H+H Celcon Pension Fund

Statement of Investment Principles – June 2023

Introduction

The Trustee of the H+H Celcon Pension Fund ("the Fund") has 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 Funds (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 Fund's investments. In preparing this Statement the Trustee has consulted H+H Celcon Limited ("the Employer") on the Trustee's investment principles.

Governance

The Trustee makes all major strategic decisions including, but not limited to, the Fund'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 and the covenant of the sponsoring employer

- 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 Trustee must take professional advice. The Trustee's investment consultants, Capita Pensions Solutions Limited ("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 Trustee is required to invest the Fund's assets in the best interest of members, and its main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Fund's assets which is sufficient, in conjunction with the Fund's existing assets and employer contributions (including contingent contributions, if applicable), to pay all members' benefits in full. In practice this means seeking to achieve full funding against a conservative "low dependency" measure of the Fund's liabilities by the time the Fund is "significantly mature" i.e., by the time that almost all members have retired. 'Low dependency' status would be when the Fund is no longer heavily dependent on the Employer's support to pay benefits. As stated in the Fund's "Statement of funding principles" dated 25 January 2022: *"The Trustee and the Employer have agreed a secondary funding objective, which is to be fully funded on an agreed low dependency basis by 5 April 2029 (details of this basis are in the appendix to this document)."*

- To maintain a reasonable level of investment risk, which is supported by the Fund's funding position, time horizon, and Employer covenant (which is the Employer's legal obligation and financial ability to support the Fund now and, in the future,). With this in mind the Trustee and the Employer have agreed to a de-risking framework, as detailed in this Statement, and contingent contributions, which are set out in a separate Funding Deed dated 14 February 2022.

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

The Trustee understands, following discussions with the Employer, that it is willing to accept a degree of volatility in the Employer's contribution requirements in order to aim to reduce the long-term cost of providing the Fund's benefits.

Risk Management and Measurement

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

- The primary investment risk faced by the Fund arises as a result of a mismatch between the Fund's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Fund's liabilities.
- The Trustee recognises that whilst increasing risk would be expected to increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short-term volatility in the Fund's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustee recognises 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 Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Fund's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund.
- The Trustee recognises 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 Fund'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 Fund's assets is delegated to professional custodians via the use of pooled vehicles.

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

Investment Strategy

Given its investment objectives the Trustee has adopted a dynamic approach to asset allocation whereby the investment strategy is dependent on the funding level on a "low dependency" basis. Specifically, the Trustee has set triggers to de-risk the asset allocation from "growth" assets to "matching" assets as the funding position improves. Should the Fund hit a de-risking trigger it will move to the appropriate lower risk portfolio. Details are as follows:

Framework overview

Trigger level	Funding level triggers			Expected return above gilts p.a.	Growth asset allocation %	Matching asset allocation %	Liability hedge ratio (% of *funded* Low Dependency liabilities)
	2023	**2024**	**2025 onwards**				
Current (Trigger 1)	n/a			2.30%	50.0	50.0	100.0
Trigger 2	90.0	95.0	n/a	1.50%	25.0	75.0	100.0
Trigger 3	95.0	97.5	97.5	1.20%	20.0	80.0	100.0

The triggers set out in the table above apply from 5 April of the relevant year. For example, should the Fund's funding level on a low dependency basis hit 90.0% in the year 5 April 2023 to 4 April 2024 then the Fund's strategic asset allocation will move to be 25% Growth assets / 75% Matching assets.

Asset allocations

Trigger level	"Growth" assets		"Matching" assets		
	Equities %	**Diversified Growth %**	**Absolute Return Bonds %**	**Leveraged LDI funds and cash %**	**Liability matching credit %**
Current (Trigger 1)	33.4	16.6	15.0	35.0	-
Trigger 2	12.5	12.5	15.0	30.0	30.0
Trigger 3	7.5	12.5	15.0	35.0	30.0

Note - the expected returns, asset allocations and liability hedge ratios shown above are indicative only as these will drift in line with market conditions. The Trustee will monitor the position and will, when appropriate, take corrective action to bring the expected returns and liability hedge ratios closer to the targets laid out in the first table above.

Liability hedge design

In order to design the matching portfolio, the Trustee's investment consultants provide LGIM (the Fund's LDI manager) with the Fund's projected liability cashflows on the low dependency basis, together with additional projected cashflows allowing for +/-0.5% p.a. changes in inflation expectations. This cashflow information allows LGIM to analyse the sensitivities of the Fund's liabilities to changes in interest rates and inflation expectations. LGIM then create a suitable liability hedge solution, using its LDI profile funds and Liability matching credit funds, which reflect the Fund's sensitivities, so that the liability matching asset values move similarly to the Fund's liabilities, as a result of changes to interest rates and inflation expectations.

Re-balancing arrangements

The LDI funds within the matching assets employ leverage (i.e., the level of protection provided against changes in longer-term interest rates and inflation expectations is greater than the amount invested). Should the leverage within an LDI fund deviate substantially from the target leverage level, LGIM (the LDI investment manager) will rebalance the LDI fund back to the target leverage level. These LDI leverage rebalancing events could result in money being requested or released from the LDI funds and the Trustee has established a default cash management policy for these events.

In the event that the leverage within a LDI fund becomes too high, the LDI investment manager will request cash to purchase additional units in the relevant LDI fund in order to reduce the level of leverage within that fund back towards target whilst maintaining the level of hedging previously provided. It is the Trustees' policy to maintain the level of hedging wherever possible. This cash will generally be sourced from Cash and Absolute Return Bond assets. In the extremely unlikely event that there are insufficient funds in the Cash and Absolute Return Bond mandates, cash will be sourced from the Growth assets portfolio.

In the event that the leverage within a LDI fund becomes too low, the LDI investment manager will release cash from the relevant LDI fund to increase the level of leverage within that fund back towards target whilst maintaining the level of hedging previously provided. This cash will be released into the Growth assets portfolio.

Any cashflows into or out of the Fund's invested assets will generally be allocated in such manner as advised by their investment consultant.

Expected Return

The Trustee expects the return on assets to be consistent with the investment strategy outlined above.

The Trustee expects to generate a return consistent with the numbers in the table above, over the long term, 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 Fund's liability value. This return is a "best estimate" of future returns that has been arrived at given the Fund's longer term asset allocation and in the light of advice from the investment consultant. Should the Fund hit a de-risking trigger and move to a lower risk portfolio, the expected return will reduce as stated in the above table.

The Trustee recognises that 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 Fund's liabilities. For this purpose, a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustee has appointed Legal & General Investment Management ("the Platform Provider") to manage all of the assets of the Fund. The Platform Provider is regulated under the Financial Services and Markets Act 2000.

Investment Managers

At the time of writing, the Trustee has selected Legal & General Investment Management Limited ("LGIM") and BNY Mellon Investment Management ("BNY Mellon") as the appointed Investment Managers ("the Investment Managers"). The assets of the Fund will be held via a single policy with the Platform Provider. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustee has rolling contracts with its Investment Managers.

The Trustee monitors the performance of its Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their advisors.

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

Investment Manager Remuneration

Form time-to-time the Trustee monitors the remuneration, including incentives, which 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 Trustee carries out on a regular basis, they will ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustee monitors 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 Trustee considers if the Investment 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 Trustee is conscious of whether the Investment Managers are incentivised by the agreement with the Trustee 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 Trustee will monitor costs of buying, selling, lending and borrowing investments and will look to monitor the costs breakdown regularly, as long as the Investment Managers provide these costs using the Cost Transparency Initiative template. The Trustee will also ensure that, where appropriate, the Fund's Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets, then the Trustee will monitor compliance with these targets.

Employer-Related Investments

The Trustee's 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 Funds (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.

The investment consultant is paid on a fixed fee or time-cost basis – as agreed between the Trustee and Capita.

Financially material considerations over the Fund's time horizon

The Trustee believes that its main duty, reflected in the investment objectives, is to protect the financial interests of the Fund's members. The Trustee believes that ESG (Environmental, Social and Governance) 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.

With this in mind, the Trustee has chosen to invest its equity portfolio into an ESG-tilted equity product.

Legislation requires that the Trustee forms a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Fund. The Trustee recognises that this is a DB scheme closed to new entrants and future accruals with an ageing membership. Accordingly, the Trustee has formed the view that the appropriate time horizon of this scheme is up to the target date for achieving its secondary funding objective, of 2029.

The Trustee has elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which it invests. However, the Trustee will consider these policies in all future selections and will seek to deepen its understanding of their existing managers' policies by reviewing these regularly. In cases where it is dissatisfied with a manager's approach, the Trustee will take this into account when reviewing them. The Trustee is keen that its managers are signatories to the UK Stewardship Code, which was revised in 2022. All of the Fund's investment managers have stated their commitment to the UK Stewardship Code.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that its managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. The Trustee engages with its managers (including passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf).

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end it dedicates time regularly to the discussion of this topic and intends to review and renew its approach periodically with the help of its investment consultants, where required. Consequently, the Trustee expects the Plan's Investment Managers to have effective ESG policies (including the application of voting rights) in place and looks to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

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

Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will not necessarily be revised to reflect a change in asset allocation after a de-risking trigger has been hit, where such de-risking is broadly in line with the strategy set out in the Statement and table above. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee 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.

For and on behalf of the Trustee of the H+H Celcon Pension Fund

Appendix – Investment Mandates

The Trustee has appointed the Investment Managers to manage the majority of the assets of the Fund via the LGIM Investment Platform. The Investment Managers are regulated under the Financial Services and Markets Act 2000. At the time of writing the current Investment Manager mandates are set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management
Growth Assets			
Equities	LGIM	Future World Global Equity Index Fund	Passive
Diversified Growth	BNY Mellon	Real Return Fund	Active
Matching Assets			
Absolute Return Bonds	LGIM	Absolute Return Bond Fund	Active
Liability Driven Investment (LDI)	LGIM	Matching Core Fund Range	Passive
Cash	LGIM	Sterling Liquidity Fund	Active
Liability Matching Credit	To be confirmed	To be confirmed	Active