

THUS Group plc Pension Scheme (the 'Scheme') Statement of Investment Principles

Introduction

- 1** The Scheme provides pensions and other benefits to Scheme members ('Members') on a defined benefit basis. Under the Pensions Act 1995 (the 'Act') (as amended by the Pensions Act 2004), the Trustees are required to prepare a statement of the principles governing investment decisions for the purpose of the Scheme. This document has been prepared by the Trustees and contains that statement and describes the investment principles pursued by the Trustees of the Scheme.
- 2** In the process of preparing this document, the Trustees of the Scheme have:
 - consulted with the sponsoring employer (the 'Employer') and will consult the Employer before revising this document in the future. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees,
 - sought appropriate advice,
 - had regard to the requirements of the Pensions Act concerning diversification and suitability of investments and will consider those requirements on any review of this document or any change in their investment policy.
- 3** The Trustees will review this document, usually once a year and at least every three years, or immediately following a significant change in investment policy, or where the Trustees considers that a review is needed for other reasons.
- 4** The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Scheme details

- 5** The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 6** The Scheme ceased contracting out of the State Second Pension on 6 April 2016. Until that date, members of the Scheme were contracted out of the State Second Pension under the Pensions Schemes Act 1993. Approval to that effect was obtained from HM Revenue and Customs.
- 7** The Scheme is registered under the Finance Act 2004.
- 8** Administration of the Scheme is managed by the Trustees, who are responsible for the investment of the Scheme's assets and assessing the likely benefit outgo on a regular basis and ensuring that sufficient cash reserves are available to meet this outgo.

Financial Services and Markets Act 2000

- 9** In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

Investment objectives

10 The Trustees' investment objectives are:

- a. The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Company, the cost of current and future benefits which the Scheme provides.
- b. To limit the risk of the assets failing to meet the liabilities over the long-term.
- c. To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under **b**.

Investment policy

11 A full valuation of the Scheme will be performed every three years or sooner if required, using asset return assumptions developed and approved by the Scheme Actuary. In addition, the Trustees will consider the investment strategy against other alternative strategies. Based on this, the Trustees will consider the appropriate allocation between return seeking assets and bonds and also the allocation to specific assets and investment managers.

12 The Scheme's current strategic asset allocation is currently under review following the completion of the last full valuation as at 31 December 2017.

13 The Trustees have taken advice to ensure that the assets held in respect of the pension liabilities are appropriate. The Trustees will continue to monitor, and take advice on, the investments on an ongoing basis.

Investment Benchmark

14 The Trustees consider that the following asset allocation currently represents a suitable long-term allocation for the Scheme:

Asset Class	Benchmark Allocation (%)	Range (%)	Benchmark Index
Equities	30.0	-	-
All World Equity Index Fund	12.0	11.0 – 13.0	FTSE All-World
All World Equity Index Fund – GBP Hedged	18.0	16.5 – 19.5	FTSE All-World – GBP Hedged
Bonds	35.0	-	-
AAA-AA-A Corporate Bond – All Stocks – Index Fund	5.0	4.0 – 6.0	Markit iBoxx £ Non-Gilts (ex BBB)
Liability Driven Investment	30.0	26.0 - 34.0	Bespoke benchmark based on Scheme's projected benefit cashflows
Other assets			
Diversified Fund	30.0	28.0 – 32.0	Composite
Managed Property Fund	5.0	4.0 – 6.0	AREF/IPD UK Quarterly Property All Balanced Funds Index

Where assets are allocated to a currency hedged fund, the associated benchmark is also calculated on hedged to Sterling basis.

- 15 The Trustees consider this policy to include suitable investments, to be appropriately diversified and to provide a reasonable expectation of meeting the objectives. In addition, the Trustees will review the benchmarks regularly to ensure that they remain appropriate.

Diversification

- 16 The choice of the investments shown above, together with the nature of the investment mandates, will ensure that the Scheme's investments are adequately diversified.

Manager structure

- 17 The assets of the Scheme are currently invested in index-tracking "return seeking" equity and diversified fund, bond funds, and a pooled property fund, all managed by Legal & General Investment Management ('Legal & General').

Performance Objectives

- 18 The Trustees will assess performance against the benchmarks shown above. Legal & General's investment objective is to perform in line with the composite benchmark shown above.

Manager Monitoring

- 19 The agreement between the Trustees and the investment manager will continue either in perpetuity or until the end of the lifespan of the investment with the investment manager unless the Trustees or the investment manager takes measures in line with the investment agreement to cease the agreement. The investment management agreement may be ceased for a number of reasons, for example financial performance or policies in relation to Environmental, Social or Governance (ESG) issues.
- 20 The Trustees will evaluate the investment manager's performance in light of the specific mandates it expects the investment manager to carry out on the Scheme's behalf. This forms part of the Trustee's periodic review of the suitability of the Scheme's mandates in the context of the Scheme's wider investment strategy, including considering whether the balance between different kinds of investments remains appropriate, the expected return on the investments and the risks to which the Scheme is exposed. Further reviews are carried out based on changes in the Scheme's circumstances, market conditions or the Investment Consultant's views of a particular manager.
- 21 The investment manager's policies in relation to ESG issues are also reviewed on an annual basis to ensure that the funds invested in remain appropriate and consistent with the Trustees' approach, policies and objectives.
- 22 The Trustees have appointed the investment manager with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets and effective ESG management (which the Trustee believes is best reflected in the overall long-term performance of the manager). When assessing the manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate the manager's appointment for any of the mandates based purely on short term performance. However, the manager's appointment for any mandate could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Fee structures

- 23 The manager is paid ad valorem fees based on the value or exposure (applicable to some mandates that employ leverage to increase the exposure of assets) of each of the mandates under management.

24 The fees of the advisers are determined in accordance with the terms of their engagement.

25 Transaction costs

- a. The Trustees are provided with information by their investment manager regarding the level of transaction costs (including commissions) incurred and monitor this, alongside engaging with their investment manager on these costs.
- b. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by the investment manager) which the Trustees adhere to. The Trustees, with the help of their investment advisor, are putting in place a process to monitor the level of portfolio turnover and to determine if this remains appropriate in the context of the investment manager's mandates and the Scheme's investment strategy.

Liquidity

26 The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in the majority of foreseeable circumstances. The Trustees believe that the funds in which the Scheme currently invests meets this requirement.

Sustainable Investment

- 27 The Trustees' policy is to take into account factors that are considered to be financially material such as potential future returns and risks of any investments made. ESG-related matters, including broad corporate governance issues, effective stewardship and more specific considerations such as climate change and research and development practices are considered to be financially material by the Trustees. The Trustees expect that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties.
- 28 The Trustees recognise that a company's long-term financial success is influenced by a range of factors including appropriate management of ESG issues. Whilst it is the Trustees' preference that all companies should be run in a socially responsible way, they take the view that their primary responsibility is to act in the best financial interests of the members of the Scheme.
- 29 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the investment managers.
- 30 The Trustees' policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the investment manager. However, the Trustees expect that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment manager in the exercise of its delegated duties. In the case of Legal & General, the Trustees recognise that it is likely that, as a result of the passive nature of the investments, there are likely to be limited occasions when the manager would take account of such considerations in its selection of investments.
- 31 The Trustees expect their investment manager, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other

stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and ESG issues concerning the Trustees' investments. The Trustees believe such engagement will protect and enhance the long-term value of their investments and incentivise the investment manager to take a long-term view of the performance of their investments. The Trustees review their investment manager's policies in these areas to satisfy themselves that they broadly meet with the Trustees' views.

- 32 In order to incentivise the investment manager to align its investment strategies and decisions with the Trustees' policies, the Trustees (with the assistance of the investment advisor): (i) assess the manager's policies, processes and views when selecting the investment managers; (ii) set investment objectives and benchmarks to be complied with by the investment managers which reflect relevant policies of the Trustees; and (iii) monitor the investment managers' performance.
- 33 Should the Trustees' monitoring process reveal that, in their view, any of the investment manager's mandates are not sufficiently aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, and taking account of potential alternative options and implications for the governance requirements of the Scheme, the manager will be terminated and replaced.
- 34 To maintain alignment, the investment manager is provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis. The Trustees also seek information regarding the manager's policies to consider whether the Scheme's assets are managed in line with the Trustees policies as outlined in the Statement of Investment Principles. As part of this monitoring process the investment manager provides the Trustees with regular monitoring reports, which include information on the investment manager's approach to allowing for ESG issues.
- 35 The investment advisor has a dedicated sustainable investment resource and a network of subject matter experts, including dedicated sustainable investment resource, who can provide support in the consideration and monitoring of asset manager products. The consideration of sustainable investment is fully embedded in the manager recommendation process and the Trustees review the investment manager's ESG policies to assess the alignment with the Trustees' beliefs. Whilst considering the limitations relating to the passive nature of the Scheme's investments, the investment advisor expects managers to have sustainability processes to align with the investment risk and return characteristics of the funds, and the Trustees' aims and time horizons. Where a manager does not comply or improve on their stance on sustainable investment, the manager's position in the portfolio may be reviewed.
- 36 Other matters considered by the Trustees to be non-financial matters, such as members' views, are not taken into account.

Rights attaching to investments

- 37 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager and to encourage the manager to exercise those rights. The manager is expected to exercise these rights and

engage with companies with care and diligence that could reasonably be expected of a prudent professional investment manager, taking into account any relevant policies adopted by the Trustees from time to time and their impact on eligible participants and beneficiaries of the Scheme over an appropriate time horizon.

- 38** The Trustees encourage the Scheme’s investment manager to discharge its responsibilities in accordance with the UK Stewardship Code (the “Stewardship Code”) published by the Financial Reporting Council.

Additional Voluntary Contributions (AVCs)

- 39** AVCs paid into the Scheme by members to enhance their benefits at retirement are invested in unitised arrangements with Standard Life. Members can invest in the funds available from the two ongoing lifestyle strategies, namely Balanced Lifestyle and THUS AVC Lifestyle, and one historic lifestyle strategy. Members can also invest in a choice of funds via Self-Select strategy. The Trustees regularly monitor the AVC arrangements to ensure that they remain appropriate. The recent review carried out in June 2016 concluded that Standard Life as the provider and the range of fund choices remain suitable given the small size of the fund, declining membership and only one member actively contributing AVCs. The Trustees also reviewed the governance of the AVC arrangements in March 2019.

Risk Management

- 40** The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. The Trustees continue to monitor these risks.

Solvency risk and mismatching risk

- addressed via the analysis of the likely spread of funding levels in the future depending on the allocation of assets between different asset classes such as equities, property and bonds and through ongoing triennial actuarial valuations
- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy

Manager risk

- is measured by the expected deviation of the prospective risk and return, as set out in the manager’s objectives, relative to the investment policy
- is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager’s investment processes

Liquidity risk

- is measured by the level of cashflow required by the Scheme over a specified period
- is managed by the Trustees’ administrator who assesses the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity

Political risk

- is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy

Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
- is managed by monitoring the impact the Scheme has on the sponsor's business. Sponsor risk is measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor's earnings.

Currency risk

- is measured by the level of concentration of assets denominated in any foreign currency leading to the risk of an adverse influence on investment values arising from unfavourable conditions affecting that particular currency
- is managed by controlling the level of overseas investments, diversifying overseas investments across currency blocs and by hedging approximately 65% of the developed markets currency exposure within its diversified portfolio, and approximately 60% of the developed markets currency exposure within the equity portfolio.

Custodian risk

- is addressed through the ongoing monitoring of the custodial arrangements. The custodian for the Scheme's assets is appointed by the investment manager.

Market impact risk

- the risk that assets are bought or sold at sub-optimal prices. This risk is mitigated through the choice and ongoing monitoring of the investment manager and consideration of transition arrangements where appropriate.

Corporate governance risk

- measured by the level of concentration in the individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure
- managed by adopting a diversified investment policy, both geographically between markets and within each market.

**THUS Group plc Pension Scheme
September 2020**

Myners Code

- 1** The Myners Code makes a number of recommendations for the governance, investment and monitoring of the Scheme's assets. The Trustees have reviewed the arrangements of the Scheme in the light of the Code, and formulated and will maintain an annual business plan which will form the basis for future reviews of the Trustees' performance. Other issues raised by the Code are considered within the Statement of Investment Principles.

Division of Responsibilities

- 2** The Trustees are responsible for investment policy, asset allocation strategy, manager structure, mandates, selection and review and for investment monitoring. The Trustees recognise that these responsibilities require a high level of skill and expertise, and they will undertake training and seek advice from their professional advisors as required.
- 3** The Trustees have decided not to delegate any functions to an investment subcommittee, because the trustee body consists of only five individuals.
- 4** An investment manager has been appointed for all aspects of the day to day management of the assets of the Scheme, including the selection of appropriate assets, and the administration and safe-keeping of those assets, within certain mandates.
- 5** The Scheme Actuary's responsibilities include liaising with the Investment Consultant on the suitability of the Scheme's investment policy given the financial characteristics of the Scheme, assessing the funding position of the Scheme and advising on the appropriate response to any shortfall, performing the triennial (or more frequently as required) actuarial valuations and advising on appropriate contribution levels. She will also supply liability data and cashflow information to the Investment Consultant as required.
- 6** The Trustees' Investment Consultant has a particular responsibility to assist in monitoring the Scheme's investment managers and to help review the investment strategy. The Trustees agree with the principle of separate competition for actuarial and investment contracts. However, the Trustees believe that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Scheme. They will continue with this arrangement until it ceases to be appropriate.
- 7** The Scheme's advisors are paid either on a project basis, or on a time-cost basis, within agreed budgets. The investment manager's charges are expressed as a flat fee for managing the assets against the scheme-specific benchmark plus a percentage of the assets under management, with the percentage rate varying across the underlying pooled funds.
- 8** This division of responsibilities and fee structure is consistent with the approach taken by other similar schemes and the Trustees are satisfied that it represents an efficient structure, given the skill sets of the various parties.