

Statement of Investment Principles – John Laing Pension Fund (January 2024)

Introduction

- 1 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the John Laing Pension Fund (the 'Fund') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Fund was established by John Laing Limited ("the Employer") with effect from 4 June 1945 to provide defined retirement and death benefits for Fund members ("the Members"). The Fund section was closed to new members with effect from 1 January 2002.
- 3 The Fund's benefits are provided from a pension fund of assets which is held under the legal control of the Trustee, under a trust constituted between the Company and the Trustee. The operation of the Fund is governed by a Definitive Trust Deed, dated 16 January 2004 as amended by subsequent deeds.
- 4 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Fund's Investment Consultant (Isio) and consulted the Employer. The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Fund objectives

- 5 The long term investment objective of the Fund is to provide a high level of security of pension benefits in a cost effective manner, taking into account the risks to which the Fund is exposed, as set out further in this document. Ultimately, the Trustee expects that this objective will be achieved by securing the Fund's liabilities via the insurance market.
- 6 The investment objective of the Fund is to achieve a funding level between 105% and 107% as measured by a gilts +0% pa ("gilts-flat") based liability measure and then aim to secure benefits through an insurance transaction. The Trustee aims to achieve this by 2026 (the target year). In seeking to achieve these objectives, the Trustee is mindful of the need to:
 - take account of market conditions when positioning the portfolio at any time
 - limit the risk of the assets failing to meet the liabilities over the long term, noting that asset growth is expected to be made up of investment returns plus any future contributions.
- 7 The Trustee will review these funding and performance objectives regularly and amend as appropriate.

Permitted investments

- 8 The investment strategy makes use of four key types of investments:
 - using a range of instruments principally including UK government bonds and index-linked UK government bonds alongside other suitable assets including repurchase agreements and other derivatives to track the liability benchmark (the LDI portfolio).
 - a diversified range of corporate bonds and other return-seeking credit assets.
 - buy-in policies used to match the cashflows of a proportion of the pensioner members.

- cash and other money market instruments from time to time as may be deemed appropriate

Investment strategy

- 9 The Trustee has received advice to determine an appropriate investment strategy for the Fund from the Investment Consultant (Isio) in order to achieve the long term objective of securing the Fund's liabilities via the insurance market. The strategy has a specific focus on providing alignment of the assets to expected changes in insurance pricing.
- 10 The Investment strategy will be managed with reference to changes in the Fund's estimated insurance funding level. In the event that the funding level increases, the Trustee will review the portfolio and the possibility to de-risk.
- 11 The balance within and between the permitted investments will be reviewed on a quarterly basis. The funding level will be monitored on an ongoing basis.
- 12 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Fund's overall investments, where possible. The Trustee will hold sufficient cash to meet benefit and other payment obligations.
- 13 The assets of the Fund will consist predominately of investments admitted to trading on regulated markets.
- 14 Derivatives will be used only to contribute to a reduction in risk, or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investment will be made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.
- 15 The Fund will not borrow money except for the temporary settlement of trades.

Investment managers

- 16 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently.
- 17 The investment managers and the mandates they run for the Fund are:
 - a Schroders manages the Fund's LDI, Corporate Bonds, and Asset Backed Securities portfolios. The LDI and corporate bond portfolios are bespoke arrangements managed on a segregated basis and combine in order to track the liability hedging benchmark. The corporate bonds provide a level of alignment with the expected changes in insurance pricing. The Asset Backed Securities are investments in pooled funds consisting of investment grade securitised credit assets, providing liquid collateral to support the LDI alongside diversification with the corporate bonds.
 - b The Trustee has invested in two bulk annuity contracts (buy-ins) to match the liabilities of a proportion of pensioner liabilities. The first buy-in matches the liabilities in respect of pensioners born on or after 1 January 1942, their dependent and contingent spouses with increases in retirement. The benefits secured were in respect of pensioner members as at 1 April 2008, updated to take into account deaths up until December 2008. The second buy-in matches liabilities in respect of approximately 60% of the Fund's previously uninsured pensioners and dependent members. The benefits secured were in respect of pensioners and dependents in payment on 9 December 2020, which was updated to take into account deaths up until 1 July 2021. The buy-ins are secured in contracts with Aviva UK Life and Pensions Limited ("Aviva") and are held in the Trustee's name. The Trustee

- remains responsible for paying all benefits under the Fund. The contracts provide matching payment streams to the Trustee for the tranche of pensions in payment described above.
- 18 The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.
- 19 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each portfolio, consistent with the achievement of the Fund's long term objectives, and an acceptable level of risk.
- 20 To maintain alignment to the policies within this Statement, managers are provided with the most recent version of the Fund's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.
- 21 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.
- 22 The Trustee recognises that environmental, social and corporate governance (ESG) factors (including climate change) can impact investment risk and return and, where investment style and resources permit, encourages its investment managers to take such factors into account in the exercise of their delegated duties. The Trustee has no reason to believe that its approach is out of line with members' views. Other non-financial matters are not taken into account.
- 23 Where some of the assets of the Fund are managed in pooled arrangements, the Trustee accepts that the assets are subject to the investment managers' own policies on social, environmental and ethical investment and on rights attaching to investments. However, the Trustee expects its Investment Managers to consider a range of sustainable investment factors in its responsibility of the Fund's assets, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. Where some of the Fund's assets are held in segregated arrangements, the Trustees will review the investment management agreements and consider the extent to which relevant matters are included.
- 24 The Trustee has set both interim and ultimate objectives in relation to the reduction of total absolute carbon emissions (tCO₂e) associated with its investments. The interim target is to reduce emissions by 50% by 2032, and the ultimate target is to reduce emissions to be 100% Net Zero aligned by 2050, relative to a baseline level of carbon emissions as at 31 March 2023. The Trustee will review these objectives on a periodic basis and amend as appropriate. This is based on Scope 1 and 2 emissions due to the greater availability of data.
- 25 The Trustee recognises that it may not be appropriate for the Fund's investment managers to directly take account of social, environmental or ethical considerations in the construction of its passive index tracking portfolios through exclusions. It is the Trustee's policy to give discretion to the Fund's investment managers to pursue a policy of engagement with its investee companies. The extent to which social, environmental or ethical considerations are taken into account in the pursuance of this policy is left to the discretion of the investment managers.

- 26 The Trustee has reviewed the investment managers' policies in these areas and is satisfied they broadly meet with the Trustee's views. The Trustee will continue to monitor the managers' actions on a regular basis.
- 27 Where an Investment Manager's processes with regard to ESG considerations are deemed insufficient by the Fund's Investment Advisor, and the Investment Manager does not take steps to improve their approach, the Investment Manager's position in the portfolio may be reviewed.
- 28 For most of the Fund's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their stewardship and engagement activity to drive improved performance over these periods. In assessing the manager's activities in these areas, the Trustee will consider relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.
- 29 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- 30 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights.
- 31 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.
- 32 The Trustee reviews the costs incurred in managing the Fund's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Other matters

- 33 The Fund is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 34 The Fund's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments. The following option is therefore provided:
- Prudential Portfolio Management Group Ltd – with-profits fund and deposit fund
- 35 The Trustee recognises a number of risks involved in the investment of the Fund's assets:
- Deficit risk:
 - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
 - is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

- Manager risk:
 - is measured by the expected deviation of the return relative to the benchmark and/or objective set.
 - is managed through consideration of the appropriate amount of the Fund to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
- Liquidity risk:
 - is measured by the level of cashflow required by the Fund over a specified period.
 - is managed by the Fund's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
- Currency risk:
 - is measured by the level of exposure to non-Sterling denominated assets.
 - is managed by the implementation of a currency hedging programme which reduces the impact of exchange rate movements on the Fund's asset value.
- Interest rate and inflation risk:
 - is measured by comparing the likely movement in the Fund's liabilities and assets due to movements in inflation and interest rates.
 - is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Fund's assets to better-match movements in the value of the liabilities due to inflation and interest rates.
- Political risk:
 - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
 - is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.
- Sponsor risk:
 - is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments.
 - is managed through an agreed contribution and funding schedule.
- Counterparty risk related to buy-in
 - is measured by the proportion of liabilities being covered by the buy-in with Aviva.
 - is managed through a proportion of the premium paid to Aviva being invested in a segregated account where the assets are owned by the Trustee but are managed under an agreement between the Trustee, HSBC as custodian to the account, and Aviva Investor Global Services Limited. In addition a surrender value provision is included in the contract in the event of Aviva falling below solvency thresholds set out in the contract.

– Derivatives risk

- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.
- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisors, the Trustee monitors these positions on a regular basis.

– Environmental, Social and Governance risk:

- is measured by the exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Fund's investments.
- is managed through appointing managers who satisfy the following criteria: Responsible Investment ('RI') Policy/Framework; A track record of using engagement and any voting rights to manage ESG factors; ESG specific reporting; UN PRI signatory; UK Stewardship Code signatory. The Trustees monitor the managers on an ongoing basis.
- The Trustee, via its investment adviser, monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. Through its monitoring process, The Trustee assumes overall responsibility for the policies that are implemented by the investment managers. The Trustee, via their investment advisers, will engage with managers about 'relevant matters' (including the Fund's stewardship priorities) at least annually.

In relation to the AVC section

– Inflation Risk

- This describes the risk that investments do not provide a return at least in line with price inflation, so that the "purchasing power" of the ultimate fund available to provide benefits is not maintained until retirement.
- The Trustee's objective is to provide an investment option that is expected to provide a long-term rate of return that exceeds price inflation. Such an option would consist largely of equity-type investments.

– Capital Risk

- This describes the risk that the monetary value of a Member's account falls.
- The Trustee's objective is to provide an investment option that offers a capital guarantee. A cash fund is an example of such an option.

– Pension Conversion Risk

- This describes the risk that the value of a Member's account does not reflect changes in the cost of securing a pension on retirement.
- The Trustee's objective is to provide an investment option that broadly matches the changes in the cost of annuities through the use of a bond fund. Depending on the type of annuity to be purchased, this could include a long-dated fixed interest bond fund or an index-linked bond fund.

– Trade-off between Risks

- The relative importance of inflation, capital and pension conversion risks depends on the length of time to retirement and each Member's attitude towards risk and expected return. Managing pension conversion and capital risk is more important as Members near retirement, whereas inflation risk is more relevant to younger Members.
- It is recognised that the control of one of the aspects of risk is often at the expense of another. For example, investing in cash funds provides protection against decreases in fund values (capital risk) but will increase the risk of not matching charges in annuity prices (pension conversion risk).

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Fund