



# Colas (UK) Pension Plan

## Defined Benefit Section

## Statement of Investment Principles

September 2020

# Version Update

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September 2020

## Contents

1 Introduction	4
2 Plan Governance	5
3 Investment Objectives	6
4 Investment Strategy	7
5 Strategy Implementation	9
6 Monitoring	11
8 Risks	13
9 Other Issues	15
Appendix A - Responsibilities	18

# 1 Introduction

This document constitutes the Statement of Investment Principles (the “SIP”) required under Section 35 of the Pensions Act 1995 for the DC Section of the Colas (UK) Pension Plan (“the Plan”). It describes the investment policy being pursued by the Trustees of the Plan (the “Trustees”) and is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (the “2001 Myners Principles” and subsequent revisions). This SIP also reflects the requirements of Occupational Pension Plans (Investment) Regulations 2005 and 2015 and reflects the Pension Regulator’s Code of Practice in relation to governance of DC pension schemes issued in July 2016.

The SIP should be read in conjunction with the Plan’s Statement of Investment Arrangements (“SIA”).

The Trustees confirm that they have consulted with Colas Limited (the “Employer”) and taken appropriate advice from their Advisers. The Investment Adviser is River and Mercantile Solutions (R&M Solutions) and the Legal Adviser is TLT LLP, collectively termed the “Advisers”.

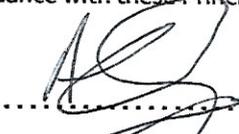
The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge, and experience of the management of the investment arrangements that the Plan requires. The Trustees also confirm that they will consult with the Employer and take advice from the relevant Advisers as part of any review of this SIP.

The Trustees are responsible for the strategic decisions regarding the investment of the Plan’s assets, but the day-to-day management has been delegated to the “Platform Manager” (who provides the infrastructure for members to make investments - the “Platform”) and the underlying managers, detailed in the SIA. Where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned. The Trustees have delegated day-to-day investment decision making to R&M Solutions (in which capacity they are referred to as the “Fiduciary Manager”).

In accordance with the Financial Services & Markets Act 2000 and Section 34(2) of the Pensions Act 1995, the Trustees set general investment policy, but have delegated the day-to-day investment of the Plan’s assets to professional fund managers (the “Underlying Managers”). The Underlying Managers are authorised under the Financial Services & Markets Act 2000, to provide the expertise necessary to manage the investments of the Plan competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

## 1.1 Declaration

The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Plan are invested in accordance with these Principles.

Signed .....  ..... Date ..... 8/10/2020 .....

For and on behalf of the Trustees of the Colas (UK) Pension Plan

## 2 Plan Governance

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisers as appropriate. The responsibilities of each of the parties involved in the Plan's governance are detailed in Appendix A.

The Trustees believe that they should be collectively involved in the investment decision-making and have therefore decided not to appoint an Investment Sub-Committee to deal with investment matters.

## 3 Investment Objectives

The overall objective of the DB Section of the Plan is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

- The acquisition of suitable assets, having due regard to the risks set out in Section 11 of this statement, which will generate income and capital growth to pay, together with contributions from members and the Principal Employer, the benefits which the Plan provides as they fall due.
- To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any Statutory Funding Requirement.
- To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustees invest in a blend of Growth assets that broadly target 3% above cash, a portfolio of Cashflow Matching credit which targets 1% above cash and a liability hedge which aims to mitigate the change in the liabilities for interest rates and inflation. The Trustees decide the blend of these funds to target the appropriate return for the Plan, this is shown in the Quarterly Monitoring Report.

## 4 Investment Strategy

### 4.1 Asset Allocation

The Trustees recognise the importance of asset allocation to the overall investment returns achieved. However, given the approach to managing the investments set out in the previous section, the Trustees also recognise that the asset allocation will change as a result of a range of factors, which include changes in market conditions changing the allocation to different asset types within the Investment Fund.

However, in recognition of the risks that asset allocation can imply, there are asset allocation control ranges in place. .

### 4.2 Diversification, Mandate Definition and Constraints

The Trustees are clear about the importance of diversification and as such the appointment of the Investment Manager includes a requirement to ensure assets are diversified. The choice of asset classes as set out in the Plan's Investment Management Agreement ("IMA") is designed to ensure that the Plan's investments are diversified. The Trustees monitor the strategy adopted by the Investment Manager to ensure that the arrangement remains diversified.

## 4.3 Suitability

The Trustees have established a mandate with the specific aim of defining the asset management objective to be directly consistent with the liability driven objectives. As such, they consider the mandate to be suitable.

The Trustees have taken advice from the Advisers to ensure that the assets held by the Plan and the proposed strategy is suitable given its liability profile, the Trustees' objectives, regulatory guidance and specifications in the Trust Deed.

## 5 Strategy Implementation

The Trustees employ the Investment Manager to manage the DB assets of the Plan. The Investment Manager is appointed to invest the Plan's assets through:

- Determining the asset allocation of the Growth assets, Cashflow Matching Credit assets and the Liability Hedging assets
- Selecting underlying managers to manage elements of the Plan's assets
- Defining the allocations to each manager and the most appropriate form of access.
- Making changes where appropriate.

The performance expectation of this process is delivery of the investment objectives set for each element of the Plan's assets, as this is consistent with the overall investment objectives set out earlier in the SIP.

### 5.1 Mandates and Performance Targets

The Trustees have received advice on the appropriateness of the Investment Manager's targets, benchmarks and risk tolerances from the Advisers and believe them to be suitable to meet the Plan's investment objectives. The Investment Manager has been mandated by the Trustees to manage the investments in a particular way, and details of these mandates are given in the IMA.

### 5.2 Diversification

The assets will be invested in a diverse portfolio of investments in order to reduce investment risk.

The range of, and any limitation to the proportion of, the Plan's assets held in any asset class will be agreed between the Investment Manager and the Trustees. These ranges and sets of limitations will be specified in the IMA and may be revised from time to time where considered appropriate as circumstances change. The Trustees also have regard to the investment powers of the Trustees as defined in the Trust Deed.

### 5.3 Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute in derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on their behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

## 5.4 Suitability

The Trustees have taken advice from the Advisers to ensure that the Investment Manager is suitable for the Plan given its objectives.

The Trustees are also aware in particular that the Investment Manager is regulated by the Financial Conduct Authority in pursuit of the functions provided, and that this is a means of establishing suitability under the Pensions Act 1995. The Trustees will continue to monitor the ongoing suitability of their providers through regular meetings and reports.

## 6 Monitoring

### 6.1 Investment Managers

The Trustees, or Advisers on behalf of the Trustees, will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Plan.

As part of this review, the Trustees will consider whether or not the Investment Managers:

- Are carrying out their function competently.
- Have regard to the need for diversification of investments.
- Have regard to the suitability of each investment and each category of investment.
- Have been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with an Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Manager still does not meet the Trustees' requirements, the Trustees will remove that Investment Manager and appoint another.

### 6.2 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

### 6.3 SIP

The Trustees will review this SIP regularly, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Principal Employer if deemed appropriate. There will be no obligation to change this SIP, any Investment Managers or Adviser as part of such a review.

### 6.4 Trustees

The Trustees maintain a record of all decisions taken, together with the rationale in each case.



## 7 Risks

The Trustees recognise a number of risks involved in the investment of the DB assets of the Plan. These risks, and how they are measured and managed, include:

- i. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - A liability benchmark or 'LB' is used as a proxy for the liabilities in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt yields only). The Trustees monitor this change relative to the change in asset values on a quarterly basis. The LB is reviewed following each actuarial review.
  - The Trustees also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.
  - When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk as set out in Section 3. Downside risk of the investment strategy is also measured by reference to the LB and can therefore be assessed as part of the quarterly review process.
  - This risk is also monitored through regular actuarial and investment reviews.
- ii. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The use of passive management for asset classes where the downside risk of active management is considered too high.
  - Regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation.
- iii. **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- iv. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- v. **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Managers. This is addressed in the agreements with the Investment Managers which contain a series of restrictions. The activity of the Investment Managers and their processes are monitored regularly by the Investment Advisers on behalf of the Trustees.
- vi. **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Managers e.g a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
- vii. **Environmental, Social and Governance ("ESG") risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.
- viii. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Plan. This is addressed through regular monitoring of the Investment Managers and Advisers.
- ix. **Counterparty risk** – the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular

collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

- x. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Plan to control the timing of any investment/disinvestment of assets.
- xi. **Sponsor risk** – the risk of the Principal Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Principal Employer.

## 8 Other Issues

### 8.1 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

### 8.2 Corporate Governance and Stewardship

The Trustees and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustees have appointed the Investment Manager to implement the Plan's investment strategy. The Investment Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Plan's performance, which is measured relative to the Trustees long-term performance objectives.

The Plan investments are generally made via pooled investment funds, in which the Plan investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meeting, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews

(including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here: [https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate\\_Governance/RMG\\_Conflicts\\_of\\_Interest\\_Policy.pdf](https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf)

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

### 8.3 Financially material investment considerations

These considerations which include the "Risks" in section 7 can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as ESG factors) where relevant.

The Trustees delegate consideration of financially material factors to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. As part of their ongoing monitoring, the Trustee reviews some key metrics on a regular basis that are provided by the Investment Manager covering ESG which enable them to engage with the Investment Manager and understand the impact of ESG on the portfolio.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

### 8.4 Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

## 8.5 Additional Voluntary Contributions (AVCs)

The Plan provides a facility for members to pay AVCs to enhance their benefits at retirement. Members are offered the same range of funds as those available for the DC Section of the Plan. More information on the AVC arrangements can be found in the DC SIP.

## 8.6 Realisation of Assets

The majority of assets are held in pooled funds, most of which can be realised easily if the Trustees so require. Whilst the Investment Manager has discretion to invest in illiquid and non-readily realisable assets, limits are placed on the extent to which such assets can be used, as detailed in the IMA.

## 8.7 Custody

Through the Investment Manager's fiduciary service, the Plan's DB assets are held on behalf of the Trustees by a Custodian, currently CACEIAS (formerly KAS Bank N.V.). Although the Trustees have a direct contractual relationship with the Custodian, the appointment and monitoring of the Custodian is delegated to the Investment Manager.

# Appendix A - Responsibilities

## Trustees

The Trustees of the Plan are responsible for, amongst other things:

- i. Determining the investment objectives of the Plan and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Plan.
- iii. Reviewing regularly the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers and the Principal Employer.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the Investment Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi. Appointing and dismissing investment managers and custodians in consultation with the Advisers.
- vii. Assessing the ongoing effectiveness of the Advisers.
- viii. Consulting with the Principal Employer when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x. Informing the Advisers of any changes to Plan benefits and significant changes in membership.

## Investment Manager

The Investment Manager will be responsible for, amongst other things:

- i. At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective.
- ii. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:
  - A report of the strategy followed during the quarter.
  - The rationale behind past and future strategy.
  - A full valuation of the assets and a performance summary.
  - A transaction report and a cash reconciliation (if requested).
- iii. Informing the Trustees immediately of:
  - Any breach of this SIP that has come to their attention.
  - Any serious breach of internal operating procedures.
  - Any material change in the knowledge and experience of those involved in managing the Plan's investments.
  - Any breach of investment restrictions agreed between the Trustees and the Investment Manager from time to time.

## Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- i. Participating with the Trustees in reviews of this SIP.
- ii. Advising the Trustees how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustees of any changes with the Plan's Investment Manager that could affect the interests of the Plan.

- iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Plan.
- v. Undertaking reviews of the Plan's investment arrangements including reviews of the asset allocation policy and current Investment Manager, and selection of new managers, as appropriate.

### **Scheme Actuary**

The Scheme Actuary will be responsible for, amongst other things:

- i. Liaising with the Investment Adviser on the suitability of the Plan's investment strategy.
- ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Plan at the triennial valuations.
- iv. Advising the Trustees and Investment Adviser of any changes to contribution levels and funding level.

### **Custodian**

The Custodian will be responsible for, amongst other things:

- i. Safe-keeping and administration of all the directly held assets.
- ii. Collecting income from assets and transferring it to the Trustees.
- iii. Processing all tax reclaims in a timely manner.
- iv. Reconciling records of assets held with those of the Investment Managers.

### **Legal Adviser**

The Legal Adviser will be responsible for, amongst other things:

- i. Liaising with the Trustees to ensure legal compliance including, those in respect of investment matters.

