WR Swann & Co. Limited Retirement Benefits Scheme (“the Scheme”) Statement of Investment Principles

1. Introduction

The Trustees have drawn up this SIP to comply with the requirements of the Pensions Act 1995 (“the Act”). As required under the Act, the Trustees have consulted a suitably qualified person. The Trustees, in preparing this SIP, have also consulted Swann-Morton Limited (the "Principal Employer")

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their investment consultants, Aon Investments Limited who are authorised and regulated by the Financial Conduct Authority and is driven by their investment objectives as set out below. The remaining elements of the policy are part of the day-to-day management of the assets which is delegated to a professional fiduciary investment provider, Aon Investments Limited ("AIL").

2. Decision Making Structure

2.1 Setting Investment Objectives

The Trustees are responsible for identifying appropriate investment objectives, under guidance from their advisers.

2.2 Delegation

The Trustees have delegated certain decision-making powers to AIL. The Trustees have taken advice from Aon Investments Limited regarding the suitability of AIL in this capacity and recognise that there exists a conflict of interest in taking this advice.

3. Investment Objectives, Risk and Investment Strategy

3.1 Investment Objectives

The Trustees aim to invest the assets of the Scheme prudently with the intention that the benefits promised to members are provided.

3.2 Risk

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provision for 100% of its liabilities (“funding risk”). The Trustees have identified a number of risks which have the potential to cause deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustees and their advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Scheme’s assets so as to minimise this risk as far as is practical.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustees and their advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- The failure by AIL to achieve the rate of investment return assumed by the Trustees (“manager risk”). This risk is considered by the Trustees and AIL both upon the initial appointment and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustees, their advisers and AIL considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s Sponsoring Employer (“covenant risk”). The Trustees and their advisers considered this risk when setting investment strategy and consulted with the Sponsoring Employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme’s liabilities, the Trustees' policy is to monitor, where possible, these risks quarterly/periodically. The Trustees receive quarterly reports showing:

- Performance versus the expected growth in the Scheme’s liabilities.
- Any significant issues that may impact AIL's ability to meet the performance target set by the Trustees.

3.3 Investment Strategy

The investment objective is to outperform the Liability Benchmark by 1.0% per annum (net of fees) over rolling three year periods and to hedge 100% (as a proportion of assets) of the interest rate and inflation risk. This investment objective was decided following a formal review of the investment strategy and advice from the Trustees' investment advisers. AIL make the day to day decisions to achieve the investment objective.

4 Management of the Assets

4.1 Asset Guidelines

AIL will manage the assets with regard to the:

- need for diversification of investments, so far as appropriate to the circumstances of the Scheme; and to the
- suitability to the Scheme of both the asset classes proposed and also the particular assets proposed within those classes.

The underlying exposure to assets will be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer and so as to avoid accumulation of risk in the portfolio as a whole. AIL may use pooled vehicles to help with diversification.

Investments in derivative instruments are permitted if they:

- contribute to a reduction of risks; or
- facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investments must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

4.2 Inflation and Interest Rate Hedging

The target strategic hedge ratio for inflation and interest rates is 100% of the assets.

4.3 Rebalancing Policy

AIL will regularly review the asset allocation and will rebalance the portfolio if the allocation is no longer consistent with the investment objective.

4.4 Manager Monitoring

Whilst the Trustees are not involved in AIL's day to day method of operation and so cannot directly influence attainment of the performance target, they will assess performance and review the appointment. The appointment of AIL will be reviewed by the Trustees based on the results of their monitoring of performance and investment process and of the manager’s compliance with the requirements of the Act. AIL has been provided with a copy of this SIP and the Trustees will monitor the extent to which they give effect to the investment principles set out in it. The Trustees will provide AIL with any material amendment to or replacement of this SIP.

4.5 Fee Structures

AIL is paid on an ad valorem basis. This structure has been chosen to align the interests of AIL with those of the Scheme.

4.6 Custodian

AIL has appointed custodians for the safe custody of the assets held within its respective pooled funds in which the Scheme is invested. The custodian is responsible for the safekeeping for all the Scheme's assets and performs the administrative duties including the collection of interest and dividends and dealing with corporate actions.

4.7 Other Assets

Assets in respect of members' additional voluntary contributions ("AVCs") are held in a range of investment vehicles with Friends Life, Royal London and Aegon.

4.8 Choosing Investments

The Trustees have appointed AIL who are authorised and regulated by the Financial Conduct Authority ("FCA") to undertake investment business. After taking appropriate investment advice, the Trustees have specified the investment objective for AIL. Investment choice has been delegated to AIL.

In this context, investment advice is defined by Section 34 of the Act.

IMPLEMENTATION

Aon Investments Limited has been selected as investment adviser to the Trustees for the purpose of advising on the investment strategy. It operates under an agreement to provide a service which ensures the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. Aon Investments Limited is paid an agreed annual fee for services needed on a regular basis. Some one-off projects fall outside the annual fee and the fees for these are negotiated separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate to AIL through written contracts. When choosing investments, AIL are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

GOVERNANCE

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. Accordingly, the Trustees have established the following decision making structure:

Trustees • Prepare and monitor compliance with this Statement of Investment Principles • Monitor actual returns versus the Scheme's investment objectives • Select and monitor fund managers, including direct investments (see below) • Select and monitor investment advisors
Investment Adviser (Aon Investments Limited) • Advises on all aspects of the investment of the Scheme assets • Advises on this statement • Provides required training
Asset Managers (Aon Investments Limited) • Operate within the terms of this statement and their written contracts • Select individual investments with regard to their suitability and diversification • Set the strategy for investing in different asset classes in line with the investment objective • Determine strategy for selecting fund managers • Implement the investment strategy • Select and appoint investment managers • Monitor investment managers • Adjust asset allocations to reflect medium term market expectations • Report on asset performance against the liability benchmark • Report on asset returns against objectives • Communicate any significant changes to the investment arrangements • Take into account socially responsible investment criteria, including ESG factors and climate change

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The fund managers are remunerated on an ad valorem basis and in addition they pay commissions to third parties on many trades that they undertake in the management of the assets, as well as other ad hoc costs. Appropriate arrangements are in place with each of the managers for independent custody of the investments.

Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, for example the purchase of an insurance policy or units in a pooled vehicle. The latter are known **as direct investments.**

The Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries.
- Security.
- Quality.
- Liquidity.
- Profitability.
- Nature and duration of liabilities.
- Tradability on regulated markets.
- Diversification.
- Use of derivatives.

Arrangements with asset managers

The Trustees regularly monitor the Scheme’s investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustees’ policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees share the policies, as set out in this SIP, with the Scheme’s asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees’ policies.

Before appointment of a new asset manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees’ policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustees will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustees believe that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

Policy on assessing performance and monitoring costs

The Trustees are aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by their asset managers including turnover costs (i.e. the costs incurred when the assets managers buy and sell underlying investments).

The Trustees benchmark the Scheme's asset managers' cost and performance data against the industry periodically, to assess the value for money being provided and to consider whether the services being provided are in line with the Trustees' policies.

The Trustees ask all of the asset managers annually to provide full details of the costs incurred in managing the Scheme's assets. Where these costs are out of line with expectations, the asset managers will be asked to explain the rationale, including why it is consistent with their strategy and the extent they expect it to continue in the future.

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

Environmental, Social and Governance Issues

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

<u>Stewardship – Voting and Engagement</u>

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustees have delegated all voting and engagement activities to the Scheme's Underlying Managers, via the investment manager AIL. The Trustees accept responsibility for how the Underlying Managers steward assets on its behalf, including the casting of votes in line with each Underlying Manager's individual voting policies. The Trustees rely on AIL to review manager voting and engagement policies and activities on an annual basis. AIL review these factors to check they are aligned with expectations and can reasonably be considered to be in the Trustees', and therefore the members', best interests.
As part of their delegated responsibilities, the Trustees expects AIL to:

- monitor and engage with Underlying Managers, including prospective Underlying Managers, on the extent to which they exercise voting rights (where appropriate) in relation to the Scheme's assets; and
- report to the Trustees on stewardship activity by Underlying Managers as required.

Underlying Managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Underlying Managers are expected to vote at company meetings and engage with companies on the Trustees' behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest). The Trustees expect transparency from their investment managers with respect to their voting activities where this is relevant. This includes their voting actions and rationale, in particular where votes were cast against management, votes against management generally were significant, votes were abstained or where voting differed from the voting policy of the asset manager. Where voting is concerned, the Trustees expect the Underlying Managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustees will engage with AIL, which in turn is able to engage with Underlying Managers or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest, of the underlying investments made.

This engagement aims to ensure that robust active ownership behaviours, reflective of the Trustees' active ownership policies, are being actioned. This will take the form of annual reporting and follow up meetings, where necessary, from AIL. Such reporting will be made available to Scheme members on request.

Should the Trustees' monitoring process reveal that an Underlying Manager's voting and engagement policies and actions are not aligned with the Trustees' expectations, the Trustees will engage with AIL, via different medium such as emails and meetings, to discuss how alignment may be improved to bring about the best long-term outcomes for the Scheme.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

Review of this Statement of Investment Principles

The Trustees will review this document at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes that are made.

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018