

Sir Robert McAlpine Limited Staff Pension & Life Assurance Scheme (“SRM Scheme”)

January 2022

Statement of Investment Principles

Introduction

This document constitutes the Statement of Investment Principles (‘the SIP’) required under Section 35 of the Pensions Act 1995 for the SRM Scheme. It describes the broad investment policy being pursued by the Trustees. This SIP also reflects the requirements of the Occupational Pension Schemes (Investment and Disclosure)(Amendment and Modification) Regulations 2018.

Detail on how the SRM Scheme’s investment strategy is implemented is set out in a separate Statement of Investment Implementation (‘SII’) document (which is maintained by the Trustees).

The Scheme Actuary is Shireen Anisuddin of Hymans Robertson LLP, the Investment Adviser is River and Mercantile Solutions (‘R&M Solutions’) and the Legal Adviser is CMS Cameron McKenna Nabarro Olswang LLP.

The Trustees confirm that, before finalising this SIP, they have consulted with Sir Robert McAlpine Limited (‘the Principal Employer’) and the Scheme Actuary and have obtained and considered advice from the Investment Adviser. The Trustees 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 SRM Scheme requires.

The Trustees are responsible for the investment of the SRM Scheme assets and arrange administration of the SRM Scheme. Where it is required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 (‘FSMA’), the Trustees set general investment policy, but have delegated the day-to-day investment of the SRM Scheme assets, within pre-defined constraints to professional investment managers. This is through the fiduciary management service of R&M Solutions, hereafter referred to as the ‘Fiduciary Manager’, or other Investment Managers (including those appointed by the Fiduciary Manager).

Scheme Governance

The Trustees are responsible for the governance and investment of the SRM Scheme assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the SRM Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to Investment Managers or the Advisers as appropriate. The responsibilities of each of the parties involved in the SRM Scheme governance can be found in the SII.

The Trustees will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Principal Employer if deemed appropriate. There will be no obligation to change this SIP, the Investment Managers, Fiduciary Manager or Adviser as part of such a review.

Suitability

The Trustees have defined the investment objective and investment strategy with due regard to the SRM Scheme’s liabilities. The Trustees have taken advice from the Advisers to ensure that the assets held by the SRM Scheme and the investment strategy are suitable given the SRM Scheme’s liability profile, the Trustees’ objectives, regulatory guidance and specifications in the Trust Deed.

Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement and Trust Deed.

Investment Objectives

The overall objective of the SRM Scheme is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks, which will generate income and capital growth to pay, together with contributions from the Principal Employer, the benefits which the SRM Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any Statutory Funding Requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustees' current long-term objective for the SRM Scheme is to target an investment return objective of approximately 2.0% per annum (net of fees) in excess of the Liability Benchmark Portfolio ("LBP"). The LBP represents a reasonable proxy for the SRM Scheme's liabilities and is defined as a portfolio of gilts with similar characteristics to the SRM Scheme's liabilities. Further details on the composition of the LBP can be found in the SII.

General Policies

The Trustees' approach to investment strategy is to allocate the assets into three pools – Liability Hedging Assets, Growth Assets and Cashflow Matching Credit Assets. The investment objective is then translated into the strategy and assets are allocated to these three components:

- Liability Hedging assets (targeting LBP + 0% p.a.), which aim to match the SRM Scheme's liabilities. Assets are invested in, but not limited to fixed interest gilts, index-linked gilts and swaps.
- Growth Assets (targeting Cash + 3.125% p.a.), which aim for return generation but has the ability to invest in off-risk assets as and when required to defend against falling markets. Assets are invested in, but not limited to, equities, investment grade bonds, high yield bonds, emerging market debt, hedge funds, loans and other alternative asset classes.
- A Cashflow Matching Portfolio (targeting LBP + 1.0% p.a.) that is intended to manage the SRM Scheme's need to generate cash over time to pay pensioners. This allocation invests in global investment grade corporate bonds that will pay coupon and maturity proceeds to the SRM Scheme at a broadly appropriate time in the future. This is expected to reduce the need to sell other assets over the short to medium term.

The overall level of the Trustees' investment objective influences the split of assets between these three components. To target the investment return objective, the Trustees allocates to each portfolio as per the table below. This split will be reviewed over time.

Further information on the implementation of the SRM Scheme's investment strategy, including control ranges within which the Fiduciary Manager may operate, can be found in the SII.

Monitoring

The Trustees, or Advisers on behalf of the Trustees, engage in an integrated approach to the ongoing monitoring of the SRM Scheme. In particular, decisions around the investment strategy are made with regard to the SRM Scheme's funding plan and the covenant of the Sponsor.

The Trustees, or the Investment Advisers on behalf of the Trustees or any other suitably qualified Adviser, monitor the performance of the Investment Managers against the agreed performance objectives and will regularly review the activities of the Investment Managers to satisfy themselves that the Investment Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the SRM Scheme.

As part of this review, the Trustees will consider whether or not the Investment Managers:

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

If the Trustees are not satisfied with an Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustees' requirements, the Trustees will remove that investment manager and appoint another.

Corporate Governance and Stewardship

The Fiduciary Manager and Investment Managers held in the AIF have been provided with a copy of this SIP and are required to exercise their powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995. Further information can be found in the SII.

The Trustees periodically review the overall value-for-money of using the Investment Adviser (as specified in the Scheme's Investment Consulting objectives) and Investment Managers and information in relation to costs associated with investing is included in the quarterly monitoring report.

Many of the Scheme's investments are made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the investment managers held within the AIF and DIF.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. R&M Solutions' (Investment Adviser and Fiduciary Manager) Conflict of Interest policy is available publicly here:

https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where Investment Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager directly monitors these as part of their

regulatory filings (where available), the Trustees, Investment Adviser and Fiduciary Manager also monitors this as part of ongoing review.

Advisory Investment Fund ('AIF')

As part of the appointment of the investment managers held within the AIF, the Trustees have entered formal manager agreements and/or accepted the terms of pooled investment vehicles, setting out the scope of each investment manager's and/or pooled investment vehicle's activities, their charging basis and other relevant matters. The appointment of the investment managers is ongoing.

Within the AIF, the investment managers (where appropriate) adopt an active approach to corporate governance. The Trustees would prefer to engage with companies rather than boycott particular shares or companies. The Trustees are aware of the policy of the investment managers concerned regarding corporate governance and have delegated the responsibility for activity in this area to the investment managers.

The Trustees have retained the use of voting (and other) rights attached to their mandates within the AIF; however the respective managers of the mandates retain responsibility for voting on their underlying holdings. The Trustees will monitor investment managers' voting records, and will seek explanations and discussions as appropriate.

The Trustees and Investment Adviser undertake regular reviews of the investment managers held within the AIF. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustees review the governance structures of the investment managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustees and Investment Adviser assess whether the investment managers (held within the Advisory Investment Fund) remuneration arrangements are aligned with the Trustees' objectives. The Trustees expect the investment managers (within the AIF):

- to align their investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the relevant investment documentation, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which are reflected and measured relative to the Trustees' long-term performance objectives.

The Trustees oversee the turnover costs (where available) incurred by the investment managers as part of their ongoing monitoring process and evaluate such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Where there are material deviations the Trustees engage with investment managers to understand the rationale for such deviations and take appropriate action.

Discretionary Investment Fund ('DIF')

The Trustees have appointed a Fiduciary Manager to implement this part of the Scheme's investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the underlying Investment Managers within the DIF (the 'Underlying Managers'). The Trustees and Fiduciary Manager have agreed, and will maintain, formal agreements setting out the scope of the Fiduciary Manager's activities, charging basis and other relevant matters. The Fiduciary Manager is appointed to carry out its role on an ongoing basis.

The Fiduciary Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The

Fiduciary Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

The Trustees periodically review the overall value-for-money of using R&M Solutions (as Fiduciary Manager), and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Fiduciary Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Fiduciary Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustees' long-term performance objectives.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Fiduciary Manager, as detailed above.

The Fiduciary Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Fiduciary Manager's expectations. Where there are material deviations the Fiduciary Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Fiduciary Manager. The Fiduciary Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Fiduciary Manager are subject to additional sign-off by the appropriate representative from the Fiduciary Manager.

Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustees' policy is to delegate the day to day consideration of financially material factors to the investment managers who considers these when constructing their portfolios. All references to ESG relate to financial factors only, and also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by:

- the Fiduciary Manager (R&M Solutions) as part of the manager selection criteria within the DIF. This is undertaken on behalf of the Trustees under the discretionary mandate and managers are evaluated before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Fiduciary Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement. As part of their ongoing monitoring, the Trustees review some key metrics on a regular basis that are provided by the Fiduciary Manager covering ESG which enable them to engage and understand the impact of ESG on the portfolio.
- the Trustees, as part of the investment manager selection criteria within the AIF. This review occurs before investment managers are approved for investment in the portfolio. Once an investment manager is appointed, the Investment Adviser and Trustees will monitor the investment manager for ongoing compliance with the expected standards at appointment and with other factors, such as stewardship, as a part of overall governance and engagement.

Risks

The Trustees recognise a number of risks involved in the investment of the assets of the SRM Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
 - A liability benchmark portfolio or 'LBP' is used as a proxy for the liabilities in order to measure the approximate changes in the liabilities (due to changes interest rates and inflation only). The Trustees monitor this change relative to the change in asset values on a quarterly basis. The LBP is reviewed following each actuarial review.
 - The Trustees also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.
 - When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LBP and is also assessed as part of the quarterly review process.
 - This risk is also monitored through regular actuarial and investment reviews.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
 - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
 - The use of instruments and strategies designed to control the extent of downside exposure.
 - The use of passive management for asset classes where the downside risk of active management is considered too high.
 - Regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation.
- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Managers. This is addressed in the agreements with the Investment Managers which contain a series of restrictions.
- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Managers e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
- **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the ESG assessment at the point of investment with the investment managers and as part of the ongoing investment manager monitoring process. A summary of the overall ESG characteristics in the portfolio is set out in the quarterly governance report.
- **Organisational risk** – the risk of inadequate internal processes leading to problems for the SRM Scheme. This is addressed through regular monitoring of the Fiduciary Manager, Investment Managers and Advisers.

- **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.
- **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the SRM Scheme to control the timing of any investment/disinvestment of assets.
 - The Trustees have also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments.
- **Sponsor risk** – the risk of the Principal Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Principal Employer.

The Trustees will keep these risks and how they are measured and managed under regular review.

Realisation of Assets

A sufficient proportion of the Scheme’s assets can be realised easily if the Trustees so require.

Custody

The Trustees are required to ensure that adequate custody arrangements are in place.

The majority of the assets are held on behalf of the Trustees by a Custodian, currently CACEIS Bank. Although the Trustees have a direct contractual relationship with the Custodian, the appointment and monitoring of the Custodian is delegated to R&M Solutions. For the assets not held with CACEIS Bank, the Trustees have delegated the custody of the investments of the Scheme to the Investment Managers.

Additional Voluntary Contributions

The Trustees terminated the facility for SRM Scheme members to pay additional voluntary contributions (AVCs) whereby such AVC investments were invested in line with the main scheme assets. Current AVC contributions now purchase investments in line with the Defined Contribution Scheme (covered under a separate SIP).

Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members’ ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.

Signed:.....

Date:.....

For and on behalf of the Trustees of the Sir Robert McAlpine Limited Staff Pension & Life Assurance Scheme