Headlam Group plc Staff Retirement Benefits Scheme

Statement of Investment Principles

November 2021

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1 Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the Headlam Group Plc Staff Retirement Benefits Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Andrew Falcon of XPS Pensions Group, the Investment Adviser is Schroders Solutions and the Legal Adviser is Squire Sanders (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with Headlam Group plc ('the Sponsoring Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser.

The Trustees are responsible for the investment of the Scheme's assets and where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustees set general investment policy, but have delegated the day-to-day investment of the Scheme's assets to be undertaken through the fiduciary management service of Schroders Investment Solutions Limited ('SISL'), hereafter referred to as the 'Investment Manager'.

2 Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisers as appropriate. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees believe that they should be collectively involved in the investment decision-making and have therefore decided not to appoint an Investment Sub-Committee to deal with investment matters.

The Trustees will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the Investment Manager or Adviser as part of such review.

3 Suitability

The Trustees have defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustees have taken advice from the Advisers to ensure that the proposed strategy and the assets held by the Scheme through that strategy, are suitable given its liability profile, the Trustees' objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Scheme (the Trust Deed).

4 Statutory Funding Requirements

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives. The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

5 Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this statement, which will generate income and capital growth to pay, together with contributions from members and the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any Statutory Funding Requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustees' long-term objective for the Scheme is to target an investment return objective of approximately 2.1% per annum (net of fees) in excess of the Liability Benchmark Portfolio ("LBP") where the LBP is defined as set of real (inflation linked) and fixed (non-inflation linked) cashflows based on the latest available liability cashflows.

6 Implementation of investment strategy

The Trustees have delegated the investment of the Scheme assets to the Investment Manager, which has discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers (hereafter referred to as the 'Underlying Managers') (within guidelines as set out in Appendix B) to run the portfolio on a day-to-day basis. The Trustees have acknowledged and considered with sufficient diligence the potential conflict that may arise from the Investment Manager and the Investment Adviser being the same organisation.

The investment strategy is to allocate the assets into three pools – 'Liability Hedging', 'Cashflow matching credit' and 'On-risk' assets. The investment objective is then translated into the strategy and assets are allocated to these two components:

- 'Liability Hedging' assets, where the focus is risk management, protection and insurance relative to the liability target. Invested in, but not limited to, fixed interest gilts, index-linked gilts, corporate bonds and interest rate and inflation based derivatives. Defined as the Liability Hedge, this seeks to generate returns in line with the LBP (net of fees) across the Scheme's assets.
- 'Cashflow matching credit' assets, where the focus is assets income/capital generation in order to reduce the shortfall between income and benefit outgo. These assets also mitigate some of the interest rate risk inherent in the liabilities. Invested in, but not limited to, corporate bonds. Defined as the Cashflow matching credit, this seeks to generate returns of at the Gilts + 1% per annum (net of fees).
- 'On-risk' assets, where the focus is on return generation and taking risk in a controlled manner – such assets could include equities, high yield bonds, property, commodities and hedge funds, etc. Defined as the Growth Assets, this seeks to generate returns of at least Cash + 3% per annum (net of fees).

Each component has a specific liability-related objective that links back to the overall Scheme objective. The Trustees' investment objective influences the split of assets between these two components.

The Trustees have agreed, following advice from their Investment Adviser, to allocate 70% of the assets to the Growth Assets and the remaining assets to the Liability Hedge to achieve the overall target of LBP + 2.1% per annum (net of fees).

6.1. Monitoring

The Trustees, or Advisers on behalf of the Trustees, will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustees, and or other suitably qualified Advisers on behalf of the Trustees, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustees will consider whether or not the Investment Manager:

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

If the Trustees are not satisfied with the Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustees' requirements, the Trustees will remove the Investment Manager and appoint another.

6.2. Diversification, Mandate Definition and Constraints

The Trustees are clear about the importance of diversification and as such the appointment of the Investment Manager includes a requirement to ensure assets are diversified. The choice of asset classes as set out in Appendix B is designed to ensure that the Scheme's investments are diversified. The Trustees monitor the strategy adopted by the Investment Manager to ensure that the arrangement remains diversified.

6.3. Corporate Governance and Stewardship

The Trustees and the Investment Manager have agreed, and will maintain, formal Manager Agreements setting out the scope of the Investment Manager's activities, their charging bases and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustees have appointed the Investment Manager to implement the Scheme's investment strategy. The Investment Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustees' long-term performance objectives.

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

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meeting, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here: https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

6.4. Realisation of Investments

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustees so require. The Investment Manager is permitted to hold up to 20% of on-risk assets in illiquid investments (as defined in the Investment Managers' Investment Management Agreement, which the Trustees acknowledge can take additional time to realise. The Trustees have considered this risk against the possibility of needing to realise these assets, and are comfortable it is a reasonable approach to take.

6.5. Custody

Through the fiduciary management service, the Scheme's assets are held on behalf of the Trustees by a Custodian, currently CACEIS Bank. Although the Trustees have a direct contractual relationship with the Custodian, the appointment and monitoring of the Custodian is delegated to the Investment Manager through the Bespoke fiduciary management service.

6.6. Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

6.7. Additional Voluntary Contributions (AVCs)

The Scheme provided a facility for members to pay AVCs to enhance their benefits at retirement. Members were offered a range of funds with Legal & General in which to invest their AVC payments. The Trustees' objective was to provide a range of funds which would provide a suitable long term return for members, consistent with members' reasonable expectations. The Scheme has been closed to new AVC members since 2005.

6.8. Financially material investment considerations

These considerations which include the "Risks" detailed in Section 8, can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. All references to ESG also include climate change.

The Trustees believe that environmental, social, governance issues can have an impact on the financial performance of investments and so believe that they should be taken into account by the Investment Manager when selecting and reviewing investments. The Trustees delegate consideration of financially material factors to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

7 Fees

7.1. Investment Manager

The Trustees will ensure that the fees paid to the Investment Manager are consistent with levels typically available in the industry and the nature of services provided.

7.2. Advisers

Fees paid to the Advisers are based on actual time spent and hourly rates for relevant individuals, unless the Trustees and the Advisers agree alternative arrangements in advance.

7.3. Trustees

No Trustees are paid for their role.

8 Risks

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

i. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

- A liability benchmark portfolio or 'LBP' is used as a proxy for the liabilities in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt yields only). The Trustees monitor this change relative to the change in asset values on a quarterly basis. The LBP is reviewed following each actuarial review, or when significant market or Scheme events (e.g. a significant change in the inflation expectations) imply that an amendment may be appropriate.
- The Trustees also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liabilitiy discount rate.
- When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk as set out in Section 3. Downside risk of the investment strategy is also measured by reference to the LBP and can therefore be assessed as part of the quarterly review process.

- This risk is also monitored through regular actuarial and investment reviews.

ii. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:

  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
  - Regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.

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

iv. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.

v. **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Manager. This is addressed in the agreements with the Investment Manager, and in turn by the Investment Manager with the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Investment Manager or Underlying Managers may invest in.

vi. **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Manager and Underlying Managers, e.g a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.

vii. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Investment Manager and Advisers by the Trustees, and of the Underlying Managers by the Investment Manager.

viii. **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

ix. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.

x. **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Sponsoring Employer.

xi. **Currency Risk** - the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustees mitigate this risk by electing to allow the Investment Manager to use currency hedging.

xii. **ESG risk** - the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio will be provided to the Trustees in the quarterly governance report.

The Trustees will keep these risks and how they are measured and managed under regular review.

9 Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

Appendix A - Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

i. Determining the investment objectives of the Scheme and reviewing these from time to time.
ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
iii. Reviewing regularly the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers and the Sponsoring Employer.
iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
v. Assessing the quality of the performance and process of the Investment Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
vi. Appointing and dismissing the Investment Manager and custodians in consultation with the Advisers.
vii. Assessing the ongoing effectiveness of the Advisers.
viii. Consulting with the Sponsoring Employer when reviewing investment policy issues.
ix. Monitoring compliance of the investment arrangements within this SIP on an ongoing basis.
x. Advising the Advisers of any changes to Scheme benefits and significant changes in membership.

Investment Manager

The Investment Manager will be responsible for, amongst other things:

i. At its discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective.
ii. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:
    - A report of the strategy followed during the quarter.
    - The rationale behind past and future strategy.
    - A full valuation of the assets and a performance summary.
    - A transaction report and a cash reconciliation (if requested).
iii. Informing the Trustees immediately of:
    - Any breach of this SIP that has come to its attention.
    - Any serious breach of internal operating procedures.
    - Any material change in the knowledge and experience of those involved in managing the Scheme's investments.
    - Any breach of investment restrictions agreed between the Trustee(s) and the Investment Manager(s) from time to time.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.

ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Advising the Trustees of any changes in the Scheme's Investment Manager that could affect the interests of the Scheme.

iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.

v. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and the current Investment Manager, and selection of new managers, as appropriate.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.

ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

iv. Advising the Trustees and Investment Adviser of any changes to contribution levels and funding level.

Custodian

The Custodian will be responsible for, amongst other things:

i. Safe-keeping and administration of all the directly held assets.

ii. Collecting income from assets and transferring it to the Trustees.

iii. Processing all tax reclaims in a timely manner.

iv. Reconciling records of assets held with those of the Investment Manager.

Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

i. Liaising with the Trustees to ensure legal compliance.

Appendix B - Investment Objectives & Restrictions

Overall Portfolio	
Portfolio Performance Target	LBP + 2.1%p.a. over rolling three year periods where LBP is the Liability Benchmark Portfolio. LBP is defined as the cashflow component set out in the Investment Management Agreement, as determined from and based on Scheme liability data provided by the Client to the Investment Manager.
Liability Hedging Assets	
Target Proportion of Portfolio	25.0%
Objectives	To reduce the interest rate and inflation risk inherent in the liabilities (using the LBP as a proxy for the liability profile), whilst holding suitable assets for use under the Collateral Management Documentation.
Target liability hedge % for interest rates and inflation	At the Investment Managers discretion up to the value of assets within the Portfolio.
Cashflow Matching Credit	
Target Proportion of Portfolio	7.5%
Objectives	To invest in assets which distribute income/capital and to mitigate some of the interest rate risk inherent in the liabilities.
Growth Assets	
Target Proportion of Portfolio	67.5%
Growth Assets Performance Target	3m SONIA + 3.125% p.a. over rolling three year periods
Investment Restrictions	The Investment Manager shall adopt the following controls in the management of assets on an ongoing basis:

Asset Class	Minimum (%)	Maximum (%)
Equities	20	65
Property	0	20
Return seeking credit	0	45
Commodities	0	15
Alternatives	0	40
Cash & sovereign bonds	0	40
Additional Constraints:		
Equities plus Commodities	20	70
Sub Investment Grade Debt	0	30
Equities and Sub Investment Grade Debt	20	80
Illiquid Investments	0	20

Exposure to the above asset classes may be obtained through direct investments, Funds including in-House Funds, derivatives, or a combination thereof. The Investment Manager determines in its reasonable discretion, the classification of investments or transactions within each of the above asset classes.

The asset exposures may be achieved through investment in the specific securities or the use of derivative instruments which provide the equivalent economic exposures.

Investment in any single Fund is restricted to 25%, with the following exceptions:

i. Investment in the PIL Stable Growth Fund;
ii. Investment in Passive Funds;
iii. Investment in UK Government and investment grade corporate bonds, or Funds which invest solely in such assets.

The Trustees and the Investment Manager agree that the Investment Manager will manage the investment process for the Scheme in accordance with the specified risk measurement parameters below. These parameters are designed as a governance tool for the Trustees. A breach of these parameters would demonstrate an unusual market event or too much risk being taken by the Investment Manager.

The Investment Manager will inform the Scheme if these parameters are exceeded and provide explanation as to:

i. the circumstances that have given rise to the occurrence, and
ii. what steps have been taken, if required, to prevent the parameters continuing to be exceeded or exceeded again in the future.

The Trustees should monitor any breaches of these risk parameters and ensure that they are satisfied that (i) and (ii) have been complied with by the Investment Manager.

Growth Assets Risk Parameters:

Parameter (relative to 3m LIBOR)	Maximum expected (%)
Monthly underperformance	4%
Quarterly underperformance	7%
Annual underperformance	10%
Annualised monthly volatility	8%