Prosper de Mulder Group Pension Scheme

Statement of Investment Principles – July 2020

1. Introduction

The Trustees of the Prosper de Mulder Group 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.

In preparing this Statement the Trustees have consulted SARIA 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. The Trustees have also received and considered written advice from Mercer Limited ("Mercer").

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Cashflow Driven Investment ("CDI") Strategy, to implement the Trustees' strategy whereby the Scheme invests in such a way that expected cashflows should broadly match a proportion of the Scheme's expected liability cash-flow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required).

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 Trustees have obtained and considered the written advice from 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).

3. Investment Objectives

The Trustees are 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 Trustees' main objectives with regard to investment policy are:

- to ensure that the long term return expectations for the investment strategy are consistent with the funding strategy;

- 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 Trustees understand, following discussions with the Company, that it is willing to accept some degree of volatility in the Company' contribution requirements in order to minimise the long-term cost of the Scheme's benefits.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities.
- 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.
- The Trustees have delegated asset allocation to Mercer. The asset allocation has initially been set so that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 3.
- The Trustees recognise that even if the Scheme's assets are invested in matching assets there may still be a 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 matching assets and actuarial liabilities.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Investment exposure is obtained via pooled vehicles. 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, the Trustees delegate responsibility for the hiring, firing and ongoing monitoring of the Scheme's investment managers to Mercer. 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.
- By investing in the Mercer Funds, the Trustees do 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 purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees will 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 9 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.

In addition, the investment strategy will be reviewed approximately annually.

5. Investment Strategy

Following the 2018 strategy review, the Trustees determined to seek a long-term solution to 'cashflow match' the Scheme's assets relative to its liabilities over time using a "CDI" solution. The Trustees decided to engage Mercer to implement their CDI solution via a delegated route.

The CDI solution aims to:

- Match a high proportion of the Scheme's expected liability cashflows over the next c.15 years by investing in predominantly income-generating asset classes such that expected asset cash-flows should broadly match the Scheme's expected liability cash-flow profile

- Initially support a discount rate of approximately gilts + 0.3% p.a.

With this in mind, the Trustees have agreed that the Scheme's broad target asset allocation should be as set out in the table below:

Asset Class	**Target Benchmark Allocation (%)**	**Control Ranges (%)**
Hedge Management	35.0	+/-5
Non-Hedge Management	65.0	+/-5
Total	**100.0**	

There will be no automatic rebalancing between the Hedge Management portfolio and Non-Hedge Management portfolio. Monies are invested or disinvested so far as applicable to maintain the asset allocation of the Scheme as stipulated in the table above.

The Hedge Management portfolio comprises investments in a portfolio of Liability Driven Investment funds ("Mercer LDI funds"), Mercer fixed income, index-linked funds and any other Mercer funds and in such proportion as determined by the manager in its discretion.

There will be no automatic rebalancing within the Hedge Management portfolio. The CDI strategy targets a hedge ratio of 100% of interest rates and inflation with respect to the Scheme's interest rate and inflation exposures, although it is recognised that given the inherent uncertainty in the timing and nature of liability cashflows, a "perfect" hedge is not possible to achieve outside of an insurance contract.

The Hedge Management Portfolio may comprise investments in the following funds or any Mercer LDI fund launched following the date of the SIP:

Fund Name	**Benchmark Index**	**Performance Target (%p.a.)[1]**	**Tracking Error Expectation (%p.a.)[2]**
MGI UK Long Gilt	FTSE A Over 15 Year Gilts Index	Perform in line with the benchmark	Less than 0.25
MGI UK Inflation Linked Bond	FTSE A Over 5 Year Index-Linked Gilts Index	Perform in line with the benchmark	Less than 0.25
Mercer Sterling Nominal LDI Bond	n/a [3]	n/a	n/a
Mercer Sterling Inflation Linked LDI Bond	n/a [3]	n/a	n/a
Mercer Flexible Enhanced Matching Fixed – Medium and Long	Exact benchmark will be fund dependent [4]	Perform in line with the benchmark	n/a
Mercer Flexible Enhanced Matching Real – Short, Medium and Long	Exact benchmark will be fund dependent [4]	Perform in line with the benchmark	n/a
Mercer Flexible Enhanced Matching Inflation	Exact benchmark will be fund dependent [4]	Perform in line with the benchmark	n/a
MGI UK Cash	FTSE GBP 1 Month GBP Deposit	n/a	0.5

1. Measured over rolling 5 year periods unless otherwise stated.
2. This is the expected deviation from the benchmark for each fund, for two years in three.
3. These funds invest in a range of gilts and gilt strips defined by Mercer and so have no quoted benchmark.
4. The funds aim to perform in line with composite benchmarks made up of the respective gilts

The Non-Hedge Management Portfolio will comprise investments in the following funds with the following broad target asset allocations:

Fund Name	**Broad Target Asset Allocation (%)**	**Control Ranges (%)**	**Benchmark Index**	**Performance Target (%p.a.)[1]**	**Tracking Error Expectation (%p.a.)[2]**
Mercer Tailored Credit Fund 1	70.0	+/-5	n/a [3]	n/a	n/a
Insight Secured Finance Fund	7.0	+/-5	FTSE GBP 1 Month Euro Deposit Index	Cash + 3% p.a.	n/a[4]
Schroders Secured Finance	7.0	+/-5	IBA UK Interbank LIBOR 3 Month	Cash + 3% p.a.	n/a[4]

Fund Name	Broad Target Asset Allocation (%)	Control Ranges (%)	Benchmark Index	Performance Target (%p.a.)[1]	Tracking Error Expectation (%p.a.)[2]
Mercer Multi-Asset Credit Fund	13.0	+/-5	50% Merrill Lynch Global High Yield Constrained (£ Hedged) Index; 50% S&P/LSTA Global Leveraged Loan Index (£ Hedged)	**Long term primary objective:** Cash + 3 - 5% p.a. (net of manager fees) **Medium-term and secondary objective:** To achieve better risk-adjusted returns than the reference index	5.0 - 10.0[5]
Mercer High Income UK Property CCF	3.0	+/-5	FTSE A Over 15 Year Gilts Index	1.0 - 2.0	n/a

1. Measured over rolling 5 year periods unless otherwise stated.
2. This is the expected deviation from the benchmark for each fund, for two years in three.
3. This fund is not comparable to a benchmark index due to the nature of buy and maintain strategies, and hence has no quoted benchmark or tracking error target. The fund aims to capture the credit spread premium in the most efficient way by investing in a diversified portfolio of bonds.
4. This fund does not have an explicit volatility target at this point in time.
5. Expressed as expected volatility (annualised standard deviation of monthly returns) ranges given these strategies have a cash plus objective.

There will be no automatic rebalancing within the Non-Hedge Management portfolio.

6. Expected Return

The Trustees have adopted a long-term investment strategy to meet their primary objective of achieving an investment return that is consistent with the discount rate used to value the liabilities.

7. Realisation of Investments and cash flow management

The Trustees 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.

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 cashflow to meet the Scheme’s requirements.

If the Trustees instruct an investment into the Scheme’s assets held with Mercer, these will be processed into the Mercer Funds at Mercer’s discretion. Standard cash inflows are typically expected to be allocated to the UK Cash Fund and then to other funds as deemed appropriate.

If the Trustees instruct a disinvestment into the Scheme's assets held with Mercer, these will be processed from the Mercer Funds at Mercer's discretion. Standard cash outflows are expected to be met by redeeming from the UK Cash Fund and then from other funds as deemed appropriate, in particular if there is insufficient assets within the UK Cash Fund.

8. 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 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 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 are 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 for equities and/or climate scenario analysis for diversified portfolios.

Member views

Member views are not 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.

9. Trustees' 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 Trustees' 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 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 5. 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.

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.

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 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.

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.

Section 8 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

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 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.

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 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme assets under management which covers the design and annual 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 Trustees, 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 Fund's Supplements, the Report & Accounts and within the Scheme 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 Trustees do not have an explicit targeted portfolio turnover range, 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.

10. 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 Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are 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 has been appointed Scheme Actuary.

The actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The last valuation was performed by the Scheme Actuary, with an effective date of 5 April 2019. 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's contribution rate.

11. Review of this Statement

The Trustees 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 Trustees 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.

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Date

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Trustee Trustee

The Trustees of the Prosper de Mulder Group Pension Scheme