Statement of Investment Principles for the Halcrow Pension Scheme (No.2)

March 2023

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Jacobs Four Limited ("the Trustee") on various matters governing decisions about the investments of the Halcrow Pension Scheme (No.2) ("the Scheme"), a Defined Benefit ("DB") Scheme.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

Appendix 1 sets out details of the respective key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

Appendix 2 sets out the Trustee's policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The Trustee's primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. A secondary objective is that the Scheme should be fully funded (ie the asset value should be at least that of its liabilities). The Trustee is aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme.

The Trustee's investment objective is to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level and taking into account the primary objective.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employers, periodically reviews the investment strategy taking into account the objectives described in Section 2 above. The Trustee has set an investment strategy which targets an allocation of 80% to a lower-risk Matching Portfolio and 20% to a higher-risk Growth Portfolio. The Trustee has agreed a policy to consider further de-risking if the Scheme's funding position improves to certain pre-agreed levels. Further information is contained within the Investment Policy Implementation Document ("IPID")

The Trustee monitors the split between the Matching and Growth Portfolios from time to time and would generally expect the actual allocations to remain within 5% of the target allocations. If a deviation of more than this occurs, the Trustee will consider with its advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

The Matching Portfolio consists of assets which are considered by the Trustee to be relatively low risk ie fixed interest and index-linked gilts, investment grade corporate bonds, interest rate and inflation swaps, and gilt repurchase agreements. The Trustee invests in these assets as it considers appropriate to help manage the risk from changes in interest rate and inflation. This approach is commonly referred to as "Liability Driven Investment".

The Growth Portfolio consists of assets such as UK and overseas equities, property and private credit. The Trustee anticipates these growth assets will provide higher investment returns than the Matching Portfolio over periods of ten years or more, albeit with greater risk.

Further details of the Matching and Growth Portfolios are set out in the IPID.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. The key long-term financial assumptions made by the Trustee (as at 30 June 2021) were:

- Return on equities: gilts + 4.8% pa;
- Return on private credit: gilts + 3.8% pa;
- Return on property: gilts + 3.4% pa; and
- Return on corporate bonds: gilts + 0.7% pa.

The primary ways that the Trustee manages investment risk is via diversification, ensuring it receives professional written advice prior to making any material investment decision, and the Trustee's ongoing monitoring and oversight of the investments. Investment risk is measured using "Value at Risk".

In setting the strategy the Trustee also took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustees' key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be an area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions;
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term.
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns; and
- costs have a significant impact on long-term performance.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the IPID.

The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee can influence managers' investment practices where it is invested in segregated mandates, however it has limited influence over managers' investment practices where the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover. However, this is not the case for the segregated mandates where the Trustee has control over the objectives, guidelines and restrictions of the funds.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in the Trustee's assessment of the investment managers, the Trustee does not explicitly monitor portfolio turnover. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation as set out in the IPID.

7. Financially material consideration and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) when making investment decisions. It seeks to appoint managers that have appropriate skills and processes to do this and may consider investing in funds (where available) that demonstrate the incorporation of ESG factors, including climate-related factors, into the investment process. The Trustee will, from time to time review how its managers are taking account of these issues in practice, for example by meeting with managers at regular Trustee meetings.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds. However, it encourages its managers to improve their practices where appropriate.

The Trustee has considered the extent to which non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) should be taken into account in the selection, retention and realisation of investments. At present, taking into account its overall duties to the beneficiaries on the Scheme, the Trustee has decided not to allow for such non-financial matters .

8. Stewardship

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of the Scheme's members.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, risks and ESG considerations. The Trustee expects the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of the Scheme's investments are held through managers or pooled funds, the Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustee seeks to understand how the managers implement their stewardship policies in practice to check that their stewardship is effective and aligned with the Trustee's expectations.

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee's priority ESG themes are Climate Change and Human Rights. The Trustee reviews the themes regularly and updates them if appropriate. The Trustee communicates these stewardship priorities to its managers. If its monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.

Appendix 1

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;

- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or, indirectly by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management, and also in some cases a performance related fee. The custodian fees are included within the investment manager fees. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that: there are sufficient resources to support its investment responsibilities; and it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk, risk measurement and risk management

Appendix 2

1. Risk appetite and risk capacity

Risk capacity is the maximum level of risk that the Trustee considers to be appropriate to take in the investment strategy. Risk appetite is how much risk the Trustee believes is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, the Trustee considers:

- the strength of the employer's covenant and how this may change over time;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

As at 31 August 2021, the Scheme's 1 year 95% Value at Risk was estimated to be £30m for the current investment strategy. This means the modelling indicates there is a 1 in 20 chance that the Scheme's funding position will worsen by £30m or more over a one-year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

When deciding how to invest the Plan's assets, the Trustee considers a wide range of risks, including, but not limited to, credit risk and market risk, as defined below.

2.1. Risk of inadequate returns:

A key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the value of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure it remains appropriate for its selected mandates.

2.4. Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

Please see the IPID where the exposures for the following risks from the Scheme's different investment mandates are set out.

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this comprises currency risk, interest rate risk and other price risk.
- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determined the Scheme's investment strategy after obtaining written professional advice from its investment adviser, Lane Clark & Peacock LLP. The Scheme has exposure to the aforementioned risks via the investments held to implement the investment strategy. The Trustee manages investment risks, including credit risk and market risk, considering the Scheme's investment objectives and strategy, and the advice of its investment advisers.

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Scheme's investment managers. The Trustee monitors the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, on a regular basis.