STATEMENT OF INVESTMENT PRINCIPLES

for the

LITTLEJOHN FRAZER RETIREMENT BENEFITS SCHEME

September 2020

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles?

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Littlejohn Frazer Retirement Benefits Scheme ("the Trustees") on various matters governing decisions about the investments of the Littlejohn Frazer Retirement Benefits Scheme ("the Scheme"). This SIP replaces the previous SIP dated October 2019.

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme's investment adviser, who the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

The Trustees have consulted with the relevant employer in producing this SIP. The Scheme's investment manager was given an opportunity to comment on a draft of the SIP and their comments have been incorporated into this final version. The manager is required to carry out its investment responsibilities in a manner consistent with this SIP.

1.3. What is the legal and statutory background to the SIP?

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) ("the Regulations") and the Pensions Regulator's guidance for defined benefit pension schemes (March 2017).

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

2. What are the Trustees' overall investment objectives?

The Trustees' objectives are:

- to maintain a portfolio of assets which, together with the new contributions, will meet the cost of current and future benefits which the Scheme provides as they fall due; and
- that the Scheme's funding position (i.e. the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to

the Scheme. The Trustees have taken into account the results of the latest Scheme Funding valuation in setting their investment policy.

- to minimise the long-term costs of the Scheme by maximising the return on the assets while having regard to the objectives above.

3. What risks do the Trustees consider and how are these measured and managed?

When deciding how to invest the Scheme's assets, the Trustees consider a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

4. Summary of the Scheme's investment strategy

4.1. How was the investment strategy determined?

The Trustees, with the help of their advisers and in consultation with the Employer, set the Scheme's investment strategy taking into account the objectives described in Section 2 above.

4.2. What is the investment strategy and who is responsible for implementing it?

The Trustees have agreed that the Scheme's investment strategy should presently comprise both bond-type and return-seeking investments. From time to time funds will also be held on deposit in anticipation of known short-term cash requirements.

The majority of the Scheme's bond-type exposure is obtained by holding a Scottish Widows' Pensions Bond ("the Pensions Bond"). The Trustees consider the Pensions Bond to be a suitable vehicle for providing the proceeds needed to secure members' future pensions, as and when these fall due. The Trustees have agreed to "run-off" the Pensions Bond by settling annuities/benefits for each member as they retire. The Pensions Bond will be used to secure benefits in respect of members' service where it applies including any increases in payment.

The remainder of the Scheme's bond-type assets are held in the BNY Mellon Index-Linked Gilt Fund ("BMILGF"). The objective of the BMILGF is to outperform the FTSE Actuaries Government Securities Index-linked (over 5 Years) Index over rolling five year periods. The BMILGF is a sub fund of the BNY Mellon Investment Funds ICVC where the Authorised Corporate Director is Bank of New York Mellon Fund Managers Limited ("BNY Mellon").

The Scheme's return-seeking investments are held in the BNY Mellon Real Return Fund ("BMRRF"), following a transition from Newton's Global Balanced Fund. The Trustees understand the BMRRF is predominantly invested in a spread of UK and overseas equities, bonds and cash together with smaller proportions in alternative asset classes. The BMRRF has flexibility with regard to asset allocation and has an emphasis on long term investing. The objective of the BMRRF is to outperform UK 1 month LIBOR by 4% pa over rolling five year periods. The BMRRF is also a sub fund of the BNY Mellon Investment Funds ICVC.

The custody and safekeeping of the Pensions Bond assets are provided by State Street Global Advisors. In respect of the assets managed by Newton, custody and safekeeping is provided by The Bank of New York Mellon SA/NV.

The Trustees monitor the asset allocation from time to time, and consider whether it is appropriate to rebalance the assets and how to invest net new money having considered advice from their investment consultant.

As the Scheme matures over time, the Trustees will seek to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy will gradually target a higher allocation to lower risk assets as the Scheme matures.

Whilst the main Scheme assets are invested as above, Additional Voluntary Contributions are invested with Scottish Widows.

4.3. How are the investment arrangements implemented?

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The terms of the agreement between the Trustees of the Scheme and BNY Mellon Fund Managers Limited are set out in detail in the BNY Mellon Investment Funds Prospectus, which includes the terms on which the portfolios are managed and the need for suitable and appropriately diversified investment. BNY Mellon delegates investment management of the BMRRF and the BMILGF to Newton. Newton's primary role is the day-to-day management of the Scheme's investments held within the BMRRF and the BMILGF. BNY Mellon Fund Managers Limited and Newton are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled arrangements, but they encourage their managers to improve their practices where appropriate.

The Trustees' 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.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their 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 Trustees expect 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. They assess this when selecting and monitoring managers.

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

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well as 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 Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

4.4. What did the Trustees consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustees considered:

- the nature and timing of the Scheme's liabilities;
- the Scheme's current funding level under various methods of assessment;
- the objectives and attitude to risk of the Employer;
- the strength of the Employer's covenant;
- the risks, rewards and suitability of various asset classes;
- the need for appropriate diversification between different asset classes;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- 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 do not have an expected reward 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 one 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 and investment managers should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

4.5. Expected returns on different asset classes

The Trustees are aware of the long-term performance characteristics of various asset classes in terms of their expected returns and the variability of those returns. The Trustees accept that there is significant uncertainty as to the level of future returns, but understand, following discussions with the investment consultant, that the returns on equities may be expected to be around 5.0% pa more than those on government bonds over the long term. The BMRRF is managed on a multi-asset basis and the Trustees expect its returns to be around 3.0% pa more than those on government bonds over the long term.

However, the additional returns from equities or the BMRRF are only expectations, not a certainty, and, over some time periods, the returns from equities or the BMRRF may be lower than that from bonds. Furthermore, over short time periods the actual return from either equities or bonds can be predicted with even less certainty.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

When appropriate, the Trustees, on the recommendation of Scottish Widows as Scheme Administrator, decide on the amount of cash required for benefit payments and other outgoings and inform the Pensions Bond provider of any liquidity requirements.

As noted in section 4.2, where additional cash is required to meet net cash-flow requirements, the Trustees' intention is to seek to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy will gradually target a higher allocation to lower risk assets as the Scheme matures.

5.2. What is the Trustees' policy on financially material and non-financial matters?

The Trustees have 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 Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

5.3. What is the Trustees' policy on stewardship?

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attached to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. The Trustees expect that investment managers will exercise investment rights and undertake monitoring and engagement in line with the investment manager's general policies on stewardship, which reflect the recommendations of the Stewardship Code, and which are provided to the Trustees from time to time, taking into account the financial interests of the beneficiaries. The Trustees have limited influence over managers' stewardship practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

5.4. What are the responsibilities of the various parties in connection with the Scheme's investments?

Appendix B contains brief details of the respective responsibilities of the Trustees, the investment adviser, and the investment manager. Appendix B also contains a description of the basis of remuneration of the investment adviser and the investment manager.

5.5. Do the Trustees make any investment selection decisions of their own?

Before making any investment selection decision of their own, it is the Trustees' policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustees' policy to review their own investment selection decisions on a regular basis, based on written advice.

6. Review

The Trustees will, from time to time, review the appropriateness of this SIP with the help of their advisers, and will amend the SIP 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.

For and on behalf of
The Trustees of the Littlejohn Frazer Retirement Benefits Scheme

Date 25 September 2020

A.1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet their 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. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long-term objectives before attainment of those objectives is seriously impaired. The Trustees aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the Employer's covenant and how this may change in the near/medium future;
- the Scheme's long-term and shorter-term funding targets and Employer contributions;
- 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, now and as the strategy evolves.

When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustee's and Employer's risk appetite and capacity, given the Scheme's objectives.

A.2. The Trustees' policy towards managing and monitoring investment risks

The Trustees consider that there are number of different types of investment risk that are important to the Scheme. These include, but are not limited to:

- Strategic risk – this is the risk that the Scheme's assets and liabilities perform differently in different financial and economic conditions. This risk has been taken into account in the Trustees' investment strategy review, and will be monitored by the Trustees on a regular basis.
- Investment manager risk – this is the risk that the investment manager fails to meet its investment objective. Prior to appointing the investment manager, the Trustees undertook an investment manager selection exercise. The Trustees monitor the investment manager on a regular basis.
- Lack of diversification risk – 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 Trustees' ability to meet their investment objectives. The Trustees believe that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 4.2 and by the guidelines agreed with the investment managers.
- Liquidity/marketability risk – this is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed appropriately via the measures described in Section 5.1

- Environmental, social and governance (ESG) risks - ESG factors are sources of risk to the Scheme's investments 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 Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

- 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. The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

- Currency risk - Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate.

- Interest rate and inflation risk - The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustees recognise that there are other, non-investment, risks faced by the Scheme. Examples include mortality risk (the risk that members live, on average, longer than expected) and sponsor covenant risk (the risk, for whatever reason, that the Employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustees believe that they have addressed and are positioned to manage this general risk.

B.1. Responsibilities and investment decision-making structure

The Trustees have decided, in broad terms, on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

B.1.1. Trustees

The Trustees are responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy;
- formulating a policy in relation to financially material considerations, such as those relating to ESG and stewardship considerations;
- appointing (and, when necessary, dismissing) the investment managers and investment consultants;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act. While the Trustees have delegated certain investment powers to the investment manager, they remain responsible for ensuring that the investment manager has the appropriate knowledge and experience to manage the Scheme's investments, and must also be satisfied that the manager is carrying out its work competently, and is complying with Section 36 of the Act when choosing investments for the Scheme;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the Employer when reviewing the SIP.

B.1.2. Investment manager

The investment managers will be responsible for:

- managing its portfolio, within the guidelines agreed with the Trustees;
- taking account of financially material 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 Trustees 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. In exercising the discretion delegated to it by the Trustees under Section 36 of the Act, when choosing investments, the investment manager should ensure that the selected investments are suitable and appropriately diversified.

B.1.3. Investment consultant

The investment consultant will be responsible, in respect of investment matters, as requested by the Trustees, 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 Trustees in reviews of this SIP.

B.2. Mandates given to advisers and investment manager

The Trustees have in place signed agreements with each of the Scheme's advisers, and the investment manager. These provide details of the specific arrangements agreed by the Trustees with each party.

B.3. Fee structures

The Trustees recognise that the provision of investment management, dealing, custodial and advisory services to the Scheme result in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's investment advisers, under which charges are calculated on a "time-cost" basis.

The investment manager receives fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustees 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 Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

B.4. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. See Section 4.3 of the SIP.

B.5. Working with the Scheme's employer

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