

Princes Pension Scheme

Statement of Investment Principles – September 2021

1. Introduction

The Trustees of the Princes Pension Scheme (the “Scheme”) have 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 Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, consultation has been undertaken with the sponsoring company, Princes Limited (the “Company”), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements and, in particular on the Trustees’ objectives.

The Scheme has two sections, a Defined Benefit Section and a Defined Contribution Section. Each of these is covered separately in this Statement in sections 2 and 3 respectively.

In making decisions the Trustees seek professional advice. Following such advice, the Trustees undertake dialogue from which a decision is made. A sub-committee of the Trustees will be convened from time to time to discuss particular issues. The sub-committee has no decision making powers, but can recommend a course of action to the Trustees.

2. Defined Benefit Section

2.1 Investment and Funding Objectives

The Trustees’ primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met. To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have considered their objectives and adopted the following:

- To target a funding position of 110% on a gilts +0.5% p.a. funding basis (the “lower risk basis”) by 2024-2029.

This objective was agreed as part of the 2019 strategy review, following the Scheme making better than expected progress through its de-risking journey plan.

Previously the Scheme had been targeting a fully funded position of 100% on the lower risk basis by no later than 2029. However, as part of the 2019 strategy discussions, the Trustees acknowledged that the ultimate “end game” objective will be to buy-out the liabilities with an insurance company.

In order to achieve this, the Scheme will need to have a funding level surplus on the lower risk basis to cover the expected buyout premium. The target time horizon of 2024-

2029 to the ultimate “end game” objective of buyout reflects the fact that there is uncertainty around buyout pricing in the future. This funding level range identified represents an estimate of the surplus that is likely to be required by around 2024-2029 and reflects the expected maturing of the Scheme’s membership. This target will be kept under review as part of future strategy review exercises.

The Trustees have sought to achieve this objective by implementing measures to capture potential and sometimes opportunistic improvements in the Scheme’s funding level in a timely and affordable way.

There are currently no deficit contributions payable by the Company. The Trustees appreciate that the Company wishes to avoid the need arising for deficit contribution payments being required in the future were the Scheme to fall into a deficit on the Technical Provisions basis at a future actuarial valuation date.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in Section 6.

2.2 Process For Choosing Investments

The Trustees believe that the greatest likelihood of achieving their funding and investment objectives and of managing the risks set out in 2.3 below, is via a comprehensive risk management framework. The Trustees have appointed Mercer to act as discretionary investment manager, via a dynamic de-risking approach to managing the Scheme’s investment strategy, whereby the level of investment risk has been reduced as and when the Scheme’s funding level has improved on the lower risk funding basis.

The investment strategy is reviewed annually, with the latest 2021 investment strategy review coinciding with the preliminary results of the 2021 actuarial valuation becoming available. Due to funding level improvements coming through as part of the 2021 valuation, following investment advice, the Trustees decided to de-risk out of growth assets and move to a 100% liability hedged position. By investing the Scheme’s assets in such a manner, the intention is to control funding level volatility while investing in asset classes that may also assist in generating income to help broadly match a proportion of the Scheme’s expected liability cash-flow profile.

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

2.3 Risk Management and Measurement

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

- The risks that arise through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk. These are mainly the strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:
 - Interest rate risk (the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates)
 - Inflation risk (similar to interest rate risk but concerning inflation)
 - Credit risk (the risk that payments due to corporate bond investors may not be made)
 - Currency risk (the risk that exchange rate movements adversely affect the value of assets denominated in overseas currencies)
- There is a potential solvency risk, i.e. a risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Company cannot afford to make good the deficiency. The Trustees therefore monitor the financial strength of the Company and its commitment to the Scheme.
- The Trustees recognise 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 accruing liabilities as well as producing more volatility in the Scheme's funding position. For this reason, following the 2021 investment strategy review, the Scheme has fully de-risked into matching assets.
- The Trustees recognise that even if the Scheme is only invested in matching assets there may still be a modest mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Scheme's Portfolio and actuarial liabilities.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Scheme's investment portfolio to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees 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 Trustees. The Trustees recognise 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, the Trustees expect that the Scheme's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Trustees 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 Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have 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 Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 6 sets out how these risks are managed.
- Should there be a material change in the Scheme's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current strategy remains appropriate.

2.4 Investment Strategy

Following a review of investment strategy undertaken in March 2011 (after the merger with the Shippam Pension Scheme), the Trustees decided over the long term, to implement a comprehensive risk management framework to better manage the risks set out in Section 2.3. It was agreed that this framework would involve setting rules or funding level triggers to "de-risk" the Scheme's investment strategy over time when it is affordable to do so. Following an extensive review of the available options, in 2013 the Trustees decided to utilise Mercer's Dynamic Derisking Solution ("MDDS") as a framework to implement their de-risking strategy.

At inception of the MDDS arrangements with Mercer, the Scheme had a 50%/50% split between growth and matching assets. Since then, the Scheme has progressed through a number of funding level triggers and gradually de-risked the investment strategy.

Following the 2021 strategy review, it was agreed to remove the target allocation to growth assets and adopt a 100% liability hedged position in order to reflect the material funding level improvements that had been experienced. Therefore, the Scheme is now 100% invested in matching assets.

In agreeing this strategy, the Trustees are looking to protect the Scheme against its ultimate "end game" funding target of buying out with an insurance company and ensure that the cost of securing members' future benefits is manageable from the Company's perspective.

The Trustees have delegated full discretion to Mercer to construct and manage a portfolio of bonds and bond-like instruments via its pooled funds, which aim to broadly match the Scheme's liabilities and mitigate the interest rate and inflation risks listed in Section 2.3. Within the current portfolio, Mercer utilises gilt funds, corporate bond funds and Liability Driven Investment flexi funds, which invest in gilts and derivatives to achieve a closer hedging of liabilities than could be achieved by using gilts alone. These flexi funds, like the majority of Liability Driven Investment vehicles, use leverage to free up assets and extend the coverage of the liability hedge to better manage risk.

The Trustees will, with Mercer, review the suitability of the prevailing strategy on broadly an annual basis and amend if appropriate.

2.4.1 Expected Return

Given the current investment strategy adopted, on a "best estimate" basis (as opposed to the Actuary's more prudent estimate), the Trustees expect to generate a return over the long term (on all of the Scheme's investments) of c. 0.1% p.a. (net of underlying manager and Mercer fees) above that which would have been achieved had no investment risk been taken within the portfolio (i.e. had the portfolio been invested solely in a portfolio of long dated government debt, which can be used as a proxy for the growth of the Scheme's liabilities). It is recognised that over the short term performance may deviate significantly from the long term target, and there are no guarantees that such a return will be achieved. It is also recognised that the expected return will vary over time, purely due to changing market conditions and assumptions, with no change to the underlying assets held.

2.4.2 Realisation of Investments

The Trustees on behalf of the Scheme hold 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.

2.4.3 Cash Flow Management and Rebalancing Policy

Cashflows, 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.

As noted, responsibility for monitoring the Scheme's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Portfolios on an ongoing basis. If at any time the balance between the Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Scheme's Portfolios will not be part of such rebalancing.

3.1 Investment Objectives

The Trustees recognise that members have different investment needs and that these may change during the course of members working lives. The Trustees also recognise that members have different attitudes to risk and endeavour to provide a choice of funds

with different risk profiles. The following encapsulates the Trustees' investment objectives:

"To maximise the value of the members' retirement benefits subject to acceptable levels of investment risk, management and administration costs."

The DC Section is closed to new members.

3.2 Risk

There are various risks to which the defined contribution section is exposed. In particular, the Trustees' policy on risk management in respect of this section is as follows:

Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	If investment returns lag inflation over the period of membership, the real (i.e. post inflation) value of the members' individual accounts will decrease.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.
	Equity, property and other price risk	The protection of capital, over at least the medium-term (i.e. periods over 3 years), is fundamental in supporting the long-term growth of the members' individual accounts. The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested.
Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.	The management of ESG related risks is delegated to investment managers. See Section 6 for the Trustee's responsible investment statement.
Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustees regularly review performance of investment funds. The management of this risk is outsourced to the Investment Manager. The document governing the Investment Manager appointment includes a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

Risk	Description	How is the risk monitored and managed?
Liquidity risk	The Scheme must be able to meet its liabilities as and when they become due.	Members invest in daily dealt pooled investment vehicles that facilitate the availability of assets to meet benefit outflows.
Pension Conversion risk	The purchasing power of members may fall relative to how they wish to take benefits at retirement.	<p>The Trustees make use of a lifestyle strategy for DC members.</p> <p>Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.</p> <p>The Trustees only make available a lifestyle strategy that targets the purchase of an annuity at retirement. This is managed triennially as part of the default strategy review.</p>

The Trustees recognise the risk of underperformance introduced by the use of active managers, and therefore the Trustees make use of passive index tracking funds wherever possible.

The above items are in relation to what the Trustees consider 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered.

3.3 Investment Strategy

The Trustees operate a lifestyling strategy for all members. The strategy invests in growth assets (via a multi-asset fund) in the years leading up to retirement, and as retirement approaches the assets are gradually switched into a bond fund and a cash fund. This approach aims to maximise potential returns on member funds prior to retirement and control the volatility of fund values as members get closer to retirement, in line with the Trustees' stated objective for this section. The funds available for members to invest in under the lifestyle strategy are shown in the table below:

Fund	Benchmark	Objective
Multi-Asset (Formerly Consensus) Fund	No formal benchmark or objective is stated. The Fund aims to provide long term investment growth through exposure to a diversified range of asset classes, excluding physical property. The diversified nature of the Fund means that the Fund is expected to have less exposure than an equity-only fund to adverse equity market conditions. However, the Fund may perform less strongly than an equity-only fund in benign or positive market conditions.	
Over 15yr Gilts Index Fund	FTSE Over 15 Year Gilts Index	Track Benchmark
Cash Fund ¹	BNY Mellon Pooled Fund Median	Match Benchmark

¹ As no passive cash fund exists at L&G, the Cash Fund used is actively managed and seeks to match, rather than track the benchmark.

Until nine years before a member's normal retirement date (NRD) member funds are invested in the Multi-Asset (Formerly Consensus) Fund. At a steady pre-determined rate, funds are switched over the nine years prior to NRD to the over 15 year gilts index and cash fund. Switching is undertaken quarterly, with the final switch being made the quarter before the member reaches NRD.

3.4 Default Investment Option

Within the DC Section, the only strategy available is the lifestyle arrangement, which is the default option for members.

3.4.1 The aims of the default investment option

- The default investment option is a strategy that manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.
- In designing the default investment option, the Trustees have considered the trade-off between risk and expected returns.
- Assets in the default investment option are invested in the best interests of members and beneficiaries as a whole, taking into account the profile of members.
- Assets in the default investment option are invested in a manner, which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

3.4.2 Policies in relation to the default investment option

The Trustees believe that:

- The default investment option's growth phase structure, that invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a default option that seeks to reduce investment risk (and expected return) as the member approaches retirement by investing in a lower risk strategy across a broad range of asset classes.
- In particular, when reviewing the investment strategy of the default investment option, the Trustees consider risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustees also consider risk in terms of the (mis)alignment of investments with the method of taking benefits targeted by the default investment option.
- In view of the above, the level of risk within the decumulation phase of the default investment option should be considered in the context of managing risk throughout a member's term to retirement. This risk is managed by investing in equity, bond and multi-asset funds aiming to match short term changes in inflation rates, and in money market (cash) assets.

The Trustees have also given the chosen Investment Managers full discretion when evaluating environmental, social, and ethical considerations in the selection, retention and realisation of investments within the default investment option, subject to adhering to the investment restrictions and objectives of each component fund.

Taking into account the demographics of the Scheme's membership and the Trustees' view of how the membership will behave at retirement, the Trustees believe that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

3.5 Other default option

On 1 January 2020, members invested in the With Profits AVC policy with Equitable Life had their assets transferred to Utmost Life and invested in the Secure Cash Fund. The transfer was carried out as a bulk transfer on a non-consent basis and as a result, the Secure Cash Fund is classified as a default option. This is not a default arrangement for the purposes of auto-enrolment.

The investment strategy of the Utmost Secure Cash Fund is being used as a temporary measure following the transfer from Equitable Life to Utmost until funds are transferred gradually to the Utmost Money Market Fund over the second half of 2020. The assets from the Equitable Life With Profits Fund had to initially be moved to the Utmost Secure Cash Fund to obtain the "uplifts" to the amount transferred.

More information on these funds is included in the appendix.

3.6 Day to Day Management of Assets

The Trustees delegate the day to day management of the assets to an investment manager. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Scheme's investments.

The Trustees invest the assets for this section in a range of pooled funds operated by Legal & General Assurance (Pensions Management) Limited who delegate the management of assets to Legal & General Investment Management ("L&G"). This

contract is written as a long term policy of assurance. L&G are regulated by the appropriate regulator. L&G has responsibility for the day-to-day discretionary management of those assets, subject to the terms and conditions contained within the Policy document governing their appointment.

3.7 Realisation of Investments

The Scheme's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation. All of the Scheme's investments are classed as liquid with most funds operating daily dealing.

Defined Benefit and Contribution Sections

4. Additional Assets

Assets in respect of members' Additional Voluntary Contributions are invested in a range of unit linked funds or With Profits funds managed by Aviva, Clerical Medical, and Utmost Life and Pensions ("Utmost") formerly Equitable Life.

5. Custodian

The role of a custodian is to ensure the safe keeping of the assets, record keeping and to facilitate all transactions entered into by the appointed investment managers.

Responsibility for the safe custody of the Scheme's DB assets is delegated to Mercer who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as custodian of the assets invested in their pooled vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

For the DC section, L&G appoint and monitor the custodian for their pooled funds and arrange for all necessary custodial services. The custodians to whom work is contracted by L&G are HSBC Global Investor Services Ltd for UK investments and Citibank Ltd for overseas equities.

6. ESG, Stewardship, and Climate Change

The Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's defined benefit 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 Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's (and the Trustees') thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer’s and MGIE’s investment processes and those of the underlying asset managers in the monitoring process. Mercer and MGIE is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing, where relevant. It is noted that the Trustees’ current investment strategy for the defined benefit section of the Scheme is currently invested predominantly in gilts, corporate bonds and cash and therefore the integration of ESG, climate change and stewardship is less relevant given the nature of these assets.

The Trustees also note Mercer’s commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer’s Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy targets and metrics.

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Within the DC section, the Trustees have given L&G full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Scheme’s defined contribution investments. Member views are not explicitly taken into account in the selection, retention and realisation of investments.

Investment Restrictions

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

Member views

Member views are not taken into account in the selection, retention and realisation of investments. Non-financial matters were not taken into consideration in the selection, retention and realisation of investments.

7. Implementation and Engagement Policy

Within the Defined Benefit Section of the Scheme the Trustees have contracted with Mercer Limited. Within the Defined Contribution Section of the Scheme, the Trustees have contracted with Legal & General to deliver DC investment management services. Both organisations are regulated by the Financial Conduct Authority (the “FCA”).

The below table sets out the Trustees’ approach to implementation and engagement. The list below is not exhaustive, but covers the main areas considered by the Trustees.

How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees' policies	
DB Section	When engaging Mercer as discretionary investment manager to implement the Trustees’ investment strategy outlined in section 2.4, 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

	<p>liabilities</p> <p>As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 2.4. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.</p> <p>Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.</p>
DC Section	<p>The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.</p> <p>The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.</p> <p>If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.</p>
<p>How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term</p>	
DB Section	<p>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 Trustees are, 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 Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.</p> <p>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.</p>

	Section 6 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 objectives/policies of the Scheme.
DC Section	The Trustees consider the investment consultant's assessment of how each underlying investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees responsible investment policy. This includes the underlying investment manager's policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.
How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies	
DB Section	<p>To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review 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 Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.</p> <p>The Trustees monitor, and evaluate, 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 2.4. 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 annual review of the Scheme's 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.</p> <p>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 Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.</p>
DC Section	The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over three months, one year, three years, five years, and since inception. The Trustees review the absolute performance, relative performance against

	<p>a suitable index used as the benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net of fees basis. Whilst the Trustees' focus is on long-term performance, they also take shorter-term performance into account.</p> <p>If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustees may review the suitability of the manager, and change managers where required</p>
How the trustees monitor portfolio turnover costs incurred by the asset manager.	
DB Section	<p>The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.</p> <p>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.</p>
DC Section	<p>The Trustees consider portfolio turnover costs within the DC section as part of the annual value for money assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustees will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.</p>
How the trustees define and monitor targeted portfolio turnover or turnover range.	
DB Section	<p>The Trustees do not have an explicit targeted portfolio turnover range, given the current 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.</p>
DC Section	<p>The Trustees do not currently define target portfolio turnover ranges for funds, but they will engage with a manager if portfolio turnover is higher than expected.</p>
How the trustees define and monitor the duration of the arrangement with the asset manager.	
DB Section	<p>Mercer has been appointed as a fiduciary management partner to assist the Trustees in achieving the Scheme's long-term objectives as set out in Section 2.1. In that role, there is an expectation of a longer term relationship until the journey is completed. This will be reviewed periodically through the reporting described above. MGIE provide ongoing oversight of all underlying asset managers and will ensure the asset managers' continued appropriateness. As such there is no set</p>

	duration for manager appointments.
DC Section	<p>The Trustees are a long term investor, all funds are open-ended and therefore there is no set duration for manager appointments.</p> <p>Within the DC section, the Trustees may also choose to remove a fund from the strategy, if no longer considered appropriate, and this is reviewed on at least a triennial basis.</p>

8. Compliance with this Statement and Reporting Requirements

The Trustees monitor compliance with this Statement on a regular basis. The Trustees undertake to advise Mercer promptly and in writing of any material change to this Statement.

With regards to the DB section, Mercer prepares quarterly reports to the Trustees including:

- Valuation of all investments held for the Scheme.
- Details of how the Scheme's assets are performing relative to the Scheme's liabilities as well as against the benchmarks.
- The Scheme's funding level progression and information regarding the liability hedge over the quarter.
- Any areas where Mercer has concerns with the underlying managers and details about what actions Mercer is under taking to ensure the ongoing appropriateness of each manager.
- Quantitative and qualitative information about the performance of the underlying investment managers with respect to each segment of the portfolio.

In addition, the Trustees can access online, via a portal, the developments of the Scheme's funding level against its targets. This information is updated on a daily basis and a monthly summary is provided.

The DC section is reviewed on a quarterly basis using quarterly reports prepared by Legal & General, covering valuation of investments held by the Scheme, along with details of how the funds used have performed relative to the long term benchmark expectations.

9. Review of this Statement

The Trustees will review this Statement regularly 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 Trustees reasonably believe 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.

Signed: _____ Date: _____

Name: _____

In role as Chair of the Trustee Board for and on behalf of all of the Trustees of the Princes Pension Scheme

Appendix – September 2020

Utmost Life and Pensions Limited ('Utmost') – Default Investment Strategy

At the start of 2020, the assets previously held in the Equitable Life With Profits Fund were transferred into the Utmost Secure Cash Fund without members' consent. This occurred as part of the transfer of the Equitable Life Assurance Society's UK policies to Utmost. From the 1 July 2020, the assets will be gradually moved into the Utmost Money Market Fund, following advice from the investment consultant.

As the Equitable Life With Profits Fund was closed and members mapped to a new investment strategy, the Trustees have created a new default arrangement, as per the broader definition of a default in the Occupational Pension Scheme (Preservation of Benefit and Charges and Governance) (Amendment) Regulations 2018. Details of the funds used within the Utmost Secure Cash Fund, and then subsequently their Money Market Fund, the new default arrangements, are set out in this Appendix.

The investment strategy of the Utmost Secure Cash Fund is being used as a temporary measure following the transfer from Equitable Life to Utmost until funds are transferred gradually to the Utmost Money Market Fund over the second half of 2020. The assets from the Equitable Life With Profits Fund had to initially be moved to the Utmost Secure Cash Fund to obtain the "uplifts" to the amount transferred.

The Trustee's investment policies that are not explicitly mentioned in this Appendix are in line with those outlined in the main SIP. In line with regulatory requirements, the Trustees will continue to review the following over time.

Aims, Objectives and Policies

The aims, objectives and policies of each fund utilised within the default investment strategy are considered in more detail in following pages. The Trustees have focussed on what it considers to be 'financially material considerations'. The Trustees believe the appropriate time horizon over which to assess these considerations should be viewed at a member level. This will be dependent, for example, on the member's age and when they expect to retire.

Secure Cash Fund

The Trustees see the Secure Cash Fund as an appropriate interim investment whilst arrangements are made for the transfer of assets to the Money Market Fund at Utmost Life.

The main objectives of the Utmost Life Secure Cash Fund are capital preservation, liquidity and yield; in that order.

The Trustees note that the Secure Cash Fund's value is unlikely to keep pace with inflation. The fund is expected to produce a return in line with prevailing short term money market rates. Utmost has guaranteed that the unit price (net of fees) will not decrease, after accounting for charges below the price when the units were initially purchased. The Secure Cash Fund will cease to exist on 31 December 2020.

The Secure Cash Fund will predominately be invested in UK Treasury Bills, short term gilts and overnight bank deposits. On occasions, other high quality money market investments such as commercial paper or repurchase agreements may be purchased. The investment manager is responsible for determining the balance between these different kinds of investments.

The fund is daily priced.

Risk

The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk	How it is managed	How it is measured
Market Risk	The fund will predominantly be invested in UK Treasury Bills, short term gilts and overnight bank deposits. On occasions, other high quality money market investments such as Commercial Paper or Repurchase Agreements may be purchased. There is a guarantee in place that the value of the fund will not decrease, after the adjustment of fees below the price when the units were initially purchased.	The Trustees will monitor the performance of this fund, in line with the guarantee provided.
Inflation Risk	The fund is a short term investment, and as such inflation is not expected to have a large impact on the fund.	The Trustees will monitor the performance of this fund.
Counterparty Risk	The Trustees have taken comfort from the High Court ruling in 2019, which considered the status of Utmost in the initial stages of monitoring this investment. Underlying investments are considered in line with the main DC Section.	Monitor developments at Utmost, taking advice from the Investment Consultant.

Where not stated, other risks are managed and measured in line with the main DC Section.

Members Interests

The Secure Cash Fund is designed to meet its objective as outlined above. This fund will cease to exist in December 2020.

Given members have previously been invested in a with profits fund with a guarantee and the significant uplift members received when disinvesting from the with profits fund, the Trustees are comfortable with investing members assets initially in a fund that guarantees capital preservation for the first 6 months (and for partial funds thereafter until 31 December 2020).

Money Market Fund

The Trustees see the Money Market Fund as an appropriate investment following the temporary holding in the Secure Cash Fund, as detailed above.

The main objective of the Utmost Money Market Fund is to preserve capital whilst aiming to provide a return in line with prevailing short term money market rates. The fund is daily dealt.

The Money Market Fund will predominantly be invested in short term deposits. The investment manager is responsible for determining the balance between the different kinds of investments.

Other policies are in line with the main DC Section.

Risk

The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk	How it is managed	How it is measured
Market Risk	The fund will predominantly be invested in short term deposits.	The Trustees will monitor the performance of this fund.
Inflation Risk	The fund is not aiming to keep pace with inflation.	The Trustees will monitor the performance of this fund, and will ensure members are aware of the fund's objectives.

Where not stated, other risks are managed and measured in line with the main DC Section.

Members Interests

The Money Market Fund is designed to meet its objective as outlined above.

Having considered where members assets were previously invested and the guarantee embedded in that arrangement and the fact that members received a significant uplift on disinvesting from the previous arrangement, the Trustees believe that a fund that's primary aim is to preserve capital (albeit this is not guaranteed) and liquidity is the most appropriate solution from the available fund range.

In line with regulation requirements, the Trustees will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic profile, if sooner.