated to professional Investment Managers and described in Section 5.

This SIP has been prepared after obtaining professional advice from the Investment Advisor which is regulated by the appropriate regulatory authority. Where appropriate the Trustees also obtain professional advice from the Scheme Actuary.

2. Plan Governance

The Trustees are ultimately accountable for the investment of the Plan's assets. The Trustees have established an Investment Committee (the "IC") and a Joint Working Group ("JWG") with company representatives on the JWG to assist the Trustees in addressing the investment issues, and investment strategy/funding level issues respectively, relating to the Plan.

The IC's decision making powers are as specifically delegated to it under its Terms of Reference and are delegated either on an ad hoc or temporary basis, as determined from time to time by the Trustees. The JWG operates in an advisory capacity, with its powers delegated to it under its Terms of Reference. All other decision making powers are retained by the Trustees.

The Trustees have appointed a firm of professional consultants (the Investment Advisor) to provide relevant and appropriate advice to the IC, JWG and the Trustees. The Trustees also take advice as considered necessary from the Plan Actuary and other professional advisers.

3. Decision-Making Structure

Overall investment policy falls into two parts:

a) The *strategic management* of the assets is fundamentally the responsibility of the Trustees acting on expert advice and is driven by the investment objectives as set out below. As discussed above, the Trustees have delegated some aspects relating to the Plan's investment arrangements to the IC. The Trustees review the investment policy on a regular basis, although it is not expected to change frequently. The Plan completed a review of the strategic asset allocation following the 2019 actuarial valuation assumptions. Details are set out in Section 4.

b) The *implementation* of the investment policy is the day to day management of the assets which is largely delegated to the Trustees' selected investment managers. Details are outlined in Section 5 with full details in the Investment Implementation Policy Document ("IIPD") which the Trustees update on a regular basis to reflect any material changes to the Plan's investment arrangements.

4. Strategic Management

4.1 Investment Objectives

The Trustees have decided to implement a Cashflow Driven Financing ("CDF") strategy, whereby the Plan invests in such a way that expected cashflows should broadly match a proportion of the Plan's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required).

To guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed, the Trustees have considered their objectives and adopted the following:

- The primary objective is to meet the liabilities of the Plan as they fall due; the liabilities relate to the accrued benefits of members earned whilst in the employment of the participating employers and of any previous employment as represented by the value of transfer payments received.

- The Trustees have agreed a secondary objective to be 100% funded with the liabilities valued on a gilts +0.5% p.a. basis by 2030.

- Over the shorter term, to ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and

- The Trustees pay due regard to the interests of the participating employers in the size and incidence of their contribution payments.

It is the intention of the Trustees to review the investment strategy on a regular basis.

4.2 Investment Risk

In determining their investment policy, the Trustees have considered a number of investment risks to which the Plan is exposed. In particular, using capital market models based upon assumptions derived from current market conditions and historic market return patterns, the Trustees have considered the Plan's funding level and contribution rate sensitivity to:

- Interest rate
- Inflation
- Credit markets

The Trustees have also considered the sponsor covenant risk. In addition, when considering the implementation of the investment policy, the Trustees have considered the risk associated with credit risk and counterparty risk.

With regards to counterparty risk in particular, the Plan's investment manager (namely Insight) will employ derivatives in their liability driven investment ("LDI") mandate for the purposes of efficient portfolio management. These derivatives are likely to be traded directly with other counterparties, which gives rise to counterparty risk, namely the risk that the counterparty is unable to honour their commitment at the maturity of or during the derivative contract.

The Trustees have implemented the following measures to manage the risks associated with the investments over the Plan's anticipated lifetime:

- The Trustees have completed a buy-in covering the liabilities associated with the Plan's pensioners to reduce the Plan's liability risk including longevity risk, as of July 2017. (Further details on this can be found in Section 5).
- It is acknowledged that the Plan is exposed to counterparty risk in the form of the insurer and its ongoing ability to meet the liabilities covered by the buy-in. Therefore, the Trustees will monitor the financial strength and stability of the insurer from time to time.
- Counterparty risk is further managed through the diversification of counterparties and through collateral management. Where the counterparty owes the Plan, collateral is posted to the Plan to guard against the risk that the counterparty defaults.
- Collateral adequacy risk is another risk that the Trustees have considered. As derivative instruments will be used to hedge the Plan's liabilities, Insight will employ leverage in their liability hedging mandate. Using leverage means small changes in underlying conditions can produce larger changes in the value of the Plan's investments than if only physical assets were held (i.e. there is an implied 'lever effect'). Collateral adequacy is therefore the risk that underlying conditions negatively impact the Plan's investments to the extent that additional assets will be needed as collateral to support the use of derivatives. Insight will inform the Plan on a regular basis of the level of collateral, and likelihood that additional collateral will need to be posted.
- The assets are divided between a number of active investment managers and a passive manager. This reduces the active management and concentration risks associated with one manager having responsibility for all of the Plan's assets.
- With the exception of the passively managed portfolio, the managers have some discretion to move away from their benchmark positions to seek to enhance the return relative to their benchmarks, but constraints have been set to limit the extent of discretion given to each manager and to ensure diversification.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 5.4 sets out how these risks are managed.
- The Trustees have established a regular communication link with the Plan sponsor, including presentations from the Principal Employer on the sponsor's financial strength and trading. Lincoln Pensions Ltd. has also been appointed as the Plan's independent covenant advisor.

Specifically, the Trustees are required to report to members to provide narrative disclosures on the credit and market risks arising from its investment arrangements on the following investment risks in the Trustee Annual Report and Accounts.

These risks which have also been considered in the implementation of the investment policy are defined as follows:

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of the changes in market prices, Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

- Currency risk: this is the risk that the fair value or the future cash flows of a financial asset will fluctuate because of the changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of the changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of the changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

4.3 Investment Strategy

The Trustees, with advice from the Plan's Investment Consultant reviewed the Plan's investment strategy in 2020. As part of the discussions, the Trustees agreed to implement a CDF strategy.

The CDF strategy aims to:

- Match a high proportion of the Plan's expected liability cashflows by investing in predominantly income-generating asset classes such that expected asset cashflows should broadly match the Plan's expected liability cashflow profile.
- Generate the expected returns required to support the investment objectives outlined in section 4.1 and control the risks identified in 4.2.

The investment strategy for the Plan is set out below.

Asset Class	**Benchmark Allocation**
Credit assets (%)	*75.0*
Buy & Maintain Credit	43.0
Secured Finance	12.0
Multi-Asset Credit	12.0
Private Debt	8.0
LDI assets (%)	*25.0*
LDI and cash	25.0
Median Expected Return over Gilts (% p.a.) (1)	1.6%

(1) Including Buy-in. Buy-in policy estimated as at 31 December 2020. Figures show above are based on gilts+0.50% Based on data from Aon Hewitt.

The Plan holds an additional c. £493.6m with Pension Insurance Corporation (PIC) as part of the buy-in policy as at 31 December 2020.

The Trustees have established a high-level investment manager structure, for dividing the assets amongst different types of manager. The current overall investment manager structure is set out in detail in the IIPD.

4.4. Consultation with the Principal Employer

As required by the Act and as a matter of good practice, the Trustees have consulted with the Principal Employer concerning the investment arrangements set out above.

5. Day-to-Day Management of the Assets

5.1 Assets

The Trustees invest the assets of the Plan in a specialist structure via a mixture of pooled funds and direct holdings. The Trustees are satisfied that the spread of assets by type and the spread of individual securities within each type provide adequate diversification of investments for risk purposes. The overall investment strategy and structure for the Plan is summarised in Schedule A of the Plan's IIPD, however this is subject to change due to discussions around changes in the investment strategy at the time of writing.

The Trustees have appointed a custodian, HSBC Bank plc ("HSBC"), who is responsible for the safekeeping of the pooled funds and directly held investments.

5.2 Rebalancing Policy

The rebalancing policy in place for the Plan at an overall strategic level is currently under review due to discussions around changes in the investment strategy at the time of writing.

5.3 Managers' Fees and Investment Guidelines and Restrictions

Manager fee terms for the Plan are set out in Schedule C of the IIPD.

There are portfolio management guidelines/restrictions in place for each of the managers, (for example, the degree of risk relative to benchmark that the manager is permitted). These are summarised in the IIPD.

5.4 Responsible Investment and Corporate Governance

The Trustees believe that Environmental, Social, and corporate Governance (ESG) factors do have a material impact on investment risk and return outcomes, and that good stewardship does create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risk and opportunities that increasingly do require explicit consideration.

The Trustees have delegated day-to-day management of the asset to its underlying investment managers. The Trustees have given appointed managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice.

Mercer and the Trustees support and expect the investment managers who are registered with the FCA to comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website. The Trustees will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The Plan's investment managers exercise voting rights and undertake engagement (collaborative or otherwise) in accordance with their own corporate governance policies.

The Trustees consider how to integrate ESG, climate change and stewardship within investment processes when appointing new investment managers and monitoring existing investment managers. The Trustees monitor the ESG ratings of the managers within the quarterly reporting.

The Trustees will also consider the Investment Consultant's assessment of how the investment manager embeds ESG into the investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment manager's policies on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees also review the following reporting on an annual basis:

- UK Stewardship Code Review which assesses each underlying equity manager's compliance against the seven principles of the UK Stewardship Code.
- Stewardship monitoring reporting which assesses each underlying equity manager's record of executing and disclosing voting activity, and the extent to which they are engaging with the underlying companies in which they invest.
- ESG ratings of all investment managers versus the asset class universe ESG ratings.

Member views are not taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions on the appointed managers in relation to particular products or activities, but may consider this in future.

5.5 Additional Voluntary Contributions ("AVCs")

The Trustees historically selected a range of funds suitable for AVC investments as set out in Schedule E of the IIPD. The Trustees review the suitability of these arrangements from time to time.

5.6 Realisation of Investments

In general, the Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, subject to not exceeding the Trustees' powers as set out in the Trust Deed and Rules. However, the Investment Managers would be responsible for generating any cash required for benefits and other expenditure on the instructions of the Trustees. The Plan's administrator has limited discretion to instruct disinvestments for Cashflow purposes. The buy-in policy is also a source of Cashflow in meeting pensions in payment.

5.7 Monitoring the Plan's Investments and Investment Managers

The Trustees receive regular reports from their Plan Actuary on the progress of the Plan's investments relative to the net present value of Plan's liabilities. The Trustees receive reports from the Investment Managers and Investment Advisor and meet the Investment Managers regularly to review their actions together with the reasons for and background to the investment performance. The Investment Advisor also assists the Trustees in fulfilling their responsibility for monitoring the Investment Managers and advising on strategic investment matters.

5.8 Buy-in arrangements

In exchange for a lump sum premium, an insurance company, Pension Insurance Corporation plc ("PIC"), has agreed to pay cashflows to the Plan to match benefits due to the underlying pensioner members covered by the buy-in.

In practice, the buy-in policy makes payments to the Plan and the Plan Administrator arranges for pensioner benefits to be paid to the pensioner members. How this investment is treated in a funding context will be determined by the Plan Actuary.

6. Manager Arrangements

6.1 Aligning Manager Appointments with Investment Strategy.

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustees will seek guidance from the Investment Consultant, where appropriate, for their forward looking assessment of an active manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the Investment Consultant in relation to their forward looking assessment of the manager's ability to achieve the stated mandate objectives.

The consultant's manager research ratings assist with due diligence and where available are used in decisions around selection, retention and removal of manager appointments.

The Trustees will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Where the Trustees invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

In respect of segregated appointments, the Trustees has specified the criteria in the investment manager agreements for the asset class manager to be in line with the Trustees' specific investment requirements.

Investment managers are aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to review the appointment.

6.2 Evaluating Investment Manager Performance

The Trustees review the performance of the Managers on a regular basis versus agreed benchmarks and targets, over multiple time periods, with an emphasis on the long-term performance.

The Trustees take a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made solely based on short-term performance concerns. Instead, changes would be driven by a number of factors that may lead to significant reduction in the Trustees' confidence that the Manager will be able to perform in line with the stated objective of a strategy over the long term.

The Trustees' focus is on long term performance but may review a manager's appointment if:

a) There are sustained periods of underperformance;
b) There is a change in the portfolio manager;
c) There is a change in the underlying objectives of the investment manager; or
d) There is a significant change in the Investment Consultant's rating of the manager

The majority of the Managers are remunerated by way of a fee calculated as a percentage of assets under management. For the LDI manager, a fee is payable calculated as a percentage of the liabilities hedged.

Where appropriate, active managers are incentivised through remuneration (via performance related targets) and performance targets. Where such fees apply, a hurdle rate structure is in place to mitigate the possibility of the Trustees paying additional fees during periods of long-term underperformance.

The Trustees reviews the investment manager fees of the AVC arrangements on an annual basis. This review includes peer group comparison where fees are compared against those paid by other schemes based on each underlying fund's region, asset class, fund management style and the size of assets under management.

6.3 Portfolio Turnover Costs

The Trustees do not currently actively monitor portfolio turnover costs. The majority of investment manager performance objectives are set net of all fees and costs and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustees receive some MiFID II reporting from their investment managers but does not analyse the information. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In the future, the Trustees may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

6.4 Manager Turnover

As the Plan is a long-term investor, the Trustees do not expect to make changes to the Managers on a frequent basis.

For open-ended funds, there is no set duration for the manager appointments. The Plan expects to retain them unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The Manager appointed has been reviewed and the Trustees has decided to terminate the mandate.

For the Private Debt, closed-ended fund in which the Plan invests, it is expected that the Plan will invest in this fund for the lifetime of the fund. At the time of appointment, the Trustees were provided an indication of the expected investment duration of the fund. In order to maintain a strategic allocation to the Private Debt asset class, the Trustees may choose to invest in a further closed fund for that asset class in the future.

7. Compliance with this Statement

The Trustees will monitor compliance with this Statement regularly.

In line with the Occupational Pension (Investment) Regulations (2005), the Trustees are required to review the Statement at least every three years and without delay after any significant changes in investment policy.

8. Review of this Statement

The Trustees will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustees and the Principal Employer which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation or other actuarial advice. Any such review will again be based on written expert investment advice and the Principal Employer will be consulted.

The Trustees of the Wolseley Group Retirement Benefits Plan

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February 2021