

Statement of Investment Principles for the Crest Nicholson Group Pension & Life Assurance Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Crest Nicholson Pension Trustee Limited (the "Trustee") as the Trustee of the Crest Nicholson Group Pension & Life Assurance Scheme (the "Scheme") on various matters governing decisions about the investments of the Scheme. The "employer" refers collectively to Crest Nicholson plc and Crest Nicholson Operations Ltd. The Scheme is a Defined Benefit ("DB") pension scheme. This SIP replaces the previous SIP dated October 2017.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP which meets the requirements of the Pension Act 1995 and the 2005 Investment Regulations.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- Alongside this SIP, the Trustee maintains an Investment Policy Implementation Document ("IPID") which sets out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustee's primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has additional objectives. These are as follows:

- that the expected return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.

- that the Scheme should be fully funded (in other words, the asset value should be at least that of its liabilities) on a self-sufficiency basis (as measured by gilts + 0.5% per annum) basis by mid-2022 (which is when the agreed schedule of sponsor contributions is anticipated to end). The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme.
- the Trustee's ultimate objective is to buyout the Scheme with an insurer. The Trustee measures progress versus this objective on an ongoing basis but is not (at this stage) targeting a formal completion date.

Progress against the Scheme's investment objectives set out above is reviewed on a regular basis (at a minimum, quarterly).

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the sponsoring employer, reviews the investment strategy on an ongoing basis, taking into account the objectives described in Section 2 above.

The Trustee currently targets the following strategic allocation:

| Asset class | Strategic allocation |
|---------------------------------|----------------------|
| Growth Investments | 27% |
| Equity | 7% |
| Alternatives | 20% |
| Fixed Income Investments | 73% |
| Fixed Income Defensive | 22% |
| Fixed Income Growth | 51% |
| Total | <u>100%</u> |

There is no formal rebalancing policy. The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur the Trustee will consider with its advisers and after discussion with the employer whether it is appropriate to rebalance the assets considering factors such as market conditions and anticipated future cash flows.

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

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 5.0% per annum.

In setting the strategy the Trustee considered:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenants;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme;
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes; and
- legal risks, for example, relating to investment fund structures, jurisdiction and domicile of funds, and potential for the Scheme incurring liabilities.

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

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided;

- long-term environmental, social and economic sustainability (ESG) is one factor that Trustees should consider when making investment decisions and the Trustee believes that some managers may be able to improve risk-adjusted returns by taking account of ESG factors.
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory. This advice has regard to the factors set out in Section 4, the need for suitable and appropriately diversified investments, and other points covered under Regulation 4 of the 2005 Investment Regulations.

Details on the investment managers are set out in the Scheme's IPID.

The Trustee has signed agreements with the investment managers, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

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

The Trustee has limited influence over managers' investment practices because most the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. The duration of a manager's appointment will depend on strategic considerations and the outlook for future

performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments. The Trustee recognises that the liquidity of investments may change over time, particularly in periods of market stress.

The Trustee keeps sufficient cash available for benefit payments and other outgoings and informs the investment advisors of any liquidity requirements over this. The Trustee's preference is for investments that are readily realisable, but the Trustee recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (for example, private credit).

7. Additional Voluntary Contribution Assets

Assets in respect of members' Additional Voluntary Contributions ("AVCs") are invested separately from the Scheme's assets with either Prudential, MGM, Phoenix Life or Zurich. The Prudential policy is the only policy open to new contributions.

With assistance of the Scheme's advisors, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustees and the needs of the members. This includes those members who have transferred into the Scheme defined contribution assets.

8. Consideration of ESG matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

Within each asset class, the Trustee considers investment options that give increased weights to ESG considerations. Decisions regarding the approach taken with respect to ESG are made on a case by case basis.

The Trustee expects all of its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and on an annual basis reviews how its managers are taking account of these issues in practice (and engages with managers where it feels improvements can be made).

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, however the Trustee recognises the role it has via the fund managers through voting policies and engagement at a Board level, to encourage positive ESG standards. Where necessary the Trustee encourages its managers to improve their practices where appropriate.

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

The Trustee has developed a standalone responsible investment framework which sets out its policies regarding this topic in more detail. A copy of this document is available on request.

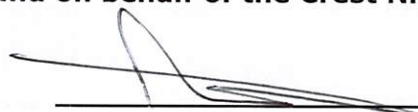
9. Stewardship

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice

SIP signed for and on behalf of the Crest Nicholson Pension Trustee Limited:

Signed:



Date:

30 SEPT 2019

Appendix 1 - Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- monitoring the performance of the Trustee's investments against their benchmarks and in the context of the wider market environment;
- advising on and monitoring the appointment and removal of investment managers;
- advising on re-balancing the investments and cashflow management;
- Reporting to the Trustees on how the investment managers have undertaken their responsibilities as set out above; and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis, as deemed appropriate by the Trustees.

5. Performance assessment

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

6. Working with the Scheme's Employer

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

Appendix 2 - Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

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

- the strength of the employer's covenants and how this may change in the near/medium future;
- any agreed journey plan and employer contributions;
- the Scheme's cash flow and target return requirements;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR"), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on its behalf and from time to time review how these risks are being managed in practice.

2.6. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds and segregated arrangements. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers. The segregated mandates also diversify exposure across different credit issuers and counterparties.

2.7. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, in some cases, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure.

2.8. Interest rate and inflation risk

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

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, as assessed on the Scheme's Technical Provisions basis.

2.9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employers are unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and are positioned to manage this general risk.