

Barnett & Hall Holdings Pension Scheme

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

The Trustees of the Barnett & Hall Holdings Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to set down the principles governing decisions about investments for the Barnett & Hall Holdings Pension Scheme to comply with the following legislation:

- Pensions (Northern Ireland) Order 1995 (as amended).
- The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015; and
- Subsequent legislation.

Before preparing the Statement, the Trustees have consulted John Thompson & Sons Limited and obtained and considered professional advice from their investment consultants, Mercer Limited (“Mercer”). Where matters described in this Statement may affect the Plan’s funding policy, input has also been obtained from the Plan Actuary. The Trustees will review this Statement on a regular basis and at least every year, or following any significant change in investment policy.

The Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed; a copy of the relevant clause, of which this Statement takes full regard, is available on request.

Overall investment policy falls into two parts:

- The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives as set out in Section 2 below.
- The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment management and described in Section 3.

The Statement was most recently reviewed in May 2022.

2. Investment Objectives and Risk

2.1 Investment Objectives

The Trustee’s objective is to invest the Scheme’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

The Trustees consider that its broad objective is to invest the Scheme's assets in such a manner that members' entitlements can be paid when they fall due. As a key step to achieving this, the Trustees, following consultation with the Principal Employer, John Thompson & Sons Limited (the Company), has entered into two bulk purchase annuity contracts issued by Scottish Widows in 2020 and Legal & General in 2022. Buyout with Scottish Widows was completed in 2021. Scottish Widows and Legal & General are authorised by the Prudential Regulation Authority to write contracts of long term life insurance of this nature in the UK.

The Trustees' key objective is to ensure an efficient progression towards an insurer buy-out with Legal & General of the Plan's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Scheme's governing documentation and relevant legislation.

In due course, in order to complete buy-out, the known members' benefits will be secured by means of individual annuity policies issued by Legal & General directly to the members, in accordance with the terms of the bulk annuity policies.

The Scheme's principal asset is the bulk annuity policy with Legal & General. As a result, all of the Scheme's assets are represented by these policies with the exception of residual funds held in a property fund with BlackRock which is to be liquidated in the short term.

The residual cash is to be held in the Trustee Bank Account or investments in daily dealt pooled funds with BlackRock to ensure liquidity, in order to help the Trustees meet imminent cash outgo in connection with ongoing expenses arising that are to be met from the Scheme, liability changes prior to buy-out and any measures implemented prior to buy-out in relation to GMP equalisation. The Trustees also hold policies in respect of 3 insured pensioners with Canada Life with the value of these liabilities broadly matched by the insurance policies.

Future benefits payable from the Scheme prior to buy-out will be funded by the bulk annuity policies.

2.2 Risk

The Trustees recognise that it is necessary to take some degree of investment risk to meet the objectives outlined in Section 2.1. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

In formulating the investment objective the Trustees believe the following risks to be financially material over the lifetime of the Scheme:

- Counterparty risk. Between now and the completion of the buy-out, the principal risk facing the Trustees and Scheme members is that Legal & General may default on its obligations under the bulk annuity policies. Before entering into the bulk annuity contracts, the Trustees obtained and carefully considered professional advice regarding the suitability of Legal & General as a provider. In addition the

Trustees are aware that regulatory oversight, and, ultimately that there is a level of protection offered to members by the Financial Services Compensation Scheme (“FSCS”).

- Liquidity risk. Measured by the level of cashflow required by the Scheme over a specific period. The Trustees do not expect to be able to obtain cash from the bulk annuity policy other than in respect of benefits insured with Legal & General albeit there was a funding surplus following the initial premium paid to Legal & General. Prior to purchasing the policy, the Trustees satisfied themselves that all known members’ benefits would be insured in full. Under the terms of the policies, a post transaction period of data cleansing will be undertaken between the Scheme administrator and Legal & General.
- Lack of diversification. The Trustees recognise that the decision to invest in a bulk annuity contract with a single provider, whilst reducing operational risks and complexity, represents a concentration of investment risk. However, after careful scrutiny of the provider prior to transaction, and having considered the advice of the Scheme’s professional advisors the Trustees are satisfied that the degree of risk taken is acceptable.

2.3 Investment Strategy

The Trustees consider the appropriateness of the Scheme’s investment strategy following the results of each actuarial valuation and at other times as required. As a result of these reviews, the Trustees decide on an appropriate investment strategy to meet the objectives and risks outlined above.

Following strong funding progression of the Scheme, taking into consideration the best interest of the beneficiaries and the views of the Principal Employer, the Trustees went to market to source quotations from insurers for a partial bulk purchase annuity, covering the pensioner members of the Scheme as at 8th October 2020. In preparation for this, the Trustees de-risked the Scheme by selling a proportion of the equity assets in favour of a larger interim allocation to protection assets (i.e. cash, UK government bonds and corporate bonds).

The Trustees secured favourable terms with Scottish Widows and entered into a partial bulk purchase annuity contract in 2020, with buyout being completed in 2021. Following completion of the buyout with Scottish Widows the Trustees undertook a review of the investment strategy and due to the continued strong funding position, de-risked the Scheme by reducing the allocation to equities further in favour of UK government bonds.

The Trustees again went to market to source quotations from insurers for a bulk purchase annuity, covering the remaining deferred and pensioner members of the Scheme. The Trustees secured favourable terms with Legal & General and entered into a bulk purchase annuity contract on 25 March 2022 with a mortality on risk date of 6 April 2022 as outlined in Section 2.1.

3. Day to Day Management of the Assets

3.1 Main Assets

The Trustees have appointed Legal & General as their annuity provider having obtained and considered the written advice from their investment advisor, Mercer, specific Section 36 advice from Mercer Limited and legal advice from their legal advisor, who the Trustees consider to be suitably qualified to provide such advice.

In this context, relevant investment advice relates to that provided in accordance with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Trustees will also hold cash within the Trustee Bank Account or investments in daily dealt pooled funds with BlackRock to ensure liquidity for ongoing expenses arising that are to be met from the Scheme, liability changes prior to buy-out and any measures implemented prior to buy-out in relation to GMP equalisation.

3.2 Responsible Investment and Corporate Governance

Financially material considerations and Stewardship

The Trustees believe that good stewardship and environmental, social and governance (“ESG”) issues may have a material impact on investment risk and returns. The Trustees also recognise that long-term sustainability issues, particularly, but not limited to, climate change, present risks and opportunities that increasingly may require explicit consideration.

Since the majority of the Scheme’s assets are invested through the purchase of the bulk annuity policy with Legal & General, which have no voting rights attached, the control of corporate governance issues have been ceded by the Scheme to Legal & General.

For the residual assets held, if invested with an underlying investment manager the policies below will apply:

- The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising voting rights and stewardship obligations attached to the Plan’s investments, including engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest and risks, in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.
- The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the investment managers’ general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.
- The Trustees consider how ESG, climate change and stewardship is integrated within Mercer’s investment processes and those of the investment managers in the monitoring process. The ESG ratings of the investment managers are monitored by Mercer and presented to the Trustees on request.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Member views

Member views are not currently taken into account when determining the investment strategy, underlying manager structure or selection, retention or realisation of investments. The Trustees will review this position periodically.

3.3 Cashflow and Realisation of Investments

The Scheme's principal asset is the bulk annuity policy with Legal & General. As a result, the majority of the Scheme's assets are represented by this policy, with the exception of residual cash held in the Trustees' bank account or invested with BlackRock.

The residual cash/investments is to be held, in order to help the Trustees meet imminent cash outgo in connection with ongoing expenses arising that are to be met from the Scheme, liability changes prior to buy-out and any measures implemented prior to buy-out in relation to GMP equalisation.

Future benefits payable from the Scheme prior to buy-out will be funded by the bulk annuity policies.

3.4 Monitoring the Investment Managers

The Trustees meet the investment managers regularly to review the investment managers' actions together with the reasons for and background to the investment performance. Mercer is retained as investment consultant to assist the Trustees in fulfilling their responsibility for monitoring the investment managers.

4. Investment Manager Appointment, Engagement and Monitoring

Since the majority of the Scheme's assets are invested through the purchase of the bulk annuity policy with Legal & General, the Trustees are unable to incentivise the insurer, remunerate or monitor portfolio turnover costs as these are not applicable to a bulk annuity.

For the residual assets held, if invested with an underlying investment manager the policies below will apply:

4.1 Aligning Investment Manager Appointments with Investment Strategy

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics.

The Trustees look to Mercer, where appropriate, for their forward-looking assessment of an investment manager's ability to outperform over a full market cycle. This view will be based on the Mercer's assessment of the investment manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in.

Mercer's manager research ratings assist with due diligence (and questioning the investment managers during presentations to the Trustees) and are used in decisions around selection, retention and realisation of investment manager appointments.

If the investment objective for a particular investment manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustee's investment objectives.

The Plan's investments are all made through pooled investment vehicles. The Trustees accept that it has no ability to specify the risk profile and return targets of the investment manager. Such issues are taken into consideration when selecting and monitoring the investment managers to align with the overall investment strategy requirements.

4.2 Incentivising Investment Managers to Consider Long-Term Financial and Non-financial Performance

The Trustees also consider Mercer's assessment of how each investment manager embeds ESG into its investment process and how the investment manager's responsible investment philosophy aligns with the Trustees' beliefs around responsible investment. This includes the investment managers' policy on voting and engagement (where relevant). The Trustees will use this assessment in decisions around selection, retention and realisation of investment manager appointments where applicable.

The Trustees meet with the investment managers from time to time and can challenge decisions made including voting history and engagement activity to ensure the best performance over the medium to long term.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will consider replacing the investment manager.

4.3 Evaluating Investment Manager Performance and Remuneration

The performance and fees of the manager and the investment options are available to the Trustees on a regular basis. The Trustees review absolute performance and in many cases relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the investment manager's stated performance target (over the relevant time period).

The Trustees' focus is primarily on long-term performance but may put a manager 'on watch' if there are short-term performance concerns and if:

- There is a change in the portfolio manager or portfolio management team;

- There is a change in the underlying objectives of the investment manager, or;
- There is a significant change to Mercer's rating of the investment manager.

If investment managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustees may ask investment managers to review the Annual Management Charge or decide to switch investment managers.

4.4 Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs.

The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask investment managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same investment manager fund, or relative to the investment manager's specific portfolio turnover range in the investment guidelines or prospectus.

4.5 Investment Manager Turnover

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

For open-ended funds (which all of the Scheme's assets are invested in), there is no set duration for the investment manager appointments. The Trustees will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or investment manager;
- The investment manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

5. Compliance with this statement

The Trustees will monitor compliance with this Statement as required in conjunction with their advisers.

6. Review of this statement

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the sponsoring Company, which they judge to have a bearing on the stated Investment Policy.

Any such review (which will occur at least on an annual basis) will again be based on written, expert investment advice and will be in consultation with the Company.

This statement has been agreed by the Trustees on 30th May 2022

Signed on behalf of the Trustees of the Barnett & Hall Holdings Pension Scheme:

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DECLAN BILLINGTON
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31st May 2022
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