

The Yule Catto Group Retirement Benefits Scheme (the "Scheme")

Statement of Investment Principles – Effective from December 2021

1. Introduction

The Trustees of the The Yule Catto Group Retirement Benefits Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustees' investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the participating employer (the "Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustees' objectives.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution ("DDS"), to implement the Trustees' strategy, as advised by Isio Group Limited ("Isio") as investment consultant, whereby the level of investment risk reduces as the Scheme's funding level improves. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA, and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis. In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of Mercer and Isio, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme's ongoing and solvency funding positions. The Trustees recognise that equity investment will bring increased volatility of the funding level, but in the expectation of improvements in the Scheme's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met. In meeting this objective the Trustees' further objectives are to:

- Move the Scheme to a position of being fully funded on a de-risked funding basis (gilts +0.4% p.a.) by 2028, by means of an agreed combination of investment return and contributions from the Sponsor.
- In doing so, to opportunistically reduce the degree of risk in the Scheme's investment arrangements, thereby helping to protect the Scheme's improving funding position.

The Trustees recognise this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed in section 4.

The Trustees have agreed that the Scheme should move progressively towards a target of an entirely bond-based investment strategy ("Matching Portfolio") as its funding level increases. The Trustees will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determines to be financially material considerations. Non-financial considerations are discussed in section 9.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more volatility in the Scheme's funding position.
- To control the risk outlined above, the Trustees, having taken advice, set the split between the Scheme's Growth and Matching Portfolios such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.
- Whilst moving towards the target funding level, the Trustees recognise that even if the Scheme's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular

monitoring reports regarding the level of diversification within the Trustees' portfolio.

- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.
- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Scheme assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, while being a non-financial risk, may have a financially material impact on return. Section 9 sets out how these risks are managed.
- Responsibility for the safe custody of the Scheme's assets is delegated to Mercer who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

Should there be a material change in the Scheme's circumstances, the Trustees will advise Isio and Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustees, with advice from Scheme's investment consultant and Scheme Actuary, review the Scheme's investment strategy approximately annually. These reviews consider the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

The Trustees have implemented a long term solution to "de-risk" the Scheme's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The implementation of their de-risking strategy is delegated to Mercer by way of its DDS. The approach undertaken relates to the asset allocation to the Scheme's funding level (on an actuarial basis using a single discount rate of 0.4% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.4% p.a. basis"). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target full funding on a gilts +0.4% basis by 2028;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise, by switching assets from the Growth into the Matching Portfolio.

The de-risking strategy takes account of the Scheme's initial funding level on a gilts + 0.4% p.a. basis and is based on a model of the progression of the Scheme's funding level, taking into account the expected contributions from the Sponsor as agreed at the latest triennial actuarial valuation.

Following the investment strategy review in 2017 and move to Mercer's DDS, the Trustees implemented a de-risking framework which was agreed by the Trustees and Sponsor.

The Growth Portfolio allocation will reduce over time as de-risking triggers form the basis of the Scheme's dynamic investment strategy and are set out in a separate document – the Statement of Investment Arrangements. As at December 2021, the allocation is set out in the below table:

Asset Class	Allocation (%)
Growth Portfolio	46.6
Matching Portfolio	53.4
Total	100.0

Once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and amended if required.

Responsibility for monitoring the Scheme's asset allocation, and undertaking any rebalancing activity, is delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities.

6. Realisation of Investments

The Trustees, on behalf of the Scheme, hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE within parameters stipulated in the relevant appointment documentation, have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's asset in line with the Scheme's strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

8. Rebalancing

Rebalancing ranges have been set within the Growth and Matching Portfolios to ensure the Scheme's assets remain invested in a manner which is consistent with the investment strategy agreed by the Sponsor. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced Growth Portfolio weighting, under the new de-risking band, as defined in the Statement of Investment Arrangements.

9. Environmental, Social and Corporate Governance, Stewardship, and Climate Change

The Trustees believe that good stewardship and the incorporation of environmental, social and corporate governance (ESG) factors into investment decision-making processes can have a material impact on the financial and non-financial performance of the Scheme's assets over the medium and long-term. The Trustees also recognise that long-term sustainability issue, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments. The underlying asset managers are expected to act in accordance with their own corporate governance policies and current best practice, including the UK Corporate Code and UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustees' thinking when it comes to

converting systemic risks into transformational investment opportunities as outlined in the Mercer Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the appointed underlying asset managers. Mercer, and MGIE, is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

The Trustees have also considered the Sponsor's approach to ESG and sustainability, in particular its six pillar framework and the Sponsor's commitment to net-zero by 2050 for operations and production. This is in alignment with Mercer's commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer's Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy, targets and metrics.

An allocation to Sustainable Equities is directly made by the Trustees.

A detailed standalone sustainability monitoring report is produced for the Sustainable Global Equity passive fund on a semi-annual basis and is available for review by the Trustees upon request. The approach considers revenues that positively and negatively contribute to environmental and social outcomes (also mapped to the SDGs).

The Trustees recognise the conflict of interest which may arise in the context of responsible investment, particularly since Mercer and MGIE make investment decisions with the aim of improving long-term risk-adjusted returns for the Scheme's members. Furthermore, the Trustees expect Mercer and MGIE to assess whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts policies and reported any breaches.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions in relation to particular Mercer Funds. The restrictions applied by Mercer Delegated Solutions are outlined in the Sustainable Investment Policy.

10. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and employs Isio to keep Mercer's performance under ongoing review.

Should the Trustees consider that Mercer or MGIE have failed to align their investment strategies and decisions with the Trustees' policies, the Trustees will notify Mercer and may consider disinvesting some or all of the assets invested that are managed by Mercer, and/or seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception (if applicable). The Trustees review the absolute performance and relative performance against a portfolio's and underlying asset manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, the responsibility for making portfolio selection decisions based on assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement activities.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In

addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also includes details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying asset managers undertaken by MGIE.

11. **Additional Assets**

Under the terms of the Trust Deed, the Trustees are responsible for the investment of any Additional Voluntary Contributions ("AVCs") paid by members. This facility is provided through Utmost, Zurich and Prudential. All are closed to new AVCs made by members.

The Trustees review the investment performance of the chosen providers as appropriate and take advice as to the providers' continued suitability.

12. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Agreed for and on behalf of The Yule Catto Group Retirement Benefits Scheme

Signed: _____ Date: _____

Name: _____

Signed: _____ Date: _____

Name: _____