STATEMENT OF INVESTMENT PRINCIPLES for the Castle Pension Scheme

August 2020

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles?

This Statement of Investment Principles ("SIP") sets out the policy of Castle Pension Scheme Trustees Limited ("the Trustee") on various matters governing decisions about the investments of The Castle Pension Scheme ("the Scheme").

- **Appendix A** sets out the Trustee's policy towards risk appetite, capacity, measurement and management for the Scheme.
- **Appendix B** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

Further details of the investment arrangements for the Scheme are set out in the *Investment Policy Document* ("IPD") which is enclosed with this SIP.

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme's investment adviser, who the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments and the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The employer has been consulted on the SIP.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations") (as amended) ("the Regulations"), the Pension Regulator's guidance for defined benefit pension schemes (March 2017) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Trust Deed.

The SIP also reflects the Trustee's response to the Myners' Voluntary Code of Investment Principles.

2. What are the Trustee's overall investment objectives?

The Trustee's primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has additional objectives. These are that:

- the expected return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix A.
- that over the long-term the Scheme should be funded on a self-sufficiency basis (ie the asset value should be at least that of its liabilities on a self-sufficiency basis) and should adopt a low risk long-term investment strategy.

3. Summary of the Scheme's investment strategy

3.1. How was the investment strategy determined?

The Trustee, with the help of its advisers and in consultation with the employer, has set an investment strategy taking into account the objectives described in the section above.

The Trustee seeks to invest the Scheme's assets in a wide range of asset classes of appropriate liquidity and security which will generate cash income and capital growth to meet, together with contributions from the employer, the benefit payments.

3.2. What did the Trustee consider in setting the Scheme's investment strategy?

Strategy reviews include modelling the Scheme's assets and liabilities over a wide range of possible scenarios for future economic conditions.

In setting the strategy, the Trustee took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;

- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

4. What are the Trustee's key investment beliefs?

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Scheme's assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

6. Implementing the Scheme's investment arrangements

The Trustee will, from time to time, appoint investment manager whose primary role is the day-to-day investment management of the Scheme's investments. The investment managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

Details of the investment managers are set out in a separate IPD for the Scheme.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment adviser to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

7. The Scheme's custodians

The Trustee can from time to time, appoint custodians, whose primary role is the safekeeping of the Scheme's assets (or a portion of the Scheme's assets). The custodians are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee is not responsible for the appointment of the custodian for assets underlying any pooled fund investments. However the Trustee considers the investment managers' procedures for the appointment and monitoring of the custodians as part of the manager selection process.

8. Other matters

8.1. What is the Trustee's policy on the realisation of investments?

The Trustee cannot usually directly influence the managers' policies where the Trustee holds assets in pooled funds. The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings, and informs the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property).

8.2. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8.3. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity or with those who may have an interest in the issuer of such equity or debt. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

8.4. What are the responsibilities of the various parties in connection with the Scheme's investments?

To assist with the decisions on investment matters, the Trustee has delegated certain responsibilities to a Joint Investment Sub-Committee ("the JISC") which comprises of members of the Trustee Boards of the Hanson Pension Schemes[1]. The powers of the JISC are set out in a separate document entitled *"Terms of Reference for the Joint Investment Sub-Committee (JISC) of the Hanson Pension Schemes"*.

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[1] The Hanson Pension Schemes for the purpose of the JISC are the Hanson Industrial Pension Scheme, the Castle Pension Scheme and the Powerhouse Retail Group of the Electricity Supply Pension Scheme.

Appendix B contains brief details of the respective responsibilities of the JISC, the Trustee, the investment adviser and the investment managers. Appendix B also contains a description of the basis of remuneration of the investment adviser and the investment managers.

8.5. Does the Trustee make any investment selection decisions of its own?

Before making any investment selection decision of its own, it is the Trustee's policy to obtain written advice from its investment adviser. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

8.6. What is the Trustee's policy on employer-related investments?

The Trustee takes necessary steps to comply with the relevant legislation on employer-related investments and will review the Scheme's exposure to any employer-related investments at least annually to ensure the Scheme is in compliance.

9. Review

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

G.Wardle

-- Date ***17/09/2020***

For and on behalf of Castle Pension Scheme Trustees Limited

The Trustee's policy towards risk, risk measurement and risk management

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee's is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims is to strike the right balance between risk appetite and risk capacity.

When assessing the Scheme's risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to the following risks:

2.1. Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy reviews and will be monitored by the Trustee on a regular basis.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

2.2. Inadequate long-term returns

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate resources to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce an adequate long-term return in excess of the liabilities.

2.3. Investment manager risk

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, the Trustee received written advice from a suitably qualified individual and typically undertook investment manager selection exercises. The Trustee monitors the investment managers on a regular basis.

2.4. Risk from lack of diversification

This is the risk that the failure of a particular investment, or the general poor performance of a given investment type, could have a material adverse effect on the Trustee's ability to meet its investment objectives. The Trustee ensures that the Scheme's assets are adequately diversified between different asset classes and within each asset class through the choice of an appropriate investment strategy and through the guidelines agreed with the investment managers. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.5. Liquidity / marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investment.

2.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.7. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation.

This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, where managers make use within its funds of derivative and gilt repos contracts and this fund is used by the Trustee to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.8. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.9. 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.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by investing in funds that have a diversified exposure to different credit issuers.

2.10. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believe[s] that the level of exposure to this risk is appropriate.

2.11. Currency risk

Whilst the majority of the currency exposure of the assets is to Sterling, the Scheme is subject to currency risk because some of the investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believes that the currency exposure that exists diversifies the strategy and is appropriate.

2.12. Interest rate and inflation risk

The Scheme is subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds. However, the interest rate and inflation exposure of the assets hedge part of the corresponding risks associated with the Scheme's liabilities.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

The Trustee considers interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

2.13. Other risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme. Examples include:

- mortality risk (the risk that members live, on average, longer than expected); and
- sponsor risk (the risk that, for whatever reason, the employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and is positioned to manage this general risk.

Responsibilities and fees

1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

2. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy, including decisions concerning the long-term strategic allocation and strategic benchmark;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- if required, the policy for rebalancing between asset classes and asset managers;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) the actuary, investment advisor and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

3. Joint Investment Sub-Committee (JISC)

In broad terms, the JISC has been delegated the responsibility to:

- make appropriate recommendations to the Trustee regarding the Scheme's investment strategy;

- appoint appropriate investment managers within each broad asset class;
- make alterations to the managers within each broad asset class, including discretion to alter the mandates of the chosen managers;
- monitor the Scheme's investment managers and the performance of the investment strategy;
- take decisions involved with rebalancing the Scheme's investment strategy; and
- take decisions on disinvestments required to meet the cash flow requirements of the Scheme.

Full details of the responsibilities of the JISC are set out in a separate document entitled *"Terms of Reference for the Joint Investment Sub-Committee (JISC) of the Hanson Pension Schemes"*.

4. Investment managers

In broad terms, the investment managers will be responsible for:

- managing their respective portfolios, within the guidelines agreed with the Trustee and set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

5. Custodian

In broad terms, the custodian will be responsible for:

- the safekeeping and reconciliation of the portion of the Scheme's assets that they have been appointed to take custody of; and
- settling transactions and administering income and tax receipts and payments.

6. Investment adviser

In broad terms the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on reviews of investment policy as necessary;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

7. Mandates given to advisers and investment managers

The Trustee has in place signed agreements with each of the Scheme's advisers and investment managers. These provide details of the specific arrangements agreed by the Trustee with each party.

8. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

9. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which charges are calculated on either fixed fees or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

10. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employers work together collaboratively.