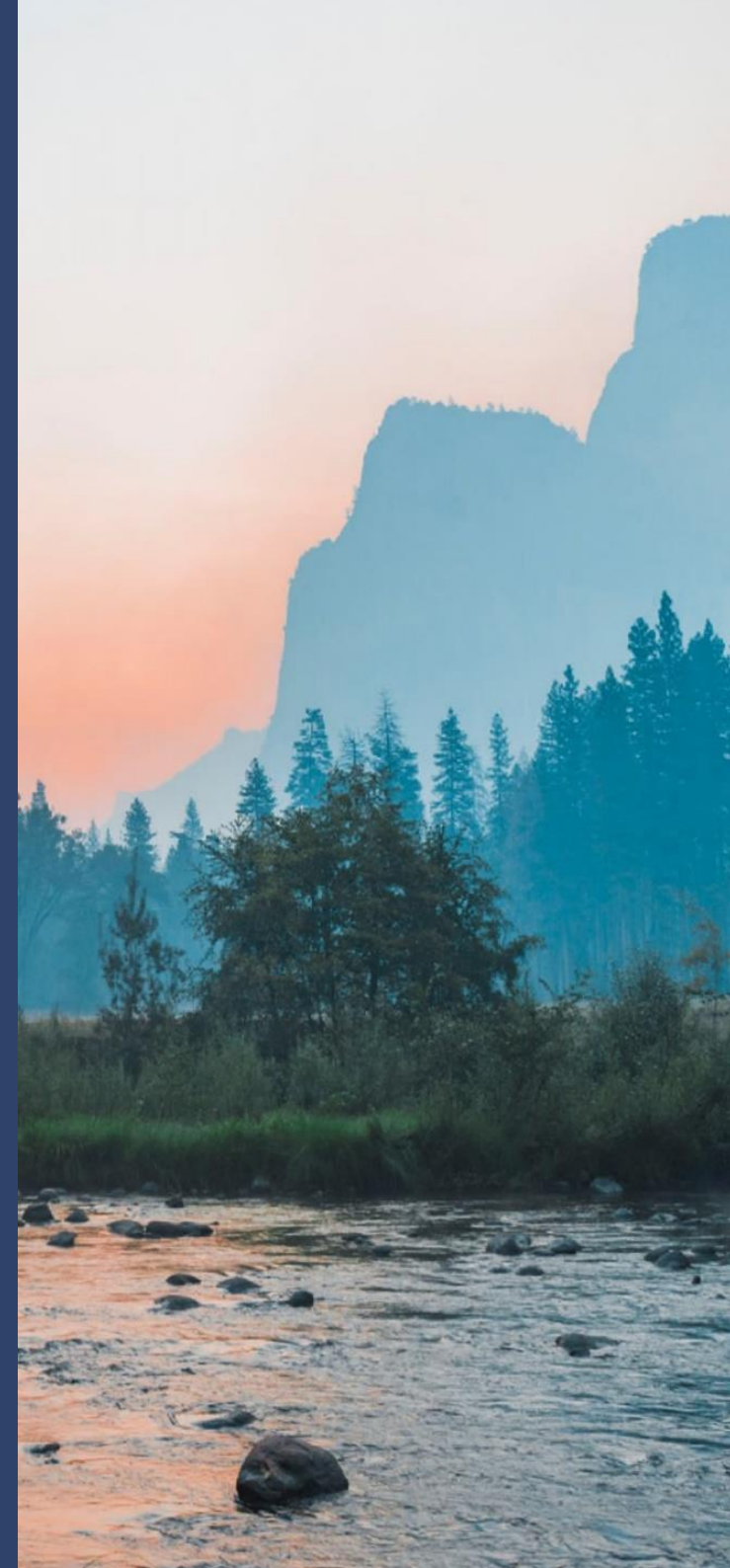


Addendum to the Statement of Investment Principles

For the Crest Nicholson Group Pension and Life Assurance Scheme

Effective from: March 2022

This addendum to the Statement of Investment Principles (“SIP”) for the Crest Nicholson Group Pension and Life Assurance Scheme (the “Scheme”) has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme’s investment arrangements.



Part 1:

Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustee

Our responsibilities include:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- 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 engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary, and other service providers;
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended);

- communicating with members as appropriate on investment matters, such as our assessment of our 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; and
- reviewing the SIP from time to time and modifying it if deemed appropriate (and consulting with the employer when doing so).

2. Investment managers

The investment managers' responsibilities include:

- 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

The investment adviser's responsibilities include:

- 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;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);
- monitoring the performance of the investments against their benchmarks and in the context of the wider market environment;
- advising on re-balancing the investments and cashflow management;
- reporting on how the investment managers have undertaken their responsibilities as set out above; and
- assisting us with reviews of this SIP.

4. Fee structures

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. We have agreed terms with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management and in some cases a performance related fee.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

5. Performance assessment

We are satisfied, taking into account the external expertise available, that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise and appropriate training to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We 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.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:

Policy towards risk

1. Risk capacity and appetite

Risk capacity is a measure to the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. Risk appetite is how much risk we believe is appropriate to take 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. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing risk and reviewing the investment strategy, the Trustee considers a range of factors, including:

- the strength of the employer covenant and how this may change over time;
- the agreed journey plan and employer contributions;
- 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;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following implementation of the Scheme's current investment strategy, the Scheme's 1 year 95% Value at Risk was estimated to be around £20m (calculated as at 30 September 2021 on the gilts + 0.5% per annum funding basis). This means that there is estimated to be a 1 in 20 chance that the Scheme's funding position will worsen by £20m or more, compared to the expected position, over a one-year period. When deciding on the current investment strategy, we believed this level of risk to be appropriate given the Scheme's objectives.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

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 (eg equities), could materially adversely affect the Scheme's assets. We believe 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.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

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. This risk is managed 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.

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. We consider the overseas currency exposure in the context of the overall investment strategy, and believe that it diversifies the strategy and is appropriate. Furthermore, in some cases, we manage the amount of currency risk by investing in pooled funds that hedge currency exposure.

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) and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Scheme's assets hedges (provides protection against) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

Environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately on its own

behalf, and from time-to-time review how these risks are being managed in practice.

Illiquidity/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. We are 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.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Insight makes use of derivative and gilt repos contracts within its LDI portfolio, and this is used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The LDI manager may call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee is not able to post additional cash to the LDI fund within the required timeframe when requested. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, our objective is that the Scheme has a sufficient allocation to cash and other highly liquid assets that could be used to meet LDI collateral calls and we have an agreed collateral management policy in place to manage this risk specifically.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as direct lending), prices may only be estimated relatively infrequently using one or more of a range

of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as direct lending.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

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

Both investment and non-investment risks can give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. We regularly review 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, we believe that we have appropriately addressed and are positioned to manage this general risk.

Part 3:

Investment manager arrangements

Investment managers

The investments of the Crest Nicholson Group Pension and Life Assurance Scheme (the "Scheme") are managed by Alcentra Limited ("Alcentra"), Ares Management ("Ares"), BlackRock Investment Management (UK) Limited ("BlackRock"), BlueCrest ("BlueCrest"), Insight Investment Management Limited ("Insight"), Legal and General Investment Management ("L&G"), Mercer Limited ("Mercer") and Ruffer LLP ("Ruffer").

Details of the investment manager arrangements are set out below.

Fund	Asset class	Benchmark / target	Fund Information	Custodian
Growth Investments				
Global Equity				
L&G Low Carbon Transition Global Equity Fund	Global Equity	Solactive L&G Low Carbon Transition Global Index	To provide exposure to developed and emerging equity markets while reducing carbon intensity and increasing exposure to green revenues.	Citibank
Alternatives				
Ruffer – Global – Absolute Return	Global Absolute Return	3 Month LIBOR	To maintain a balance between risk assets such as equities and defensive assets such as bonds, to diversify the drivers of performance across a variety of market conditions.	Ruffer LLP
BlueCrest – Alpha – MultiStrategy	Alpha - MultiStrategy	-	This is a legacy hedge fund holding and only final illiquid positions remain.	-
Fixed Income Investments				

Fixed Income Defensive				
Insight LDI Enhanced Selection Funds	LDI	Gilt and swap based benchmarks, based on the liability profile of a typical UK pension scheme	The Longer Nominal and Longer Real funds hedge a subset of the longer maturity liabilities of a typical UK pension scheme. The Shorter Nominal and Shorter Real funds hedge a subset of the shorter maturity liabilities of a typical UK pension scheme.	Northern Trust Fiduciary Services (Ireland) Limited
Insight Liquidity Plus Fund	Liquidity	SONIA + 0.25% pa	To provide stability of capital and income through investment in short term fixed income and variable rate securities.	Northern Trust Fiduciary Services (Ireland) Limited
Fixed Income Growth				
Alcentra European Direct Lending Fund III	Direct Lending	3 Month LIBOR	Target an IRR of 7-9% by lending to middle market corporate business across Europe, predominantly through secured loans.	Sanne Group (Luxembourg) S.A.
Ares Secured Income Fund	Secured Income	3 Month LIBOR	To generate strong income by investing in a range of secured floating rate debt of primarily investment grade quality.	Bank of New York Mellon and BNP Paribas
BlackRock Emerging Markets Local Currency Bond Fund	Emerging Market Debt	JP Morgan GBI-EM Global Div Custom GBP Hedged + 2.0% pa	To deliver enhanced income and diversification from fixed income investments in the developing world with a focus on alpha.	Bank of New York Mellon
Insight Global ABS Fund	Global Asset Backed Securities	3 Month LIBOR	To produce a return from income and capital appreciation by investing in debt and debt related securities, in particular asset backed securities and floating rate notes.	Northern Trust Fiduciary Services (Ireland) Limited
Insight Secured Finance Fund	Secured Finance	3 Month LIBOR	To invest in a diversified global portfolio of, primarily, investment grade consumer and commercial asset backed securities, plus secured loans.	Northern Trust Fiduciary Services (Ireland) Limited
Mercer Multi-Asset Credit Fund	Multi Asset Credit	50% ICE BofAML Global High Yield Constrained Hedged Index 50% S&P/LSTA US Leveraged Loan Hedged Index	To construct a portfolio of the top-rated multi-asset credit managers identified by Mercer's manager research team.	State Street Custodial Services (Ireland) Limited

All the Scheme assets, apart from those held with Ruffer are invested in pooled investment vehicles, and as such the Scheme does not directly own the underlying assets. Assets held with Ruffer are invested on a segregated basis and so the Scheme retains ownership of the underlying assets.

The underlying assets are held by a number of custodians who have agreements with the investment manager of the assets. There is no direct relationship between the investment managers' custodians and the Trustee.

Additional Voluntary Contributions

Prudential, Phoenix Life and Zurich are the providers of AVC arrangements in the Scheme. 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 our objectives and the needs of the members. This includes those members who have transferred into the Scheme defined contribution assets.