Statement of Investment Principles

STONEPORT
PENSIONS

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1. Introduction

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Stoneport Pension Scheme ("the Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme ("the Trustees") and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary was Robert Wallace, FIA, of XPS Pensions Limited and the Investment Advisers were XPS Investment Limited ("XPS"), up until 30 September 2020, and Barnett Waddingham LLP ("BW"), thereafter (collectively termed "the Advisers"). XPS Investment Limited and Barnett Waddingham LLP are authorised and regulated by the Financial Conduct Authority for investment advice, for a range of investment business activities.

The Trustees confirm that, before preparing this SIP, they have consulted with Stoneport Pensions Alliance Limited, the Principal Employer, and obtained written advice from the Advisers. They believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. They have elected to delegate investment decisions in respect of the return seeking element of the Scheme's assets in accordance with the provisions of Section 34 of the Pensions Act 1995. Where they are required to make an investment decision in respect of the liability matching element of the Scheme's assets, the Trustees always receive the necessary advice from the Advisers first, in accordance with the requirements of Section 36 of the Pensions Act 1995. The Trustees will consult with the Principal Employer before amending the investment strategy and the Principal Employer will consult with all other Employers before giving its feedback.

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

2. Scheme governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the investment managers. The Trustees will seek advice from the Advisers where it is necessary or prudent to do so.

2.1. Investment Powers

The investment powers of the Trustees are set out in Rule 20 of the Trust Deed & Rules, dated 25 September 2020 (the "TD&R"). This statement is consistent with those powers. Capitalised terms used in this statement which first appear in "inverted commas" are as defined in the TD&R.

Under Rule 20 of the TD&R, the Trustees are required to organise the Scheme's assets into three distinct elements as follows:

- A "Matching Fund" designed to broadly mimic the portfolio of assets that a life insurance company might hold to back the liabilities of the Scheme; and

- An "Investment Fund" designed to outperform the Matching Fund by 2 – 5% per annum over the long term;

- A "Derivative Overlay" which leverages the asset of the Scheme in order to reduce the exposure to changes in interest rates and inflation.

Currently there is no separate Derivative Overlay element as the Matching Fund comprises of pooled LDI funds which include derivatives to leverage up the assets and provide additional hedging to interest rates and inflation.

Each "Employer" must, on entry to the Scheme and periodically thereafter, agree its Investment Allocation (i.e. the split between the Matching Fund and the Investment Fund) with the Trustees. The Trustees will adopt the Employer's preferred Investment Allocation, subject to the Employer's ability to demonstrate its covenant is sufficiently strong to support the chosen level of investment risk.

The Scheme's strategic allocation will be the weighted average of the Investment Allocations of all the Employers' choices.

The Scheme currently operates on a sectionalised basis. As such, the assets of each Employer are fully segregated from the assets of other Employers.

With effect from 31 December 2022, the Scheme will operate on a centralised basis. "Notional Asset Accounts" will then be established for each Employer and thereafter, the assets in each of the Matching Fund and the Investment Fund will be pooled.

3. Investment objectives and key considerations

The Trustees have the power to amend the Investment Allocation of an individual Employer prior to centralisation and to amend the strategic allocation of the Scheme as a whole after centralisation in the event they consider there to be insufficient covenant support for the investment risk.

In general terms, the Trustees' ***qualitative*** objectives for the Scheme are:

(i) To seek to achieve an investment return from the "Investment Fund" such that the Scheme can reasonably expect to meet its obligations to its beneficiaries over the long term.

(ii) To determine an investment strategy in conjunction with statutory funding requirement discussions such that the assumptions used for the latter are expected to be exceeded over the long term by the investment returns achieved.

(iii) To pay due regard to the Employer's interests on the size, stability and incidence of the Employer's contribution payments.

(iv) To gradually de-risk the Scheme over time through a combination of:

- Investing the Matching Fund in pooled LDI Funds so as to significantly reduce interest rate and inflation risks and also in other assets such as corporate bonds so as to better match the investment strategy of an insurer; and

- Re-allocating assets from the Investment Fund to the Matching Fund over time, details of which are provided in the Appendix.

The above objectives are not framed relative to the performance of other pension funds.

4. Asset allocation strategy

The Trustees recognise the importance of asset allocation to the overall investment returns achieved. However, given the approach to managing investments, the Trustees also recognise that the asset allocation will change as a result of a range of factors, including changes in market conditions; changes to the liability structure of the Scheme; the perceived relative value of the different asset classes; and the perceived risk to the investment objectives of the Scheme. The details of the strategic benchmark asset allocation and relevant control ranges are set out in the Appendix and any changes will only be made after receiving written advice from the Advisers that such allocation remains consistent with the investment objectives.

4.1. Alignment of Incentives

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and agreements with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds and segregated mandates in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights, on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

4.2. Rebalancing Policy

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

Any investments or disinvestments will be made with a view to bringing the asset allocation back to the benchmark strategy as far as possible, unless the Trustees, following receipt of investment advice, have issued an instruction to do otherwise.

4.3. Rate of Return

The expected rate of return for the Investment Fund and Matching Fund are shown in the Appendix.

4.4. Diversification

The choice of asset allocation strategy is designed to ensure that the Scheme's investments are adequately diversified. The assets are invested in a range of different asset classes and generally in funds that have concentration limits. The Trustees monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

4.5. Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives.

4.6. Liquidity

The Trustees, together with the Scheme's administrators, will ensure that the Scheme holds sufficient cash to meet the likely benefit outgoings. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investment strategy. All of the non-cash assets held are in funds with frequent dealing dates.

4.7. Other guidelines

Subject to the requirements of the Scheme's TD&R and legislation generally, the Trustees are not restricted in the kind of investment they can make.

The Trustees allow the use of derivatives for the efficient running of the pooled funds and to facilitate more capital efficient liability hedging. This policy will be reviewed regularly.

5. Monitoring

5.1. Investment Managers

The Trustees receive regular investment performance reports from the Investment Managers to help inform their understanding of the long term performance of the portfolio and will discuss these with the Advisers when it is deemed appropriate. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Advisers are aware of will be highlighted, which may lead to a change in the Advisers' rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee's may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested. The Trustees hold regular meetings with the Investment Managers and/or the Advisers to satisfy themselves that the Investment Managers continue to carry out their work competently and have appropriate knowledge and experience to manage the assets of the Scheme. In any event the Trustees will formally review the progress and performance of the Investment Managers at least annually. As part of this review, the Trustees will consider whether the Investment Managers:

- Are carrying out their work competently;
- Have regard to the need for diversification of investments;
- Have regard to the suitability of each investment and each category of investment; and
- Have been exercising their powers of investment with a view to giving effect to the principles contained in this Statement of Investment Principles, so far as is reasonably practical.

The Advisers have also carried out a review of how well ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG periodically.

Fund manager remuneration is considered as part of the manager selection progress. It is also monitored regularly with the help of the Advisers to ensure it is in line with the Trustees' policies and with fee levels deemed by the Advisers to be appropriate for the particular asset class and fund type.

5.2. Statement of Investment Principles

The Trustees, in accordance with Section 35 of the 1995 Pensions Act, will review this Statement with the Advisers with such frequency as they consider appropriate and no less frequently than triennially. Any revisions will be preceded by written advice and by consultation with the Employer.

5.3. Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

5.4. Trustees

The Trustees maintain a record of all decisions taken, together with rationale in each case.

5.5. Portfolio Turnover Costs

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

5.6. Investment Manager Duration

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

6. Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

(i) The risk of failing to meet the investment objectives as set out in Section 3 – the Trustees will regularly monitor performance and the funding level of the Scheme to mitigate this risk.

(ii) The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy – in particular through the use of a Liability Driven Investment solution and through regular actuarial and investment reviews against the funding target.

(iii) Risk of lack of diversification of investments – addressed through Investment Managers' portfolio construction process, by investing in a range of asset classes and reviewing the Scheme's asset allocation policy. The Trustees' agreements with Investment Managers contain a series of restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.

(iv) Risk of holding assets that cannot be easily sold should the need arise – addressed through the requirement for the Investment Managers to invest in sufficiently liquid assets.

(v) Underperformance risk – addressed through monitoring closely the performance of the Scheme's assets and taking necessary action when this is not satisfactory; also by spreading the exposure to a range of different underlying investment management organisations appointed by the Investment Managers.

(vi) Organisational risk – addressed through delegating day to day decisions to the Investment Managers, the Advisers and by utilising a life policy platform to reduce the governance burden on making switches between funds.

(vii) Covenant risk - The creditworthiness of the Employers and the size of the pension liability relative to the Employers are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the covenant of the Employers.

(viii) Default risk – addressed through the restrictions for the Investment Managers. In particular any sterling corporate bonds are managed using a diversified portfolio of investment grade bonds.

(ix) Solvency risk – the risk that the life policy platform provider becomes insolvent is managed by buying a policy with a provider that has no general insurance risks.

(x) The risk that environmental, social and governance factors are not given significant consideration - this is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

7. Other issues

7.1. Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to the investment objectives and in conjunction with discussions around statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

7.2. Environmental, governance and social issues

The Trustees have considered its approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme and believes there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Advisers on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Advisers, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

7.3. Voting Rights

Where the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

Where the Scheme invests in segregated mandates the Trustees will have greater influence on the policies and practices of the companies in which the Investment Managers invest.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations, then the Trustees may consider terminating the relationship with that Investment Manager.

7.4. Realisations of Assets

The majority of the Scheme's assets are held in pooled funds, which can be realised easily if the Trustees so require.

7.5. Custody

The Trustees have effectively delegated the custody of the investments of the Scheme to Investment Managers. However, custody agreements, and general issues relating to the security of investments, are key criteria for Investment Managers in the process of selecting underlying investments and investment organisations in which to invest.

Appendix A: Asset allocation strategy

The Scheme has a strategic allocation which is equal to the weighted average of the Investment Allocations of each Employer. The current strategic allocation has been agreed after considering the covenant provided to the Scheme, the Scheme's liability profile, its funding position and the expected long-term return of the Investment Fund and the Matching Fund.

The current strategic allocation is as follows:

- Investment Fund: 50%
- Matching Fund: 50%

The Trustees will review the strategic allocation periodically and at least triennially as part of each formal actuarial valuation of the Scheme.

Investment Fund

The Trustees have decided to invest the Investment Fund on a discretionary fund management basis with Psigma Investment Management ("Psigma"). Day to day decisions about which securities the Investment Fund will be invested in will be made by Psigma under the terms of the Discretionary Investment Management Agreement ("DIMA") between Psigma and the Trustees.

The Investment Fund is managed on a bespoke basis according to Psigma's "SRA 6" categorisation within its Strategic Risk Allocator model. The features of an SRA 6 categorisation at the time of drafting are:

- Target Return: Inflation (CPI) + 3.5% p.a.
- Minimum Equity Weighting: 40%
- Maximum Equity Weighting: 70%

The Trustees are content that the requirements of Psigma's own processes in the management of portfolios according to an SRA 6 categorisation regarding the need for the diversification of investments and their security, quality, liquidity and profitability are sufficiently robust that they ensure the suitability of those investments for the purpose of defined benefit pension provision.

In line with industry practice, fees to the Investment Manager are based on a percentage of assets under management.

Matching Fund

The Matching Fund includes a Liability Driven Investment ("LDI") solution that will remove a significant amount of the Scheme's inflation and interest rate risk. The level of protection cannot be set precisely due to the approximate nature of the matching provided by such LDI solutions and the estimated and changing nature of the liabilities.

By virtue of the fact that the Matching Fund is designed to broadly match the holdings that an insurer might hold, over time the Scheme intends to hold an appropriate combination of gilts, LDI and corporate bonds within this allocation, following advice from the Advisers.

The Trustees have appointed Mobius Life ("the Platform Provider") to administer the Scheme's Matching Fund assets. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments and the recapitalisation of the LDI solution.

The Trustees have selected Legal & General Investment Management ("LGIM") and Insight Investment Management Limited ("Insight") to manage the assets of the Scheme via a single policy with the Platform Provider according to the following initial allocations:

Fund	**Allocation**
LGIM Matching Core Fixed Long	16%
LGIM Matching Core Real Long	46%
Insight Fully Funded Index-Linked Gilt	38%
LGIM Cash Fund	0%

Notes

Allocation to Insight will be split into Fully Funded Index-Linked Gilts 2051-2060 and Fully Funded Index-Linked Gilts 2061-2070 funds as of 17 August.

Allocations may be subject to change at date of implementation.

The Trustees have agreed to use the LGIM Cash Fund for capital calls and distributions in the event the LGIM Matching Core funds are required to be re-leveraged.

Insight, LGIM and the Platform Provider are paid a management fee on the basis of assets under management.

The Trustees have appointed XPS to advise on investment matters up to 30 September 2020 and for BW to advise on investment matters from 1 October 2020. XPS are remunerated on a fixed fee basis for a range of core services. Work outside of the fixed fee arrangement is normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks. BW are remunerated for a range of core services based on a combination of the value of the Scheme's assets, the number of Employers and the number of members in the Scheme. Work outside of the core fee arrangement is normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

The Trustees may be remunerated for their role.

De-risking strategy

Under the TD&R, the Investment Allocation of each Employer must be 100% in the Matching Fund by the Target Date, as defined under Rule 3 of the TD&R, which is 31 December 2045, or such later date as shall be agreed by the Trustees and the Principal Employer.

Each Employer must agree with the Trustees a proposal for reducing their current allocation to the Investment Fund (if any) to nil by 2045. The table below sets out the current allocation of Punter Southall Services Limited, the Scheme's only current Employer:

Calendar Year	Allocation to Investment Fund
2020	50%
2021	48%
2022	46%
2023	44%
2024	42%
2025	40%

2026	38%
2027	36%
2028	34%
2029	32%
2030	30%
2031	28%
2031	26%
2033	24%
2034	22%
2035	20%
2036	18%
2037	16%
2038	14%
2039	12%
2040	10%
2041	8%
2042	6%

2043	4%
2044	2%
2045	0%

The Trustees have agreed to the Employer's proposal after considering the covenant provided to the Scheme by the Employer, the Scheme's liability profile, its funding position and the expected long-term return of the Investment Fund and the Matching Fund.

The Trustees will review the Employer's proposed Investment Allocation through time periodically and at least triennially as part of each formal actuarial valuation of the Scheme.

Appendix B: Psigma

The Trustees have decided to invest the Investment Fund on a discretionary fund management basis with Psigma. Under this structure Psigma will invest the Scheme's assets by:

- Determining the allocation to active and passive management.
- Selecting underlying funds or managers which are best able to implement the various elements of the Investment Fund.
- Defining the allocations to each underlying asset class and the most appropriate form of access (pooled or segregated).
- Making changes to all the above where appropriate given the investment objectives.

Custodians

Psigma do not hold and control the Scheme's assets but have appointed two custodians, RBC Investor Services Trust and Cofunds Limited, to look after client assets. Both of these custodians are authorised and regulated by the FCA, RBC Investor Services Trust with FCA reference number 435052 and Cofunds Limited with FCA reference number 194734. Psigma has opened holding accounts with a number of major global banks, which, along with RBC Investor Services Trust, will be used to manage the Scheme's cash holdings in a segregated manner.

Diversification

The Trustees have sought to achieve diversification by satisfying themselves that the portfolio construction process adopted by Psigma ensures that investments within the Investment Fund will be adequately diversified and held in a range of different asset classes. Generally speaking, each asset class would expect to have different issuers and therefore add to the diversification of the Scheme. The Trustees will monitor the holdings in the Investment Fund regularly to ensure that they are comfortable with the level of diversification.

Monitoring

The aim of the Investment Fund is to provide additional expected return above that achieved by the Matching Fund, consistent with the investment objectives and in managing the Investment Fund, Psigma is required to ensure any investment decisions are suitable to the needs of the Scheme.

Manager agreement

The Discretionary Investment Management Agreement ("DIMA") between Psigma and the Trustees sets out the scope of the Manager's activities, their charging basis and other relevant matters. The Investment Manager is required to exercise its powers with a view to giving effect to the principles contained in this statement and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.