Statement of Investment Principles for the Interserve Section of the Interserve Pension Scheme October 2022

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of Interserve Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Interserve Section of the Interserve Pension Scheme ("the Section"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated November 2020.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) (the "Investment Regulations") and the Pension Regulator's guidance for defined benefit pension schemes (March 2017) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Section's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The Trustee has consulted with the Principal Employer (Interserve Group Holdings Limited) in producing this SIP. All other employers for the purposes of the Investment Regulations have nominated the Principal Employer to act on their behalf in the consultation process.

The Trustee will review this SIP from time to time and, after receiving formal advice as required by section 36 of the Act, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Section's investment governance structure, including the key responsibilities of the Trustee, investment adviser and investment manager. It also contains a description of the basis of remuneration of the investment adviser and the investment manager.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The primary objective is to ensure that the Section should be able to meet benefit payments as they fall due. Having purchased a second and final bulk annuity ("buy-in") policy in October 2022 to cover as much as possible of the Section's known defined benefit liabilities, the Trustee will consider in due course whether to move the Section to full "buyout" by converting buy-in contracts to individual policies between the insurer, Aviva, and the members.

3. Investment strategy

The investment strategy is reviewed on an ongoing basis for progress against the Trustee's investment objective.

In July 2014, the Trustee undertook a partial pensioner buy-in to reduce longevity risk and provide an accurate match to the pensioner liabilities covered. This was purchased with Aviva. The Trustee purchased a second buy-in policy with Aviva Insurance Limited ("Aviva") in October 2022, to cover as much as possible of the Section's remaining known defined benefit liabilities. The Section's remaining assets used to meet expenses are currently managed by Legal & General Investment Management Limited ("LGIM") and are held in the LGIM Sterling Liquidity Fund.

4. Considerations in setting the investment arrangements

When deciding how to invest the Section's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk. The purchase of buy-in policies and investing the Section's remaining assets in the LGIM Sterling Liquidity Fund has greatly reduced the investment risk that the Section is exposed to.

In setting the strategy for the Section the Trustee took into account:

- the risk and return required to meet the Section's liabilities in full;
- the Section's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Section, including the funding level, and the strength of the employer covenant in both the short and medium term;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Section; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustee has signed agreements with the investment manager and buy-in provider setting out in detail the terms on which the portfolios are to be managed. The investment manager's primary role is the day-to-day investment management of the Section's investments. The manager is authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment manager to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over the manager's investment practices because the majority of the Section's non buy-in assets are held in a pooled fund. However, the Trustee takes account of manager's' practices when appointing and monitoring managers, and it encourages its manager to improve its practices where appropriate.

The Trustee's view is that the fees paid to the investment manager, and the possibility of its mandate being terminated, ensure it is incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice the manager cannot fully align its strategy and decisions to the (potentially conflicting) policies of all its pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment manager. The Trustee has not set explicit turnover ranges in this SIP as it invests in a pooled fund so cannot directly control turnover levels, but the Trustee expects its investment consultant to incorporate reporting on portfolio turnover and resulting transaction costs as appropriate in its advice on the Section's investment mandates.

6. Realisation of investments

The investment manager has discretion over the timing of realisation of investments of the Section within the portfolio that it manages, and in considerations relating to the liquidity of investments.

Pension payments are covered by the Section's buy-in policies, and any additional expenses can be met from the assets held with LGIM, which are realisable at short notice.

7. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social, governance and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Section and its members.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

The Trustee has limited influence over ESG practices because all the assets are held in buy-ins and a pooled fund. However, they periodically review the ongoing appropriateness of the providers’ responsible investment policies and practices, supported by regular monitoring from their investment consultant.

8. Stewardship

Whilst the Trustee’s assets do not carry voting rights, they recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, protect and enhance the long-term value of investments. The Trustee seeks to appoint providers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council. The Trustee periodically reviews the ongoing appropriateness of the providers’ stewardship policies, supported by monitoring from their investment consultant.

Investment governance, responsibilities, decision-making and fees

Appendix 1

The Trustee has decided on the following division of responsibilities and decision-making for the Section. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Section overall. The Trustee's investment powers are set out within the Section's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy (including deciding on the use of insurance policies), in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment manager and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment manager and buy-in provider

In broad terms, the investment manager (LGIM) will be responsible for:

- managing the non-insured assets according to stated objectives, and within the guidelines and restrictions set out in its investment manager agreement and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;

- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments; providing the Trustee with regular information concerning the management and performance of its portfolio; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodian of the LGIM portfolio is responsible for safe keeping of the assets and facilitating all transactions within the portfolio.

The Section has two buy-in policies which cover as far as possible the Section's known defined benefit liabilities. The buy-in provider (Aviva) is responsible for making payments to the Section under the respective buy-in contracts. These payments cover members' benefits secured under the policies.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- on advising how material changes within the Section's benefits, membership, and funding position may affect the manner in which the assets should be invested; and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Section results in a range of charges to be met, directly or indirectly, by deduction from the Section's assets.

The Trustee has agreed Terms of Business with the Section's investment adviser, under which work undertaken is charged for on a "time-cost" basis.

The investment manager receives fees calculated by reference to the market value of assets under management. The fee rate is considered by the Trustee to be reasonable when compared with those of other similar providers.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Section's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Section's employer

When reviewing matters regarding the Section's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk

Appendix 2

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Section in order to meet its investment objectives. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Section's long-term and shorter-term funding targets; and
- the Section's cash flow and target return requirements.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

This is the risk that returns generated on assets are inadequate such that the Section is unable to meet liabilities as they fall due. However, this risk has been largely removed as the buy-in policies pay an income equal to the benefits to be provided to the members.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Section's assets. The vast majority of the Section's assets are held in buy-in policies, with the residual assets either held in a cash fund or the Section's bank account. Therefore the need for diversification is less relevant.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment manager on a regular basis to ensure it remains appropriate for its selected mandate.

2.4. Liquidity/marketability risk

This is the risk that the Section is unable to realise assets to meet benefit cash flows as they fall due, or that the Section will become a forced seller of assets in order to meet benefit payments. This risk has been mitigated by the purchase of buy-in policies to cover benefit payments as they fall due.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Section's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers and buy-in provider who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Section is indirectly exposed to credit risks arising from the underlying investments held by the portfolios, for example where they invest in bonds. The indirect exposure to credit risk arises from theLGIM Sterling Liquidity Fund and buy-in policies.

The investment manager and buy-in provider manage credit risk by having a diversified exposure to bond issuers, conducting thorough research on the probability of default of those issuers. The magnitude of credit risk will vary over time, as the manager and buy-in provider change the underlying investments in line with their views on markets, asset classes and specific bonds.

2.7. Currency risk

All of the Section's investments are either held in Sterling-denominated assets or are accessed via a Sterling share class. Therefore the Section is not subject to direct currency risk.

2.8. Interest rate and inflation risk

The valuations of the Section's buy-in policies are subject to interest rate and inflation risk. However, the interest rate and inflation exposure of the buy-in polices hedges the corresponding risks associated with the Section's liabilities.

2.9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Section, and takes these into consideration as far as practical in setting the Section's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected);
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Section as anticipated); and
- funding level risk (the risk that the Section's funding position falls below what is considered an appropriate level).

These risks have been mitigated by the purchase of the buy-in policies, but reside with the Trustee until full buyout.

2.10. Investment risks specific to individual asset classes

Buy-ins: All of the Section's known defined benefit liabilities are covered by buy-in policies. Although these are considered low risk investments, they are not risk free. The principal risk to the Section is counterparty (default) risk, ie the risk that the buy-in provider becomes insolvent, although this risk is regarded as very low given the regulatory regime under which the insurer operates. A second risk is operational risk, ie the risk that a buy-in provider fails to make payments to the Section when they fall due. This risk is mitigated by the Trustee holding surplus assets that provide liquidity to enable monthly pension payments to members to be met whilst the operational failure is resolved.

Money markets: The Section's surplus assets are currently held in the LGIM Sterling Liquidity Fund. This is an actively managed fund, investing in a range of liquid and low risk short-term debt instruments diversified across a number of counterparties. Whilst there is always the risk of capital loss, the fund sits at the low end of the risk spectrum.