Mouchel Business Services Limited Pension Scheme (Money Purchase Section)

Statement of Investment Principles

August 2024

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1. Introduction

This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 (as amended) of the Pensions Act 1995 for the Mouchel Business Services Limited Pension Scheme (Money Purchase section) ("the Scheme"). The Scheme comprises both Final Salary and Money Purchase sections. This SIP covers the Money Purchase section only.

It describes the investment policy being pursued for the Scheme by the Trustee of the Scheme ("the Trustee") 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 Schemes (Investment) Regulations 2005 and 2015, and the Code of Practice in relation to governance of DC pension schemes issued by the Pensions Regulator in July 2016.

The Trustee confirms that, before preparing this SIP, it has consulted with Kier Highways Limited (the "Employer") and taken appropriate advice from its advisers. The Investment Adviser is Schroders IS Limited and the Legal Adviser is Hogan Lovells, collectively termed "the Advisers".

The Trustee believes its advisers to be qualified by their ability and practical experience of financial and legal matters respectively and to have appropriate knowledge, and experience of the management of the investment arrangements that the Scheme requires. The Trustee also confirms that it will consult with the Employer and take advice from the relevant advisers as part of any review of this SIP.

The Trustee is responsible for the strategic decisions regarding the investment of the Scheme's assets and arranging Scheme administration. Where they are required to make an investment decision, the Trustee always receives written advice from the relevant advisers first in order to achieve an appropriate level of understanding of the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustee sets general investment policy, but has delegated the day-to-day investment of the Scheme's assets to professional fund managers (the "Investment Managers") in accordance with Section 34(2) of the Pensions Act 1995. The Managers, who are authorised under the Financial Services & Markets Act 2000, provide the expertise necessary to manage the investments of the Scheme competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

1.1 Declaration

The Trustee acknowledges that it is their responsibility, with guidance from their advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Mark Cliff 12 September 2024

Signed ..... **Date** .....

For and on behalf of the Trustee of the Mouchel Business Services Limited Pension Scheme.

2. Governance

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

The Trustee maintains a Statement of Investment Arrangements ("SIA") which sets out the specifics of investment implementation and further information on the default strategy and self-select funds offered by the Scheme. This document is referred to later in this SIP.

3. Investment objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. It also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances.

The Trustee's Scheme objectives are:

1) To provide a pension plan designed to deliver valuable benefits into retirement.
2) To help members manage the risks they face as far as possible.
3) To provide members with a range of investment options to enable them to tailor investment strategy to their needs.

In aiming to meet these Scheme objectives, the Trustee has specified a number of investment objectives:

1) an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement; and
2) a default investment strategy that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default strategy is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

4. Default Strategy

If a member does not choose an investment option, their account will remain invested in the default strategy, which is managed as a 'lifestyle' strategy (i.e. it automatically combines investments in proportions that vary according to the time to retirement age).

The default strategy is designed to be in the best interests of the majority of the Scheme's members, based on the demographics of the membership. The current default strategy targets drawdown at retirement.

The initial growth phase is invested to target a return significantly above inflation. In the 25 years before retirement, the strategy switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members intending to access their fund via drawdown (after taking 25% of their DC pot as a tax-free lump sum).

To help manage the volatility that members' assets experience in the middle part of the growth phase of the default strategy, the Trustee has included an allocation to an actively-managed multi-asset mandate (also known as a "diversified growth fund"), which over the long term is expected to generate equity-like returns but with a lower volatility than equities.

4.1 Aims and Objectives of the default strategy

The Trustee's aims and objectives in relation to the default strategy are to support members' investment needs where members either choose the default option or do not choose any option. Broader aims and objectives in relation to the default strategy are set out in Section 3, titled "Investment Objectives".

4.2 Trustee's policies in relation to the default strategy

i. The kinds of investment to be held

ii. The balance between different kinds of investments

The kinds of investments held within the default strategy and the balance between them are designed to be adequately diversified and suitable. Sections 5.3, 'Diversification' and 5.5, 'Suitability and Review' set out further details.

iii. Risks (including the ways in which risks are to be measured and managed)

Risks applicable to the Scheme as a whole are shown in Section 9, titled "Risks". All of the risks shown, including how they are measured and managed, are relevant to the default strategy.

iv. Expected return on investments

The Trustee's policy on expected return is considered in section 5.2 "Expected Return", which covers both the default strategy and the investment strategy as a whole.

v. Environmental, Social and Governance ("ESG") considerations

The extent to which the Trustee considers ESG issues within the default strategy is shown in Section 10 "Other Risks".

vi. Realisation of investments

Funds used within the default strategy are unitised, pooled funds which are dealt daily.

vii. Financially and non-financially material investment considerations

The extent to which the Trustee considers financially and non-financially material considerations, including, but not limited to, social, environmental or ethical issues is shown in Section 10, "Other Risks".

viii. Corporate governance and stewardship policy

The Trustee's policy in respect of these considerations is shown in Section 10, titled "Other Risks".

ix. Exercise of rights (including voting rights) attaching to the investments

The extent to which the Trustee considers the exercise of rights within the default strategies is shown in the Section 10, titled "Other Risks".

4.3 Best interests of members and beneficiaries

In designing the default strategy, the Trustee has considered members' changing risk and return requirements over time and member outcomes, including the choices members might make upon reaching retirement.

5. Investment Strategy

Having due regard for the objectives and the members of the Scheme, a number of investment options have been made available. Members can choose to invest their contributions in one or more of these investment options, or may rely on the default strategy, as detailed in the SIA.

The Trustee will ensure that each member's investments are invested in accordance with the fund options selected by the member, or in the absence of an investment choice, the default strategy.

5.1 Investment Options

The investment options comprise the default strategy and self-directed self-select options. The Scheme also offers two alternative lifestyle strategies, which target cash and annuities at retirement respectively. Details of the investment options are set out in the SIA.

5.2 Expected Return

The Trustee considered the expected returns of the investment strategy (including the default) in constructing benchmarks to assess performance against. The objectives of the funds available within the investment options are set out in the SIA.

5.3 Diversification

The choice of investment options for members is designed to ensure that members are able to choose investments that are adequately diversified and suitable for their profile and attitude to risk. The Trustee monitors the investment options regularly to ensure it is comfortable with the choice of funds offered to members.

5.4 Active and Passive Management

The Trustee takes advice from the Advisers on the choice of whether to offer active and/or passive fund options, which is in part determined by the range of Investment Managers offered by the Platform Manager.

5.5 Suitability and Review

The suitability and range of investment options, including the default strategy, will be reviewed regularly. Members are responsible for choosing which of the self-select funds is most appropriate based on their own individual circumstances, or otherwise relying

on the default strategy for the investment of their own and the Employer's contributions.

The Trustee will review, in conjunction with the Investment Advisers, any investment option offered to members that either underperforms its benchmark over a significant timeframe or carries a level of risk which may be thought to be unreasonable in the context of the Scheme's investment objectives.

6. Strategy Implementation

6.1 Investment Platform

The Trustee has entered into an insurance policy with FIL Investment Services (UK) Limited ("Fidelity") in order to offer funds to members of the Scheme via Fidelity's investment only platform. The funds are all priced daily and are directly held with the Fidelity platform. Fidelity is responsible for unitising and pricing the funds, and for all other transactions.

6.2 Investment Managers

The Trustee has selected Legal & General Investment Management ("Legal & General"), BlackRock Life Limited ("BlackRock") and HSBC Asset Management ("HSBC") to provide the pooled funds that make up the Scheme's investment options.

6.3 Administrator

Administration is carried out by XPS Administration Limited.

6.4 Fund Options

The range of funds offered to members has been chosen to give members a diversified range of investments from which they can select according to their individual circumstances. The funds available to members are detailed in the SIA.

6.5 Investment of Contributions

Member's contributions will be invested in line with their selected choice of funds. Where a member has not made an active selection, their contributions will be invested in the default strategy, which is detailed in the SIA.

6.6 Transitions

The Trustee, in conjunction with its advisers, will look to mitigate the potential risks and costs to members as a result of any investment transitions to the best of their ability.

7. Monitoring

7.1 Managers

The Trustee, or its advisers on behalf of the Trustee, will monitor the performance of the Investment Managers against their own benchmarks or the Trustee's specified benchmarks.

The Trustee will regularly review the activities of the Investment Managers to satisfy themselves that each Investment Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the Scheme's assets.

As part of this review, the Trustee will consider whether or not each Investment Manager is carrying out its function competently. The Trustee will evaluate the Investment Manager based on, amongst other things:

- The default strategy and self-select funds' performance versus their respective benchmarks or Trustee specified benchmarks.
- The level of risk within the portfolios given the specified risk tolerances.
- Whether it has regard to the suitability of each investment and each category of investment.
- Whether it has 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.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee plans to retain its Investment Manager for the long term but will keep this under review. Changes in investment strategy or changes in the view of the Investment Manager can lead to the duration of the arrangement being shorter than expected. If the Trustee is not satisfied with an Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, the Trustee will remove the Investment Manager.

7.2 Advisers

The Trustee will monitor the advice given by their advisers on a regular basis.

7.3 Statement of Investment Principles, Statement of Investment Arrangements

The Trustee will review this SIP and the SIA at least triennially, or as soon as is practical following any changes to the investment strategy and modify it with consultation from the relevant advisers and the Employer if deemed appropriate. There will be no obligation to change this SIP and the SIA, any Investment Manager, Platform Manager or adviser as part of such a review (although strategy changes will be reflected in this SIP, if appropriate).

7.4 Trustee's Recordkeeping

The Trustee maintains a record of all investment related decisions that have been taken, together with the rationale in each case.

8. Fees

8.1 Member charges

There are two sources of charges applicable to members:

1) Investment management charges
2) Platform charge

Fees are charged as a proportion of the size of assets invested. The charges have been negotiated and will continue to be reviewed regularly. Details on the charges are set out in the SIA.

8.2 Advisers

Fees paid to the advisers are based either on actual time spent and hourly rates for relevant individuals or on fixed fees agreed in advance for specifically defined projects.

8.3 Value for Members

The Trustee reviews, as far as possible based on the data available, all sources of fees levied on members' accounts (including management charges, additional expenses and platform charges as appropriate) to ensure value for members is present. The Trustee considers, among other items, the absolute level of charges, the competitiveness of applicable charges relative to the marketplace and the levels of service provided by each of the advisers and Managers.

The Trustee also reviews, as far as is reasonable and practical, transaction costs paid by members to assess the extent to which these represent good value for money.

The Trustee's conclusions in respect of value for members are documented in the Scheme's annual report and accounts.

9. Risks

The Trustee recognises a number of key risks to themselves and to the Scheme's members:

i. **Value for Members Risk** – the risk that the Scheme fails to offer good value for members. This is addressed through ongoing monitoring and an annual 'Value for Members' assessment.

ii. **Inflation Risk** – the risk that the purchasing power of members' investment accounts is not maintained. To try to manage this risk, the Trustee has offered a range of funds reflecting asset classes expected to provide long term returns in excess of price inflation.

iii. **Pension Purchase Risk** – the risk that the value of pension benefits that can be obtained by a given defined contribution amount is not maintained. This risk cannot easily be mitigated as it depends on the form(s) and timing of a member's retirement income decision and market conditions as retirement approaches. However, the Trustee has offered a range of funds to reflect different retirement income decisions, including three lifestyle strategies which target drawdown, cash and annuities at retirement respectively.

iv. **Capital Risk** – the risk that the value of any element used to provide a cash sum at retirement is not maintained. To try to mitigate this risk, the default strategy targets a 25% cash allocation at retirement, with the allocation gradually increasing three years from retirement. Members also have the option of a lifestyle strategy which targets cash.

v. **Active Manager Risk** – the risk that the active investments underlying the Scheme's investment options underperform due to the underlying Investment Manager underperformance. The Trustee mitigates this risk by monitoring the investment managers on a regular basis. Prior to appointing an active investment manager, the Trustee receives written advice from its Investment Adviser, and will typically undertake an investment manager selection exercise.

vi. **Platform Risk** – the assets are currently held by the Platform Manager. This risk relates to potential losses that could arise if the Platform Manager ran into financial difficulties. The Trustee considered the choice of platform at the implementation phase of the current strategy, to ensure it was comfortable with the choice of Platform Manager. The Trustee continues to monitor the Platform Manager to ensure it remains comfortable.

vii. **Communication Risk** – the risk that communication to members is misleading or unclear and leads to inappropriate decisions being made. This is addressed through the Trustee receiving advice from their advisers and regular monitoring and updates, where appropriate, of member communications.

viii. **Inappropriate Member Decision** – the risk that members make inappropriate decisions regarding their investments. This is addressed where possible through communication to members and the recommendation that members seek independent financial advice. The Trustee has also offered a default strategy with a "lifestyling element" designed to phase members into lower risk investments as they approach retirement.

ix. **Organisational Risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through a regular monitoring of the Investment Managers and advisers.

x. **Liquidity Risk** – the risk that members are not able to realise the value of their funds when required. The Trustee has addressed this risk by only offering funds which are considered liquid.

xi. **ESG Risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by an ESG assessment at the point of investment with the Underlying Managers where applicable, or by requesting information on the ESG policies adopted by the Underlying Managers.

The importance of each risk varies with time. Inflation is important throughout the whole period to retirement whereas pension conversion risk and capital risk become more significant as retirement approaches, depending on how the member choses to access their pension saving at retirement.

The Trustee has provided a default strategy that aims to address the above risks throughout a member's life. The Trustee may vary the underlying asset allocation and Investment Managers within this strategy from time to time in response to changing market conditions and manager developments.

The Trustee also provides members with a range of self-select investment options into which they may direct their contributions so as to allow each member to determine the appropriate mix of investments based on their own attitude to risk, term to retirement and investment objective.

In addition to the risks noted above, the Trustee also recognises the options they have selected are subject to underperformance risk. This is addressed through providing options with appropriate diversification and through regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate.

The Trustee recognises that an efficient process for identifying, evaluating, managing and monitoring risks needs to be in place for the Scheme. The Trustee will identify and assess the impact of any risk, what controls can be put in place to manage the risk and review both the individual risks and the effectiveness of the risk management process as a whole.

The Trustee will keep these risks and how they are managed under regular review.

10. Other Risks

10.1 Corporate Governance and Stewardship Policy

As part of the appointment of the Investment Managers to the Scheme, the Trustee has accepted the terms of pooled investment vehicles, setting out the scope of each pooled fund vehicle's activities, their charging basis and other relevant matters. The Trustee periodically reviews the overall value-for-money of using the Investment Adviser (as specified in the Scheme's Investment Consultant objectives) and Investment Managers.

The Scheme's investments are made via pooled investment funds via the Platform Manager, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the Investment Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to its Underlying Manager holdings to the Platform Manager, which implements its fund voting policy.

The Trustee and Investment Adviser undertake regular reviews of the Investment Managers. These reviews incorporate benchmarking of performance and fees as well as performance reviews (including understanding key drivers of performance). The Trustee and Investment Adviser review the governance structures of the Investment 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 Trustee and Investment Adviser assess whether the Investment Managers' remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects the Investment Managers':

- to align their investment strategy and decisions with the Trustee's investment policies, such as its return target and any restrictions detailed in the Trustee's policy documentation with the Platform Manager.
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are 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 Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflicts of Interest policy is available publicly here:

https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/

The Trustee oversees the transaction costs, including turnover costs (where available) incurred by the Investment 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 Adviser's expectations. Where there are material deviations the Trustee and Investment Adviser engage with Investment Managers to understand the rationale for such deviations and take appropriate action.

The Trustee undertakes the engagement directly with its Investment Adviser who appoint Underlying Managers to carry out engagement with investee companies directly. The Investment Adviser set out its voting and engagement priorities which focus on six themes including climate, Natural Capital and Biodiversity, Human Rights, Human Capital Management, Diversity and Inclusion and Corporate Governance. The Trustee has carried out an exercise to identify those ESG priorities it thinks are important and, based on the close degree of similarity between the two, has agreed to align its engagement priorities with those of the Investment Adviser with a particular focus on the following:

- **Climate**: Engaging with companies to ensure the economy is transformed to avoid the most catastrophic effects of climate change on people and the planet, and adapt to future temperature rises.
- **Human Rights**: Protecting human rights and reducing the negative impacts companies have on workers, communities and consumers (e.g. child labour, ethical supply chains, indigenous rights, basic access to products and services, modern slavery).
- **Natural Capital and Biodiversity**: reducing the impact of these nature-related risks which include, but are not limited to, lack of biodiversity, deforestation, pollution and water stress.

The Trustee believes those engagement priorities which have been chosen by the Investment Adviser will result in better management of financially-material ESG and climate risks, therefore it is expected to improve the financial outcome of the Scheme which ultimately is in the members and beneficiaries' best interest. The Trustee has also agreed to link the 'most significant' votes of Underlying Managers to its ESG priorities for engagement, monitoring and reporting purposes.

The Trustee will engage with its Investment Managers to understand how they have voted and engaged with underlying companies on the Trustee's behalf in respect of these priorities.

10.2 Financially material investment considerations

These considerations which include the above "Risks" 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) where relevant. The Trustee delegates consideration of financially material factors to the Managers, who consider these factors for funds that are available to beneficiaries through the default arrangement and as self-select funds, when making funds available on its investment platform. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered in the context of long term performance by the Trustee (in conjunction with its advisers) as part of the manager selection criteria.

This review occurs before funds are approved for investment. For invested funds, the Trustee requests the Managers monitor ongoing compliance with ESG and other factors, like stewardship, as a part of overall engagement.

10.3 Non-financial matters

The Trustee does 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 part of the default arrangement, as there is no likely common view on any ethical matters which members are likely to hold.

10.4 Security of Assets

The Trustee is aware of the importance of the safe custody and security of members' funds. The Scheme's assets are held via an investment policy with Fidelity. The Financial Services Compensation Scheme ("FSCS") would provide cover to the Scheme in the event of insolvency of Fidelity. Fidelity, who also has contractual agreements in place with underlying managers and would seek compensation as a result of insolvency of underlying managers and other related parties. Appropriate due diligence is done on the financial strength, custody and administration agreements of the underlying investment managers and Fidelity before an appointment is made and this is reviewed regularly by the Advisers in conjunction with the Trustee.

10.5 Illiquid Assets

The Trustee does not at present invest in illiquid assets in the default arrangement. The Trustee does not believe it is appropriate to invest in illiquid assets, given the Scheme is closed to new members. Currently, the Trustee does not plan to invest in illiquid assets but will keep this policy under review.

Appendix A - Responsibilities

Trustee

The main investment related responsibilities of the Trustee include:

i. Reviewing, at least triennially (or following significant changes to the investment strategy), the content of this SIP and modifying it if deemed appropriate.

ii. Reviewing, at least triennially (or following significant changes to the investment strategy), the content of the SIA and modifying it if deemed appropriate.

iii. Reviewing the investment policy for the Scheme in terms of providing a range of funds from which members may choose to invest (see the SIA).

iv. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, through meetings and written reports.

v. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.

vi. Appointing and dismissing Platform Managers and Investment Managers.

vii. Assessing the performance of its advisers.

viii. Consulting with the Employer when reviewing investment policy issues.

ix. Providing any appointed organisations/individuals with a copy of the SIP or the SIA, where appropriate.

Investment Adviser

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

i. Participating with the Trustee in reviews of the SIP.

ii. Informing the Trustee of any material breaches of this SIP, internal operating procedures or changes in the knowledge and experience of those involved in managing the Scheme's investment options.

iii. Advising the Trustee of any changes in respect of the Scheme's Investment Managers that could affect the interests of the Scheme.

iv. Advising the Trustee of any changes in the investment environment that could either present opportunities or threats to the Scheme.

v. Undertaking reviews of the Scheme's investment arrangements including reviews of the Scheme's structure, current Investment Managers, and selection of new Investment Managers as appropriate.

Platform Manager

The main responsibilities of the Platform Manager are:

i. At its discretion, but within the guidelines agreed with the Trustee, selecting and undertaking transactions in specific investments within each fund.

ii. Providing the Trustee (via the Investment Manager) with sufficient information each quarter to facilitate the review of its activities, including:

- Performance and rationale behind past and future strategy for fund options offered to members.
- A full valuation of the assets.
- A transaction report.

iii. Informing the Trustee immediately of:

- Any serious breach of internal operating procedures.

Legal Adviser

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

i. Acting on Trustee instructions to ensure legal compliance including those in respect of investment matters.