H C Slingsby Plc Retirement Benefits Scheme

Statement of Investment Principles – September 2020

1. Introduction

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

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limitied ("Mercer"). In addition, consultation has been undertaken with H C Slingsby Plc ('the Company') to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set;
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk;
- The Trustee operates funding and investment strategies in a co-ordinated approach. Variation in funding position (in particular improvements) may be reflected in the level of risk taken in the investment strategy.

The Trustee has appointed Mercer to act as discretionary investment manager to implement the Trustee's strategy. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

In considering the appropriate investments for the Scheme, the Trustee obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

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

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

Within this context, the Trustee's main objectives with regard to investment policy are:

- To maintain an investment strategy which is consistent with the funding strategy. In particular, to provide a return consistent with meeting the Trustee's medium to long term funding goals;
- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Company in relation to the size and volatility of the Company contribution requirements.

The Trustee understands, following discussions with the Company, that it is willing to accept some degree of volatility in the Company contribution requirements in order to reduce the expected long-term cost of the Scheme's benefits.

The objectives set out above and the risks and other factors referenced in Section 4 of this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in Section 10.

4. Risk Management and Measurement

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

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities and the Company's ability to support this mismatch risk.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position.

- To control the risk outlined above, the Trustee set the Scheme's asset allocation such that the expected return on the portfolio is expected to be sufficient to meet the objectives outlined in Section 3.

- Whilst moving towards the target funding level, the Trustee recognises that even if the Scheme's assets are invested wholly in matching assets, there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and liabilities due to the mismatch in duration between matching assets and actuarial liabilities.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained primarily via pooled vehicles. The Trustee diversifies their active management exposures through investment in a "manager of managers" approach.

- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.

- To help diversify manager-specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Scheme's assets are managed by appropriate underlying asset managers.

- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer used, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

5. Investment Strategy

Given the investment objectives in section 3, the Trustee has implemented the investment strategy detailed in the table below. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

	Benchmark Allocation (%)
Equity	**10.0**
Growth Fixed Income	**10.0**
Matching	**80.0**
Total	**100.0**

6. Expected Return

The Trustee expects to generate a return (before the contribution from active management), over the long term, of circa 0.8%-1.0% per annum (net of investment management fees) above that which would have been achieved had investment risk been minimised, i.e. had the Trustee invested solely in a portfolio of long-dated Government bonds (and this investment was free of expenses). This return is a "best estimate" of future returns that has been arrived at given the Scheme's target asset allocation and in the light of advice from the Investment Consultant.

The Trustee recognises that over the short term performance may deviate significantly from this long term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose, a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

7. Performance Benchmarks and Objectives

The strategic allocation, performance benchmark and objective for each asset class and at the total Scheme level are set out in the table below.

Asset Class	Benchmark Allocation (%)	Rebalancing Ranges (+/-%)	Benchmark Index	Outperformance Target (% p.a.)*
Equity Assets	**10.0**			
Passive Global Equity (Hedged)	5.0	1.0	MSCI World (NDR) Index (Hedged)	n/a
Low Volatility Equity (Unhedged)	5.0	1.0	MSCI World (NDR) Index	n/a
Growth Fixed Income	**10.0**			
Multi-Asset Credit	10.0	2.0	LIBOR 3 Month**	+3.0 - 5.0 (net of fees)
Matching Assets	**80.0**			
UK Credit	17.5	2.0	BofAML Sterling Corporate & Collateralised (Ex Subordinated Financials) Index	+0.5 - 0.75 (gross of fees)
UK Long Gilt Fund	5.0	1.0	FTSE A Over 15 Years Gilts	n/a
Nominal LDI	10.0	2.0	Bespoke Gilt Curve	n/a
UK Inflation Linked Bonds	30.0	3.0	FTSE A Over 5 Year Index-Linked Gilts	n/a
LDI Fixed Enhanced Matching Fund 3	4.0	1.0	Bespoke Gilt Curve	n/a
LDI Real Enhanced Match Fund 2	3.0	1.0	Bespoke Gilt Curve	n/a
LDI Real Enhanced Match Fund 3	7.5	2.0	Bespoke Gilt Curve	n/a
MGI UK Cash Fund	3.0	n/a	FTSE GBP 1 Month Euro Deposit	n/a
Total	**100.0**	**-**		

** Measured over rolling 5 year periods. ** The official medium term benchmark for the Fund is 50% ICE BofAML Global High Yield Constrained Hedged Index / S&P/LSTA US Leveraged Loan Hedged Index.*

8. Rebalancing and Cashflow Policy

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

9. Realisation of Investments

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

10. ESG, Stewardship, and Climate Change

The Trustee believes that environmental, social and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

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

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

Member Views

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustee believes that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interest of the Scheme as a whole.

Investment Restrictions

The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

11. Trustee's Policies With Respect To Arrangements With, And Evaluation Of The Performance And Remuneration Of, Asset Managers And Portfolio Turnover Costs

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

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 3. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

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

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the policies of the Scheme.

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

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

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and triennial review of the investment strategy and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

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

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

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

12. Additional Voluntary Contributions ("AVCs")

The Trustee is responsible for the investment of AVCs paid by members. Assets in respect of members' AVCs are held in funds invested with Aviva and Utmost Life & Pensions.

The Trustee reviews these arrangements from time to time to ensure that they remain consistent with the needs of the members.

13. Custodian and Advisors

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustee is comfortable that the Investment Manager has procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Ian Wade of Mercer Limited is the appointed Scheme Actuary.

The actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The most recent finalised valuation date was 1 January 2020. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Company' contribution rate.

Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to an Investment Manager, all other investment decisions including strategic asset allocation are based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

14. Review of this Statement

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

Trustee of the H C Slingsby Plc Retirement Benefits Scheme