

## **The Henry Boot Staff Pension and Life Assurance Scheme Statement of Investment Principles (October 2023)**

### **1. Background**

This Statement of Investment Principles ('the statement') sets down the principles governing decisions about investments for The Henry Boot Staff Pension and Life Assurance Scheme ('the Scheme'). This statement has been prepared in accordance with the requirements of Section 35 and 36 of the Pensions Act 1995, as amended and The Occupational Pension Schemes (Investment) Regulations 2005. This statement also details the Trustee's compliance with the Myners Code of Best Practice.

In preparing this statement, the Trustee has consulted with Henry Boot PLC ('the Sponsoring Employer') and obtained and considered advice from Isio Group Limited on the appropriateness of this statement. Isio Group Limited is authorised and regulated by the Financial Conduct Authority for investment business activities.

In accordance with The Occupational Pension Schemes (Investment) Regulations 2005 the statement is reviewed:

- at least every three years; and
- without any delay after any significant change in investment policy.

### **2. Investment Objectives**

The investment objectives of the Scheme are to achieve an overall rate of return that will ensure:

- sufficient resources are available to meet beneficiaries' entitlements under the trust deed and rules;
- due regard is paid to the interests of the Sponsoring Employer on the size and incidence of contribution payments; and
- the volatility between the valuations of the Scheme's assets relative to the potential fluctuation in the Scheme's liabilities is managed.

The Trustee have established the Scheme's long-term funding objective as being fully funded on a Gilts + 0.5% basis. A journey planning exercise was also undertaken to set out a plan for achieving this goal, and the timeframe the Trustee wish to achieve this in taking into account the strength of the covenant and the expected return and risk the Trustee were comfortable with. The Trustee use this target and plan to guide their decision making process around investment decisions, taking into account a number of factors that affect the Scheme's funding position such as; sponsors contributions, the expected return of the investment strategy, and the level of expected risk within the investment strategy.

The Trustee has adopted a dynamic investment strategy which is measured against the Scheme funding level rather than purely against investment indices. The policy takes into account current market levels and the expected future returns from each asset class when deciding on the strategic asset allocation of the Scheme.

### **3. The decision-making process**

The Trustee has appointed Isio Group Limited to provide investment advice. The Trustee seeks advice on all investment issues and make investment decisions on the basis of the advice provided. Strategic decisions, including asset allocation and benchmark selection, and the selection of fund managers, are made by the Trustee after taking advice from Isio Group Limited and are not delegated to any third party.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions
- The exercise of rights (including voting rights) attaching to the investments, although the Trustee will in advance explain to their investment managers what they consider to be most significant votes in line with the Scheme's stewardship priorities (where relevant);
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

More specific detail on the Trustee's approach to ESG factors (including climate change), non- financial matters (including member views) and stewardship are set out in paragraphs 7 to 12.

#### **4. Investment Policy Implementation**

While the Trustee retains strategic management of the Scheme's assets, a number of professional investment managers have been appointed for day-to-day management of the assets, as detailed in the Scheme's IID.

The Trustee noted the period of heightened market volatility towards the end of September 2022 and into October 2022, in particular within the gilt market. Over the period, the Trustee took several actions to aid its liquidity position and its ability to provide collateral to support the Liability Driven Investment ("LDI") mandate with the Scheme's LDI manager; Legal and General Investment Management. These actions included redemptions from non-LDI mandates which meant that the asset allocation materially deviated from the target asset allocation over the period.

#### **5. Leverage and Collateral management**

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio.

The Trustee has a stated collateral management framework in place with Legal and General Investment Management. The Trustee has agreed a process for meeting collateral calls, should these be made by the Scheme's LDI manager. The Trustee will review and stress test this framework on a regular basis.

Further details on this can be found within the Scheme's Investment Implementation Documentation ("IID").

#### **6. Risk**

A non-exhaustive list of risks that the Trustee has considered and sought to manage is shown below. Financially material considerations and non financial matters are considered in paragraphs 9 and 10 below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming	<ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> <li>When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To broadly achieve a target hedge of 80% of interest rate and inflation risk on a Technical Provisions basis
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
		To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To hedge currency risk where reasonably possible within the funds which the Scheme invests in.

## **7. Financially Material Considerations**

The Trustee considers that financially material considerations, including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks, and can have a material impact on investment risk and return outcomes, over a time horizon which is the length of time that members' retirement benefits require to be funded by the investments in the Scheme.

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

As noted in section 3 above, the Trustee has delegated day to day management of the Scheme's assets to investment managers. Consequently, the Trustee recognises that its ability to directly influence the actions of investee companies is limited.

The Trustee therefore expects the Scheme's investment managers to take ESG factors, including climate change, into account when exercising the rights attaching to the Scheme's investments, and in setting their policies in relation to the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them. The Trustee will review any reports which the investment managers produce concerning their approach to financially material considerations and discuss further with Isio Group Limited where appropriate.

## **8. Non Financial Matters (Including Members' Views)**

The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life, are not taken into account in the selection, retention and realisation of investments within the Scheme. The Trustee will review its policy towards this as appropriate.

## **9. Voting and Engagement**

The Trustee believes that good stewardship helps create and preserve value for companies and markets as a whole. The Trustee's policy in relation to the exercise of rights (including voting rights) attaching to investments should be exercised by each investment manager to whom the day to day responsibilities have been delegated. The Trustee believes that this will ultimately be in the best interests of the Scheme and undertaking engagement activities in respect of investments, is that the Trustee wishes to encourage best practice in terms of stewardship.

The Trustee recognises that, for the reasons outlined above, its ability to directly influence stewardship matters is limited.

The Trustee therefore expects its investment managers to discharge their responsibilities in respect of investee companies in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

## 10. Investment Manager Arrangements

The Trustee have the following policies in relation to the investment management arrangements for the Scheme:

Arrangement	Policy
<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.</p>	<ul style="list-style-type: none"> <li>• For the investments in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invest in a portfolio of pooled funds that are aligned to their strategic objective.</li> <li>• The Trustee have a segregated arrangement with an investment manager thereby allowing the investment manager to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis.</li> <li>• The investment managers are incentivised to meet the objectives agreed with the Trustee and provide a high quality service via the fees paid by the Trustee for the investment managers services.</li> </ul>
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> <li>• The Trustee review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>• The Trustee monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.</li> <li>• Where the Trustee has concerns, it will raise them with the investment manager, where appropriate, or consider terminating the mandate.</li> </ul>
<p>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.</p>	<ul style="list-style-type: none"> <li>• The Trustee review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>• The Trustee evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</li> <li>• Investment manager fees are monitored quarterly to make sure the amount charged is in line with the agreed fees and they remain competitive.</li> <li>• Where appropriate, any investment manager which is considered to be performing poorly may be required to account for their performance, and exceptionally their mandate may be terminated</li> </ul>
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> <li>• The Trustee do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>

Arrangement	Policy
The duration of the Scheme's arrangements with the investment managers	<ul style="list-style-type: none"> <li>• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.</li> <li>• For closed ended funds or funds with a lock- in period the Trustee ensure the timeframe of the investment or lock-in is in line with the Trustee objectives and Scheme's liquidity requirements.</li> <li>• For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li> </ul>
How the investment managers are incentivised to vote on the Trustee's behalf.	<ul style="list-style-type: none"> <li>• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.</li> <li>• The Trustee monitors the investment managers' engagements and voting activities regularly as part of their ESG monitoring process to engage with investment managers on alignment.</li> <li>•</li> </ul>
How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'.	<ul style="list-style-type: none"> <li>• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.</li> <li>• The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.</li> </ul>

## 11. Environmental Social Corporate Governance Factors Monitoring

The Trustee considers how ESG, climate change, engagement and stewardship is integrated within the processes of its investment managers. Isio Group Limited will provide the Trustee with reporting on a regular basis, and at least annually, on ESG integration progress, stewardship, and monitoring. The Trustee will engage with Isio Group Limited to request additional information where necessary.

The Trustee is taking the following additional steps in relation to the monitoring and assessment of ESG related risks and opportunities:

- The Trustee will have periodic training on responsible investment to understand how the ESG factors, including climate change, could impact on the Scheme's assets and liabilities.
- Should the Trustee seek to appoint a new manager, it will appoint a manager who satisfies the following criteria (unless there is a good reason why the manager does not satisfy each criteria):
  - Responsible Investment (RI) Policy/ Framework
  - Implemented via Investment Process
  - A track record of using engagement and any voting rights to manage ESG factors
  - ESG specific reporting
  - UN PRI Signatory
  - UK Stewardship Code Signatory

## 12. Exercise of rights

The Trustee believes that the exercise of rights (including voting rights) attaching to investments should be exercised by each investment manager to whom the day to day responsibilities have been delegated. The Trustee believes that this will ultimately be in the best interests of the Scheme.

### **13. Realisation of investments**

The majority of the Scheme's assets are invested in quoted markets and are as readily realisable as the Trustee feels appropriate given the cashflow position of the Scheme and the expected development of the Scheme's liabilities. The investment managers can be required to realise investments as soon as it becomes appropriate to do so.

### **14. Choosing investments in accordance with Section 36 of the Pensions Act 1995**

The Trustee has delegated the day to day selection of investments to each investment manager. With regard to any investments made outside the responsibilities of each investment manager, the Trustee will take advice from a person believed to be appropriate in accordance with the provisions of Section 36(6) of the Pensions Act 1995 before making any such investment. In addition, where any such existing investment is held, advice will be sought from such an individual as to the intervals at which the continued holding of such an investment will be reviewed.

### **15. Employer related investments**

The Trustee does not hold employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. It is the policy of the Trustee to ensure that the value of the employer-related investments, if held, does not exceed 5% of the overall value of the Scheme's assets. Compliance with this policy is monitored on a quarterly basis.

### **16. Myners Code of Best Practice**

The Trustee is aware of the recommendations from the Myners report with respect to greater transparency within their statement. The Trustee has considered these recommendations when formulating their investment policy and have included them within this statement to the extent they feel is appropriate.

### **17. Reporting and performance monitoring**

#### Investment Managers

The investment managers have been appointed by the Trustee.

The investment managers will prepare reports to the Trustee as requested, including:

- Valuation of all investments held for the Scheme;
- Records of all transactions together with a cash reconciliation; and
- A review of recent actions undertaken on behalf of the Scheme together with a summary of their current stated policy.

The investment managers will notify the Trustee in advance of any new investment categories in which they are proposing to invest.

#### Investment Consultant

Isio Group Limited will also provide the advice needed to allow the Trustee to review and update this statement as required and will also provide an independent assessment of the performance of the funds being held by Scheme.

The performance of the overall investment strategy is assessed against changes in the value of the liabilities of the Scheme and the performance of the individual funds managed by each investment manager is assessed against their specific market related benchmarks.

#### Trustee

The Trustee formally reviews the content of the statement following any significant change in

investment policy or on not less than a triennial basis.

The Statement of Investment Principles is available to members on request.