The Eaton-Williams Group Pension and Assurance Scheme (“the Scheme”)
Statement of Investment Principles

Introduction

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

Investment Objective

The Trustees aim to invest the assets of the Scheme prudently with the aim of ensuring that the benefits promised to members are provided. In setting the investment strategy, the Trustees first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme’s liabilities. The strategy targets an expected return over liabilities of 3% p.a. net of fees whilst, at the same time, managing the investment risk profile.

Strategy

Asset allocation decisions are delegated to Hewitt Risk Management Services Limited (HRMSL) (the "Manager"). There is no target allocation to growth or matching elements. HRMSL will size the respective allocations in order to target the investment objective. The investment objective given to HRMSL is to outperform the Scheme's liabilities by 3% p.a. net of fees, over rolling three year periods. The Trustees will monitor the actual asset allocation chosen by HRMSL.

The investment objective (and consequently the investment strategy) was determined with regard to the strength of the Sponsoring Employer's covenant, the funding position and the liability profile.

The Trustees expect HRMSL to adopt a Liability Driven Investment (LDI) approach in order to manage the interest rate and inflation risks faced by the Scheme. The Trustees also expect HRMSL to diversify its sources of return across asset classes, geographies, investment managers and styles.

When setting the Scheme’s investment strategy the Trustees considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative strategies and approaches.
- The need for appropriate diversification.

In addition, the Trustees also consulted with the Sponsoring Employer when setting this strategy.

Risk

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of risks which have the potential to cause a 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.

- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustees 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 the fund managers to achieve the rate of investment return assumed by the Trustees ("manager risk"). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.

- The failure to spread investment risk ("risk of lack of diversification"). The Trustees and their advisers 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 and implemented it using a delegated approach, the Trustees' policy is to monitor, where possible, these risks periodically. The Trustees receive quarterly reports including:

- Detailed asset allocation.

- Commentary on performance of, and changes to, growth component.

- Commentary on performance of, and changes to, hedging component.

- Total Portfolio Performance and Attribution – showing asset return versus liability benchmark return together with contribution to absolute and relative return.

- Market Review and Outlook.

Implementation

Aon Hewitt Ltd has been selected as investment adviser to the Trustees. They operate under an agreement to provide a service which aims to ensure the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. Much of the investment advice provided by Aon Hewitt is included within the ad valorem fees paid to HRMSL. The investment advice covered by the HRMSL fees is specified within the Trustees' contract with Aon Hewitt Ltd. Any advice beyond this is paid for on a time cost basis, except for certain projects where a fixed fee is agreed in advance. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustees have delegated certain decision making powers to HRMSL. The Trustees have taken advice from the investment adviser regarding the suitability of the Manager in this capacity and recognises that there exists a conflict of interest in taking this advice. The

Trustees have appointed Price Waterhouse Coopers (the "Fiduciary Reviewer") to provide initial and potentially periodic independent review of the Manager.

The below table outlines the responsibilities of the Manager, the Investment Adviser and the Fiduciary Reviewer:

The Manager ▪ Decide on allocation to different asset classes ▪ Decide on Medium Term Asset Allocation (MTAA) biases in the strategy ▪ Decide on Liability Driven Investment (LDI) approach and structure ▪ Decide on LDI instruments ▪ Implement the investment strategy taking into account the limits and restrictions set ▪ Select and appoint fund managers ▪ Monitor fund managers ▪ Agree legal contracts with fund managers ▪ Implement disinvestment procedures, investment switches and rebalancing ▪ Report on asset performance against the liability benchmark and investment objective

The Trustees have delegated all day-to-day decisions about the investments, including the realisation of investments, to the Manager through a written contract. When choosing investments, the Manager is required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

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.

Environmental, Social, and Governance ("ESG") considerations

The Trustees consider investment risk to include ESG factors and climate change. These risks could negatively impact the Scheme's investments. The Trustees consider these risks by taking advice from its investment adviser. The Trustees have appointed HRMSL to manage the Scheme's assets. HRMSL invests in a range of underlying investment vehicles. As part of HRMSL's management of the Scheme's assets, the Trustees expect HRMSL to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
- Use its influence to engage with underlying managers to ensure the Scheme's assets are not exposed to undue risk; and
- Report to the Trustees on its ESG activities as required.

Stewardship – Voting and Engagement

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

The Trustees annually review the stewardship activity of the fiduciary manager to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by their fiduciary manager, these reports include detailed voting and engagement information from underlying asset managers.

As part of the fiduciary manager's management of the Scheme's assets, the Trustees expect the fiduciary manager to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying asset managers;
- Use its influence to engage with underlying asset managers to ensure the Scheme's assets are not exposed to undue risk; and
- Report to the Trustees on its ESG activities as required.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme.

The Trustees recognise that their collaborative behaviours can further work to mitigate the risks we have identified above, for the Scheme.

The Trustees may engage with their fiduciary manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as 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]).

Governance

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

Trustees
- Sets structures and processes for carrying out its role.
- Sets objectives and approach for implementing investment strategy.
- Selects and monitors planned investment strategy.
- Selects and monitors direct investments.
- Selects and monitors investment advisers and fund managers.

Investment Adviser
- Advise on all aspects of the investment of the Scheme assets, including implementation.
- Advise on appropriateness of service provided by the Manager
- Advise on investment strategy
- Advise on the investment liability benchmark
- Advise on this Statement of Investment Principles.
- Provide required training.

Fiduciary Reviewer
- Initial due diligence and periodic review of the Manager.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. 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. 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 of Investment Principles. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

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

- 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

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

The Trustees expect the Manager to manage the assets delegated to them under the terms of the contract and to give effect to the principles in this Statement of Investment Principles so far as is reasonably practicable.

Appropriate arrangements are in place for independent custody of the Scheme's investments. The Manager's (and underlying funds') custodians provide safekeeping for all the Scheme's assets held and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustees are aware of and considers Myners' Principles when making decisions on investment strategy and monitors its compliance with the Principles.

The Trustees will review this Statement of Investment Principles 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 to the Statement of Investment Principles.

The Trustees delegate the ongoing monitoring of underlying asset managers to the fiduciary manager. The fiduciary manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme. This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-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.

Before appointment of a new fiduciary 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 or express their expectations (such as through side letters, in writing, or verbally at Trustees' meetings) so that there is more alignment.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager 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 the fiduciary manager is 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 engage with the fiduciary manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

Cost and transparency

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 other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustees receive annual cost transparency reports from their fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme, including any charges incurred through the use of pooled funds (custody, admin, audit fees etc);
- The fees paid to the fiduciary manager;
- The fees paid to the investment managers appointed by the fiduciary manager; and
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager.

The Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager. These are incurred on an ongoing basis and are implicit within the performance of each fund.

The Trustees acknowledge that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustees.

The Trustees benefit from the economies of scale provided by the fiduciary manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the appointed investment managers; and
- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible.

The Trustees assess the (net of all costs) performance of their fiduciary manager on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective. The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustees. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustees monitor these costs and performance trends over time.

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