28 September 2020

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 HBG UK Pension Plan (the "Plan"). It describes the investment policy being pursued by HBG UK Pension Trustee Limited (the "Trustee") and is constructed having in regard the Government's voluntary code of conduct for Institutional Investment in the UK (the "Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes ((Investment and Disclosure)(Amendment and Modification) Regulations 2018.

The Trustee also maintains a separate Statement of Investment Implementation ("SII") document that provides further information on how the Plan's investment strategy is put into place.

The Scheme Actuary is John Batting of XPS Pensions Group, the Investment Adviser is River and Mercantile Solutions (a division of River and Mercantile Investments Limited), collectively termed the "Advisers".

The Trustee confirms that, before preparing this SIP, it has consulted with BAM Construct UK Limited (the "Company") and the Scheme Actuary, and has obtained and considered written advice from the Investment Adviser. The Trustee believes the Investment Adviser to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of investment arrangements such as those of the Plan.

The Trustee is responsible for the investment of the Plan's assets and arranges administration of the Plan. Where it is required to make an investment decision, the Trustee always receives advice from the Advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustee sets general investment policy, but has delegated the day-to-day investment of the Plan's assets to professional investment managers (the "Investment Managers"). The Investment Managers are authorised under the Financial Services & Markets Act 2000 and provide the expertise necessary to manage the investments of the Plan competently.

Plan Governance

The Trustee is responsible for the governance of the Plan's assets. The Trustee considers that the governance structure that it employs is appropriate for the Plan, as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers or the Advisers as appropriate. The responsibilities of each of the parties involved in the Plan's governance are detailed in the SII.

The Trustee believes that it should be collectively involved in the investment decision-making function and have therefore decided not to appoint an investment sub-committee to deal with investment matters.

The Trustee will review this SIP at least annually and modify it if deemed appropriate, in consultation with the Advisers. There will be no obligation to change this SIP or any Investment Manager or Adviser as part of such a review.

Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the Plan's liabilities.

The Trustee has taken advice from the Advisers to ensure that the asset allocation strategy is suitable for the Plan, given its liability profile, the Trustee's objectives, regulatory guidance and specifications in the Trust Deed.

The degree to which the distribution of assets exactly reflects the liabilities will depend on a number of factors, in particular the funding level of the Plan from time to time.

Statutory Funding Objective

The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet the Statutory Funding Objective.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee will consider with the Advisers, whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

Investment Objectives

The Trustee has set the following qualitative investment objectives:

- to ensure that the Plan has sufficient monies at all times to meet its financial obligations as and when they fall due in the future;
- to reduce to an appropriate level the likelihood of the assets being assessed as failing to meet the liabilities over the long-term having regard to the Statutory Funding Objective;
- to reduce to an appropriate level the volatility of the Plan's on-going funding level arising from changes in economic conditions and investment markets;
- to reduce to an appropriate level the likelihood of an unforeseen increase in the contributions due from the Company; and
- to minimise the long-term cost of the Plan by maximising the return on the assets whilst having regard to the other objectives shown above.

In quantitative terms, the Trustee's current long-term objective for the Plan is to achieve an investment return objective of approximately 0.75% per annum in excess of the Liability Benchmark Portfolio ("LBP"). The LBP represents a reasonable proxy for the Plan's liabilities and is a full set of liability cashflows provided by the Scheme Actuary, which we have modelled to monitor the change in the Plan's liabilities as a result of movements in interest rates and inflation expectations. Further details on the composition of the LBP can be found in the SII.

The Plan's investment strategy should be prudent, in accordance with the provisions of the Trust Deed and Rules.

Asset Allocation Strategy

Having considered advice from the Advisers, and also having due consideration for the objectives, the attitude to risk of the Trustee and Company and the liabilities of the Plan, the Trustee has decided upon the following asset allocation strategy. In so doing, the Advisers have considered the full range of suitable investment opportunities that could potentially meet the investment objectives above, paying due regard to the potential risks of investment, as outlined below.

At a high level, the Trustee has notionally split the Plan's assets into:

- An **Investment Fund** (targeting LBP + 3% per annum), which aims for return generation. Assets are invested in, but are not limited to, equities, investment grade bonds, high yield bonds, emerging market debt, property, loans etc.
- A **Matching Fund** (targeting LBP + 0% per annum), which aims to broadly mirror the movement in the liabilities of the Plan owing to changes in interest rates and inflation expectations and thereby help in stabilising the Plan's funding level over time. It is represented by a Liability Driven Investment portfolio consisting of cash, gilts, gilt repurchase agreements and a series of derivatives contracts executed with counterparty investment banks.
- A **Cashflow Matching Portfolio** (targeting LBP +1.0%) that is intended to manage the Plan'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 Plan 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 Trustee's investment return objective influences the split of assets between these three components.

The Trustee has established a monitoring and decision-making process to identify opportunities for reducing the allocation to the Investment Fund over time, having regard to the qualitative objectives outlined above (further details set out in the SII). This process is formally reviewed at each quarterly meeting and as part of the triennial actuarial valuation process.

The proportions of assets actually invested in the different asset classes listed above will vary from day-to-day due to investment market movements. The Trustee will review the Plan's actual asset allocation on a quarterly basis when reviewing the investment governance report at each Trustee meeting. Divergences of over 2.5% will be formally discussed, and the Plan's cash flow requirements will be managed in such a way as to bring the assets closer to the strategic allocation. Should cash flow requirements not be able to sufficiently address the divergence in a timely manner, the Investment Adviser will propose a transition of assets to bring the mandates/portfolios back in line with strategic targets.

Diversification

The choice of asset allocation strategy is designed to ensure that the Plan's investments are adequately diversified and liquid. The Trustee monitors the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

The assets are invested in a diversified range of suitable investments of different types and with different investment managers in order to reduce investment risk given the circumstances of the Plan.

The range of, and any limitation to the proportion of, the Plan's assets held in any asset class will be agreed between each Investment Manager and the Trustee. This range and set of limitations will be specified in the formal Manager Agreements and may be revised from time to time according to appropriate investment strategy advice provided to the Trustee and having regard to the investment powers of the Trustee as defined in the Trust Deed.

Realisation of Assets

The majority of the assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustee so requires. The Trustee has a formal cash flow policy in place in order to control the timing of any investment/disinvestment of assets.

Some asset classes by nature are more liquid than others, and the Trustee, in consultation with the Advisers, will ensure that it is fully aware of the liquidity of an asset class before investing in it.

Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee will take advice on the suitability of the contracts and set restrictions on the use of derivatives where they think this is appropriate.

Monitoring

The Trustee will monitor the performance of the Investment Managers against agreed performance objectives, in particular through the use of quarterly investment governance reports. This will allow the Trustee to monitor performance of the Managers versus their objectives over quarterly, 12 month and 3 year periods (where applicable).

The Trustee will also hold regular meetings with the active Investment Managers and receive regular information on all the Investment Managers from the Investment Adviser to satisfy itself that the Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Plan. These meetings will be scheduled when the Trustee, in conjunction with the Investment Adviser, deems it necessary to receive further information from the investment manager.

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

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

If the Trustee is not satisfied with an investment manager they will require that the investment manager takes such steps to satisfy them in this respect, or they will remove the manager and appoint another.

In addition, the Trustee will monitor the advice given by the Advisers on a regular basis.

Risks

The Trustee recognises a number of risks involved in the investment of assets of the Plan:

i. ***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 addressed through the asset allocation strategy (including the use of a liability driven investment mandate to hedge interest rate and inflation risk), regular actuarial and investment reviews, and by monitoring performance relative to the LBP.

ii. ***Underperformance risk*** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is addressed through regular investment reviews, advice from the Investment Adviser, close monitoring of the performance of the Investment Managers and taking necessary action when this is not satisfactory, and by use of more than one investment manager to avoid overexposure to one organisation.

iii. ***Country/political risk*** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries.

iv. ***Currency risk*** – the risk that fluctuations in the value of the overseas currencies can affect the total return of the Plan's investments when compared to a Sterling benchmark. The Trustee will review the appropriateness of the currency restrictions in place at whole Plan and individual Investment Manager levels as part of regular investment reviews to ensure these remain suitable and appropriate.

v. ***Concentration risk*** – the risk of an adverse influence on investment values from the concentration of holdings. This risk is addressed by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector.

vi. ***Mismanagement risk*** – the risk of unsuitable investment activity by the Investment Managers. The agreements with the Investment Managers contain a series of restrictions to limit the risks from each individual investment and prevent unsuitable investment activity. The activity of the Investment Managers and their processes are monitored regularly by the Investment Adviser on behalf of the Trustee.

vii. ***Organisational risk*** – the risk of failing internal systems or processes. This risk is addressed through regular monitoring of the Investment Managers and Advisers.

viii. ***Sponsor risk*** – the risk of the Company ceasing to exist, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy.

ix. ***Liquidity risk*** – the risk that the Plan is unable to realise sufficient assets to pay cash flow requirements when required. This risk is addressed through the monitoring of the net cash flow requirements of the Plan to control the timing of any investment/disinvestment of assets, and taking into account the liquidity of assets and the Plan's net cash flow requirements when setting the asset allocation strategy. The majority of the Plan's assets offer daily or weekly liquidity.

x. ***Counterparty risk*** – the risk of the counterparty to an agreement not carrying out their side of the deal. Where derivatives are used, this risk 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. The Plan also uses several counterparties in order to diversify counterparty risk.

xi. ***Transition risk*** – the risk of paying unnecessary costs, or being at increased risk of adverse market movements, when transitioning assets from one of the Investment Managers or asset class to another. This risk is mitigated by organising transitions in a structured fashion with the advice of the Investment Adviser or by using a specialist transition manager, if appropriate.

xii. ***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.

The Trustee will keep these risks and how they are measured and mitigated under regular review and update this SIP accordingly.

Custody

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

For pooled fund holdings, the Trustee has delegated the custody of the investments of the Plan to the Investment Managers. The Trustee has appointed State Street Bank & Trust Company (the "Custodian") as custodian for the Plan's segregated LDI holdings.

Additional Voluntary Contributions (AVCs)

The Plan is now closed and therefore members can no longer contribute to AVCs. However, historical AVCs are invested and used to increase pension benefits at retirement, or in the event of death. The Trustee has established the arrangements under which these contributions are invested. The Trustee's objective is to maximise, as far as is reasonable and sensible, the value of the member's contributions plus investment returns, within the constraints imposed by the member's choice of investments, and to provide members with a choice of investment. The Trustee reviews these AVC arrangements on an annual basis having regard to their performance, the objectives and investment advice.

Details on the funds and investment managers under these AVC arrangements can be found in the SII.

Financially material investment considerations

These considerations which include the above "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 Trustee delegates the day to day consideration of financially material factors to the investment managers who consider these when constructing their portfolios. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long-term performance, by the Trustee as part of the investment manager selection criteria. This review occurs before Investment Managers are approved for investment in the portfolio. Once an investment manager is appointed, the Investment Adviser and Trustee 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.

The Trustee does 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. This is because of the challenges in creating a single definition on any specific ethical matter that is aligned to all members. However, the Trustee monitors the Investment Managers on a quarterly basis through a summary ESG score and will review its policy periodically.

Corporate Governance and Stewardship

The Trustee and the Investment Managers have agreed, and will maintain, formal Manager Agreements setting out the scope of each Investment Manager's activities, its charging basis and other relevant matters. The Investment Managers should be 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 Section 36 of the Pensions Act 1995.

As part of the appointment of the investment managers to the Plan, the Trustee has entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of each investment manager's and pooled investment vehicle's activities, their charging basis and other relevant matters. The appointment of the investment managers is ongoing. The Trustee periodically reviews the overall value-for-money of using the Investment Adviser (as specified in the Plan's Investment Consulting objectives) and investment managers.

The Plan's investments are generally made via pooled investment funds, in which the Plan's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or other financially material considerations, is delegated to the Investment Managers.

The Investment Managers where appropriate adopt an active approach to corporate governance. The Trustee would prefer to engage with companies rather than boycott particular shares or companies. The Trustee is 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 Trustee has retained the use of voting (and other) rights attached to their mandates; however the respective managers of the mandates retain responsibility for voting on their underlying holdings. The Trustee will monitor Investment Managers' voting records and will seek explanations and discussions as appropriate.

The Trustee and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustee 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 Trustee and Investment Adviser assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects the investment managers:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement or pooled fund 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 Plan's performance, which are reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are 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 Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflict of Interest policy is available publicly here: https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

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