THE R&A GROUP SERVICES LIMITED PENSION SCHEME

Statement of Investment Principles

1. INTRODUCTION

The Trustees of The R&A Group Services Limited Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and,
- Subsequent legislation.

As required under the Act the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Limited (“Mercer”). The Trustees in preparing this Statement have also consulted the Sponsoring Employer, in particular on the Trustees’ objectives.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment management and described in Section 3.

The investment objectives and strategies for both the Defined Benefits (“DB”) and Defined Contribution (“DC”) sections are set out in Section 2.

2. INVESTMENT OBJECTIVES AND RISK

2.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have adopted the following objectives for the DB and DC sections:

DB section

- The Trustees’ investment policy is guided by an overall objective of achieving, over the long term, a return on the investments which is consistent with the long term assumptions made by the Actuary in determining the funding of the Scheme.
- Over the shorter term the objective is to achieve a favourable return against the benchmark detailed in Section 3.1. The Trustees believe that the investment strategy adopted for achieving this objective will also be appropriate for achieving a further objective of seeking to avoid the need for additional contributions arising from a mismatch between the assets and liabilities.

DC section

The Trustees recognise that members of the DC section of the Scheme have differing investment needs and that these may change during the course of members’ working lives. The Trustees regard their duty as making available a range of investment funds that will suit members’ needs through their working life. The Trustees have considered their objectives and adopted the following:

- To maximise the value of members’ expected retirement benefits, subject to taking an appropriate level of investment risk.
To protect the value of those benefits as members approach retirement.

To provide members with a range of investment options to enable them to tailor investment strategy to their own needs.

To provide a default option for members who do not wish to tailor their investment strategy.

To avoid over-complexity in investment in order to facilitate member engagement and keep administration costs to a reasonable level.

2.2 Risk

There are various risks to which any pension scheme is exposed. In particular the Trustees have considered the following:

DB section

- The risk of deterioration in the Scheme’s funding level.
- The risk that the day to day management of the assets will not achieve the rate of return expected by the Trustees.

The Trustees consider the total risk of the investment policy in terms of the potential impact on the level and potential volatility in the funding level and, by association, additional (or ‘deficit’) contributions. The Trustees have explicitly considered the interest rate and inflation sensitivity of the assets and liabilities and have implemented a Liability Driven Investments mandate with Insight Investments to reduce the mismatch between assets and liabilities in this area. The investment policy is based on the Trustees’ and the Sponsoring Employer’s view and tolerances with regard to these risks.

DC section:

- The risk that low investment returns over members’ working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement benefit.
- The risk that unfavourable market movements in the years just prior to retirement can lead to a substantial reduction in the anticipated level of retirement benefit.
- The risk that the investment manager underperforms the chosen benchmark. The Trustees recognise that the use of active investment managers involves such a risk. However, they believe that this risk is outweighed by the potential gains from successful active management.
- The risks that investment returns are affected by the concentration of investment in a single asset class/country/region.
- The risk that the investment returns are affected by currency movements in overseas currencies relative to sterling over members’ working lives.
- The risk that the investment profile of the default option is unsuitable for the requirements of some members.

The Trustees believe that the investment strategy outlined in this Statement is appropriate for meeting the risks outlined above. The Trustees also monitor the Scheme’s investments on a quarterly basis.
2.3 Investment Strategy

DB section

Following a review of investment strategy, the Trustees have determined, based on expert advice from Mercer, a benchmark mix of asset types and ranges within which the investment managers may operate; these guidelines are set out in Section 3.

The Trustees review the appropriateness of the investment strategy on a regular basis. Such analysis enables the Trustees to assess the appropriate level of risk given the objectives and risks identified above, which are also reviewed on a regular basis and in response to any material changes to the circumstances of the Scheme and the Sponsoring Employer.

The Trustees target an annual return on the Scheme’s assets in line with the actuary’s assumptions and believe that the resulting asset mix is currently appropriate for controlling the risks identified in Section 2.2.

DC section

The range of funds offered by the Scheme is designed to provide members with the opportunity to maximise long-term returns throughout their working life, with more defensive funds available to provide access to lower risk funds for those members approaching retirement or members with a lower risk appetite.

For members invested in the default option (see next section), the Trustees regularly highlight to members invested in the default lifestyling strategy that they should consider the appropriateness of their selected retirement date and that they should review the suitability of the default lifestyling strategy for their circumstances. Further the Trustees recommend that members should consider seeking independent financial advice.

The Trustees are satisfied that the spread of assets by type and the investment managers’ policy on investing in individual securities within each asset type provides adequate diversification of investments. Further details of the funds provided are given in Section 3 below.

DC Section – Default Investment Option

A proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of DC members do not make an active investment decision and are invested in the default option. The Trustees have selected a default investment option in the DC section that they believe reflects the retirement benefit option that is considered likely to be the most appropriate, for an average individual, and for members who are unable to decide how they wish to take their retirement benefits.

Objectives of the default option

The Trustees objectives in relation to the default option, and the ways in which the Trustees seek to achieve these, are detailed below:

- To generate returns in excess of inflation during the “growth” phase of the strategy.

  The default option’s growth phase structure invests 100% of members’ savings in a passively managed global equity fund which invests 60% in UK equities and 40% in overseas equities. These investments are expected to provide long term growth with some protection against inflation erosion, albeit with equity market volatility.

- To provide a strategy that reduces investment risk relative to annuity and tax free cash benefits for members as they approach retirement.
As a member’s pot grows, investment risk will have a greater impact on members’ retirement outcomes. Therefore, the Trustees believe that a default option that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over a 10 year switching period from growth assets to assets designed to target a fixed annuity and tax free cash benefits.

- To offer to members a mix of assets at retirement that is broadly appropriate for an individual to have a balance between purchasing a fixed annuity and taking cash.

Three months prior to a member’s retirement date, 75% of the member’s assets will be invested in the Indexed Gilt Fund and 25% in the Indexed Cash Fund. Whilst returns from these asset classes are expected to be modest over the long term; they are employed in order to broadly match short term changes in the (explicit and implicit) costs of retirement benefits.

Policies in relation to the default option

- The default option manages investment and other risks throughout a member’s lifetime via a strategic asset allocation consisting of equities, bonds and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

- In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns.

- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member’s portfolio as a whole. The assets are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various underlying fund managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective underlying fund managers in line with the mandates of the funds. Likewise, the underlying fund managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustees’ full policies on social, environmental or ethical considerations are detailed in Section 4 of this SIP. The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used within the DC Section and the default option operate daily dealing cycles.

- Assets are invested mainly on regulated markets.

- The investment manager also has discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

Based on the Trustees’ understanding of the DC Section’s membership, an investment strategy that targets the purchase of an annuity and a tax-free cash lump sum (up to 25% of a members’ pot) at retirement is expected to be broadly appropriate to meet a typical member’s requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement. Members who intend to take their retirement savings through other formats have the option of choosing their own investment strategy.

However, in light of the pension changes that came into force in April 2015, the Trustees are currently reviewing the suitability of the default investment strategy and considering the impact of these on the DC investment options available. As part of this review, the Trustees will take account of the profile of the membership and the Trustees’ view of how the membership might behave at retirement. Once this review is complete the Trustees will continue to monitor the default strategy.
regularly. The Trustee will conduct a more strategically comprehensive review at least triennially, or after significant changes to the Scheme’s demographic, if sooner.

The Trustees review investment performance and risk on a quarterly basis, and take professional advice as appropriate.

The Trustees believe that this strategy meets the investment objective outlined in section 2.1 and controls the risks identified in section 2.2.

3. **DAY TO DAY MANAGEMENT OF THE ASSETS**

3.1 **Main Assets**

**DB section**

The Trustees invest the main assets of the Scheme in pooled funds operated by four investment managers. The equity assets are split between Baillie Gifford, Veritas and Dodge & Cox. The bond assets are invested with Insight Investment Management, and the Diversified Growth Fund (“DGF”) assets are held with Baillie Gifford. The long-lease property mandate is held with M&G.

The Trustees are satisfied that the spread of assets by type and the investment manager’s policy on investing in individual securities within each type provides adequate diversification of investments.

The overall investment strategy and structure is shown in the table below:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Asset Class</th>
<th>Benchmark %</th>
<th>Most Suitable Benchmark</th>
<th>Outperformance Target (% p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baillie Gifford</td>
<td>Global Equities (Global Alpha Fund)</td>
<td>11.7</td>
<td>MSCI AC World Index</td>
<td>+2.0 - 3.0% p.a. (gross of fees)</td>
</tr>
<tr>
<td>Veritas</td>
<td>Global Equities</td>
<td>11.7</td>
<td>MSCI World Index</td>
<td>CPI +6.0%-10.0% p.a. (gross of fees)</td>
</tr>
<tr>
<td>Dodge &amp; Cox</td>
<td>Global Equities</td>
<td>11.7</td>
<td>MSCI World Value Index (^{(a)})</td>
<td>+2.0%-3.0% p.a. (gross of fees) (^{(a)})</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td></td>
<td><strong>35.0</strong> (^{(b)})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>Diversified Growth Fund</td>
<td>12.5</td>
<td>UK Base Rate</td>
<td>+4.15% p.a. (gross of fees)</td>
</tr>
<tr>
<td><strong>Total DGF</strong></td>
<td></td>
<td><strong>12.5</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;G</td>
<td>Secured Property Income Fund</td>
<td>10.0</td>
<td>RPI (^{(c)})</td>
<td>+4% p.a. (gross of fees) (^{(c)})</td>
</tr>
<tr>
<td><strong>Total Long-Lease Property</strong></td>
<td></td>
<td><strong>10.0</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insight</td>
<td>Long Corporate Bonds</td>
<td>4.0</td>
<td>iBoxx Sterling Non-Gilts Over 10 Years Index</td>
<td>+1.0% p.a. (gross of fees)</td>
</tr>
<tr>
<td>Insight</td>
<td>Buy and Maintain Bond Fund</td>
<td>8.0</td>
<td>Markit iBoxx GBP Collateralized and Corporates excluding Tier 1 and Upper Tier 2 Index (^{(d)})</td>
<td>n/a</td>
</tr>
<tr>
<td>Insight</td>
<td>Liability Driven Investments</td>
<td>30.5</td>
<td>Bespoke benchmark</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total Bonds</strong></td>
<td></td>
<td><strong>42.5</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{(a)}\) Dodge & Cox do not stipulate an explicit benchmark or return targets for the fund, but have stated that they would expect to outperform the MSCI World Value Index by 2-3% p.a. over a full market cycle.

\(^{(b)}\) A split of 11 and two thirds percentage over the three equity managers. Totals may not sum due to rounding.

\(^{(c)}\) The Fund does not have an explicit target, however the anticipated mid to long term total return is RPI +4% p.a.
(d) Given structural differences in composition between the Index and the Fund (including the strategic nature of holdings in the Fund in comparison with the likely on-going changes to the composition of the Index), the Fund is likely to experience prolonged periods of markedly different performance from that of the Index.
DC section

The Trustees offer a selection of funds which can be accessed through the Mercer Workplace Savings investment platform, operated by Scottish Widows. The platform offers a mix of funds managed by various underlying investment managers.

The choice of investment funds available is shown below:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equities</td>
<td>R&amp;A Active Global Equity Fund</td>
</tr>
<tr>
<td></td>
<td>BlackRock Aquila Life Global Equity 60:40 Equity Index Fund</td>
</tr>
<tr>
<td>Bonds</td>
<td>BlackRock Aquila Life Over 15 Year UK Gilt Index Fund</td>
</tr>
<tr>
<td></td>
<td>Aberdeen Asset Management Corporate Bond Plus Fund</td>
</tr>
<tr>
<td></td>
<td>Aberdeen Asset Management Gilt Plus Fund</td>
</tr>
<tr>
<td>Cash</td>
<td>BlackRock Sterling Liquidity Fund</td>
</tr>
</tbody>
</table>

The Trustees believe that the range of funds offered to members is appropriate for controlling the risks set out in Section 2.2 above.

The Trustees also provide the members with a default “lifestyle” method of investment, which considers the age profile of each individual member. The table below shows the funds used in the default lifestyle strategy.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indexed Global Equity Fund</td>
<td>BlackRock Aquila Life Global Equity 60:40 Fund</td>
</tr>
<tr>
<td>Indexed Gilt Fund</td>
<td>BlackRock Aquila Life Over 15 Year UK Gilt Index Fund</td>
</tr>
<tr>
<td>Cash</td>
<td>BlackRock Sterling Liquidity Fund</td>
</tr>
</tbody>
</table>

3.2 Cash Flow and Rebalancing Policy

All new contributions are to be invested to bring each manager’s asset allocation in line with its target, as outlined in Section 3.1 above. This will be monitored and reviewed if necessary in order to achieve the investment strategy above.

Mercer produces regular performance updates for the Trustees which monitor the current split of assets relative to the overall benchmark in Section 3.1 above. The Trustees will assess the position and, if it is felt necessary, will rebalance the assets accordingly.

3.3 Fee Structure

DB section

The following fees apply to the DB section of the Scheme:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Asset Class</th>
<th>Fee (% p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veritas</td>
<td>Equities</td>
<td>0.75</td>
</tr>
<tr>
<td>Dodge &amp; Cox</td>
<td>Equities</td>
<td>0.60</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>Equities, DGF</td>
<td>0.65 (a) 0.65</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>Long-Lease Property</td>
<td>0.50 (b) 0.65</td>
</tr>
<tr>
<td>Insight</td>
<td>Corporate Bonds – Buy &amp; Maintain, Long Corporate Bonds, Liability Driven Investments (fully funded index-linked gilts)</td>
<td>0.85</td>
</tr>
</tbody>
</table>

(a) 0.55% p.a until 30 November 2013, under a preferential fee structure agreed with Baillie Gifford on entering the Global Alpha Pension Fund.

(b) The standard management fee of 50 bps of NAV per annum would apply to the gross asset value of the Fund. In addition, there are further fees paid directly by the Fund at the sub-trust level (administrator, valuer and custodian fees) which are typically c. 8bps per annum.
DC section

The following fees apply to the DC section of the Scheme:

<table>
<thead>
<tr>
<th>Manager (s)</th>
<th>Asset Class</th>
<th>Annual Management Charge (% p.a.)</th>
<th>Total Expense Ratio (% p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock</td>
<td>Aquila Life Global Equity 60:40 Equity Index Fund</td>
<td>0.125</td>
<td>0.132</td>
</tr>
<tr>
<td>BlackRock</td>
<td>Aquila Life Over 15 Year UK Gilt Index Fund</td>
<td>0.125</td>
<td>0.129</td>
</tr>
<tr>
<td>BlackRock</td>
<td>Sterling Liquidity Fund</td>
<td>0.165</td>
<td>0.165</td>
</tr>
<tr>
<td>Aberdeen Asset Management</td>
<td>Corporate Bond Plus Fund</td>
<td>0.400</td>
<td>0.530</td>
</tr>
<tr>
<td>Aberdeen Asset Management</td>
<td>Gilt Plus Fund</td>
<td>0.300</td>
<td>0.400</td>
</tr>
<tr>
<td>Newton/Baillie Gifford</td>
<td>Active Global Equity Fund</td>
<td>0.650</td>
<td>0.707</td>
</tr>
</tbody>
</table>

Source: Scottish Widows. Figures shown as at 25 July 2019, unless otherwise stated.

3.4 Additional Assets

Assets in respect of members’ additional voluntary contributions are held in a fully insured contract with Scottish Widows.

3.5 Monitoring Performance

Mercer prepares regular investment monitoring reports for the Trustees which provide an overview of the performance of the managers, the underlying funds and the Scheme as a whole. The Trustees are also kept up to date with developments at each of the managers which may impact the Scheme’s investments.

The Trustees also meet the investment managers from time to time.

3.6 Realisation of Investments

In general, the Scheme’s underlying investment managers have discretion in the timing of the realisation of investments and consideration of the liquidity of these investments. The Trustees believe that the assets of the Scheme are capable of being realised if circumstances so require.

The Trustees are aware of the investment in the M&G Secured Income Property Fund not being as liquid as the other investments. Property is a relatively illiquid asset class in comparison to others. The Fund has a 1-month notice period for exit; although we note that selling during periods of market volatility may result in depressed pricing.

4. SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.
The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually.

Investment restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Member views

The Trustees do not explicitly consult members when making investment decisions but regularly update members via newsletters and by making a copy of the Statement of Investment Principles available on request.

5. COMPLIANCE WITH THIS STATEMENT

The Trustees will monitor compliance with this Statement regularly.

6. REVIEW OF THIS STATEMENT

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsoring Employer which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and will be in consultation with the Sponsoring Employer.

Date of Amendments

Original Statement : July 2000
First Amendment: June 2003
Second Amendment: December 2003
Third Amendment: July 2005
Fourth Amendment: December 2006
Fifth Amendment: November 2008
Sixth Amendment: July 2009
Seventh Amendment June 2010
Eighth Amendment November 2010
Ninth Amendment July 2013
Tenth Amendment October 2013
Eleventh Amendment July 2015
Twelfth Amendment June 2016
Thirteenth Amendment November 2017
Fourteenth Amendment November 2018
Fifteenth Amendment September 2019