CAPITA

Hills Group Limited Retirement Benefits Plan (1973)

Statement of Investment Principles – June 2022

Introduction

The Trustees of the Hills Group Limited Retirement Benefits Plan (1973) ("the Plan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. In preparing this Statement the Trustees have consulted Hills UK Limited ("the Employer") on the Trustees' investment principles.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees' investment consultants, Capita, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Plan's assets in the best interest of members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Plan's assets which is sufficient, in conjunction with the Plan's existing assets and Employer contributions, to pay all members' benefits in full. In practice this means seeking to achieve full funding against a conservative "low dependency" measure of the Plan's liabilities by the time the Plan is "significantly mature" i.e. by the time that almost all members have retired. 'Low dependency' status would be when Plane is no longer heavily dependent on Employer support in order to pay benefits;
- To maintain a reasonable level of investment risk, which is supported by the Plan's time horizon and Company covenant (which is the Company's legal obligation and financial ability to support the Plan now and in the future);

- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustees understand, following discussions with the Employer, that they are willing to accept a degree of volatility in the company's contribution requirements in order to reduce the long-term cost of the Plan's benefits.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Plan. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Plan's liability profile. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Plan's 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 Plan's liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- 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, the Trustees aim to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.
- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Plan's assets are managed through a mixture of active and passive management which may be adjusted from time to time.
- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Plan's circumstances, the Trustees will review whether the current risk profile remains appropriate.

In the investment advice provided to the Trustees, Capita as the investment advisor have not taken account of climate related risks separately from the other risks that exist and affect the Plan.

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Investment Strategy

Given their investment objectives the Trustees have agreed to the asset allocation detailed in the table below. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class	Strategic Asset Allocation (%)	Control Limits % + / -
UK equities	12.5	
Overseas equities	12.5	
Emerging market equities	5.0	
Diversified growth funds	15.0	
High Yield Bonds	10.5	
Growth Assets:	**55.5**	**5.0**
UK Corporate Bonds	10.5	
UK index-linked Gilts	14.1	
Liability Driven Investment (LDI) Real	20.0	
Cash	0.0	
Fixed-Income Assets:	**44.5**	**5.0**
Total:	**100.0**	

Disinvestments and investments will be taken and made in line with the Strategic Asset Allocation (excluding the LDI, Cash and Diversified Growth Funds and Aberdeen Standard Investments("ASI") bond funds, such that Legal & General Investment Management Ltd ("LGIM") rebalance to the equity and gilts asset allocation as part of the transaction. The Trustees are likely to seek standalone advice from their investment consultant for larger disinvestments and investments.

The Trustees will monitor the Plan's actual asset allocation quarterly and subject to stated Control Limits, will decide on a course of action. This may involve rebalancing at LGIM, redirecting cash flows, switching assets, or taking no action. The Trustees will take into account advice from their investment consultant as necessary. Further details on investment funds and control ranges can be found in the Appendix.

LDI Strategy

As LDI funds employ leverage, collateral calls for cash in order to decrease the level of leverage in the funds may be required (or there may be a release of cash in order to increase the leverage). Cash calls are to be made from the Diversified Growth Fund, which is currently with BNY Mellon Fund Management Limited. Similarly, cash distributions will normally be invested in the Diversified Growth Fund, via a cash fund.

Expected Return

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect to generate a return, over the long term, of circa 1.9% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Plan's liability value. This is from on the advice received by the Trustees in the Investment Strategy Suitability Report dated November 2020 which is based on asset return assumptions as at 30 June 2018. This return is a "best estimate" of future returns that has been arrived at given the Plan's longer term asset allocation and in the light of advice from the investment consultant.

The Trustees recognise that over the short term performance may deviate significantly from this long term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Plan's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustees have appointed LGIM ("the Platform Provider") to manage the majority of the assets of the Plan. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected LGIM, BNY Mellon Fund Management Limited ("BNY Mellon") and Aberdeen Standard Investments ("ASI") as the appointed Investment Managers ("the Investment Managers"). The majority of the assets of the Plan will be held via a single policy with the Platform Provider; with the Aberdeen Standard holdings being held directly with the manager. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their Investment Managers.

The Trustees monitor the performance of their Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their investment consultants.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that are paid to their Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, it will ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the Investment Managers' processes for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether their Investment Managers are incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the Investment Managers provide these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

Financially material considerations over the Plan's time horizon

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Plan's members. The Trustees believe that environmental, social and governance ("ESG") considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Plan. The Trustees recognise that this is a DB Plan closed to new entrants with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Plan could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustees will consider the manager policies in all future selections and will seek to deepen their understanding of their existing Investment Manager policies by reviewing these at least annually. The Trustees will also seek to understand what other options might be available at their Investment Managers and in the wider market. In cases where they are dissatisfied with a manager's approach they will take this into account when reviewing them. They are also keen that all their Investment Managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their Investment Managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their Investment Managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf and what proxy voting services are used) and will be reporting annually on this. The Trustees are also keen that their Investment Managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their Investment Managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultant, where required. Consequently, the Trustees expect the Plan's Investment Managers to have effective ESG policies (including the application of voting rights) in place, and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

Non-financial matters, including members' views are not taken into account.

Compliance with Myners' Principles

In October 2008 the Government published the results of its consultation on revisions to the Myners' Principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Platform Provider is paid a management fee on the basis of assets under management which includes the underlying Investment Managers' management fees. Their investment consultants are paid on a basis point fee for providing 'core services'. The Trustees can also request that their investment consultants undertake 'out-of-scope' projects, which may be undertaken on a fixed fee or time-cost basis - as negotiated between the Trustees and their investment consultants.

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 believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

CAPITA

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Trustee

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On behalf of the Employer

02/08/2022
Date

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Appendix – Investment Mandates

The Trustees have appointed the Investment Managers to manage the majority of the assets of the Plan via the LGIM investment platform. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation %	Control Limits % + / -
Return-seeking Asset Types				**55.5**	**5.0**
UK Equities Overseas Equities	LGIM	Global Equities Fixed Weights (50:50) Index Fund	Passive	25.0	
Emerging-Markets Equities	LGIM	World Emerging Markets Equity Index Fund	Passive	5.0	
Diversified Growth	BNY Mellon	Real Return Fund	Active	15.0	
High Yield Bond Funds	ASI	High Yield Bond Fund*	Active	10.5	
Fixed-Income Asset Types				**44.5**	**5.0**
UK Corporate Bonds	ASI	Investment Grade Corporate Bond Fund*	Active	10.5	
UK Index-Linked Gilts	LGIM	Over 5 Year Index–Linked Gilt Index Fund	Passive	14.1	
LDI Real	LGIM	Matching Core Real Long Fund	Passive with a yield maximisation overlay	20.0	
Cash	LGIM	Sterling Liquidity Fund	Passive	0.0	

*These funds are not invested in via the LGIM Platform but directly with the Investment Manager.