Shepherd Group Pension Fund ('the Fund')

Statement of Investment Principles

This Statement of Investment Principles covers the defined benefit section of the Fund. It is set out to cover the objectives, strategy and risk as well as the Trustee's overall policy on issues including implementation and governance.

1. INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Fund prudently so that the benefits promised to members are provided. The asset allocation strategy is designed to maintain a prudent approach to meeting the Fund's liabilities.

2. STRATEGY

The long-term asset allocation strategy chosen to meet the objective above is set out in the table below. This strategy has been chosen with the aim of reaching full funding on a Gilts+0% liability discount rate by 31 December 2028, achieved through investment returns alongside the agreed schedule of contributions paid by the sponsoring employer.

Asset Class	Target Allocation
Equities	**9%**
Property	**5%**
Multi-Asset Credit	**22%**
Absolute Return Bonds	**10%**
Liability Driven Investment providing:	**54%**
An inflation hedge of*:	120%
An interest rate hedge of*:	120%
Cash	**0%**

*Hedge ratios expressed as a % of the Fund's assets.

The Fund invests in assets that target a higher expected return and associated volatility, relative to liabilities. These assets would typically involve equities and could possibly include alternative asset classes such as different types of absolute return and hedge funds, active currency, infrastructure, private equity, commodities and property funds.

The Fund invests in assets that have characteristics that are broadly similar in nature to the liabilities. These assets are predominantly bonds and could also possibly include other financial instruments such as interest rate and inflation swaps (e.g. so-called 'Liability Driven Investments').

The Trustee believes that it is possible to add value to the Fund's investments by taking account of medium term asset allocation views. As a result, the allocation to various asset classes may move away from the target weightings shown above over time. The Trustee takes account of the level of risk being run when the Fund's asset allocation is changed and takes professional advice as to the likely impact of any proposed change in allocation on the overall level of risk being run by the Fund prior to agreeing to any tactical change.

The asset allocation strategy was set following discussions between the Shepherd Group Pension Fund Investment Committee and the Trustee's investment advisors. The Investment Committee consulted with the Trustee and the sponsoring employer when setting this strategy.

When choosing the Fund's planned asset allocation strategy, it is the Trustee's policy to consider:

- The need to consider a full range of asset classes including alternative assets such as private equity, property and hedge funds.

- The risks and rewards of a range of alternative asset allocation strategies.

- The suitability of each asset class.

- The need for appropriate diversification.

The Fund has insured AVC arrangements with AEGON (formerly Scottish Equitable plc) and Scottish Widows. These arrangements provide a wide range of funds in which members can invest their AVCs. The AEGON arrangement also offers access to a number of lifestyle strategies. The Trustee aims to provide access to a range of investments that are suitable for meeting members' long and short-term investment objectives for AVCs, based on the Trustee's consideration of members' needs. The fund range is reviewed from time to time to ensure that it continues to meet the needs of members and offers members value for money.

3. RISK

The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Fund's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). For example, changes in the values of both the assets and liabilities as a result of movements in inflation and interest rates. The Trustee and its advisers considered this mismatching risk when setting the investment strategy.

- The risk of a shortfall of liquid assets relative to the Fund's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Fund's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.

- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Fund's investment strategy.

- The possibility of failure of the Fund's sponsoring employers ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy. This risk is reviewed on a regular basis.

- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified, experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Fund's liabilities and implemented it using a range of fund managers, The Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives periodic information relating to:

- Performance versus the Fund investment objective.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee's.

4. IMPLEMENTATION

Aon Solutions UK Limited ("Aon") has been selected as investment adviser to the Trustee and Investment Committee. Aon operates under an agreement to provide a service which ensures the Trustee and Investment Committee are fully briefed to take decisions themselves and to monitor those they delegate. Aon is paid on a fixed fee basis for certain tasks, with other work carried out on a pre-agreed fixed fee and/or time cost basis, as considered appropriate. This structure has been chosen to ensure that cost-effective, independent advice is received.

Details of the appointed managers can be found in a separate document produced by the Trustee entitled “Summary of Investment Arrangements”.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to a range of carefully selected and monitored fund managers through written contracts. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

In setting the Scheme’s investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

Arrangements with asset managers

The Trustee regularly monitors the Fund’s investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with Trustee’s policies. This includes monitoring the extent to which asset managers:

- Make decisions based on assessments about medium- to long-term financial performance and non-financial performance of an issuer of debt or equity; and
- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant.

The Trustee receives regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives, and assess the asset managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustee in determining the extent to which the Fund's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Fund's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Fund invests in a collective vehicle, then the Trustee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

The Trustee does not regularly monitor asset managers against non-financial criteria of the investments made on its behalf.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as ultimately this creates long-term financial value for the Fund and its beneficiaries.

The Trustee regularly reviews the suitability of the Fund's appointed asset managers and takes advice from its investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed asset managers. If an incumbent asset manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the asset manager.

The Trustee reviews the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Fund's asset managers and ensure their asset managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with its asset managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee expects transparency from its asset managers on their voting and engagement activity. Where voting is concerned, the Trustee expects asset managers to, where relevant, provide a summary of their voting actions on an annual basis. The transparency offered for engagement activity should include the objectives of the engagement action, the ultimate outcome and the processes for escalating unsuccessful engagements.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Costs and performance

The Trustee is aware of the importance of monitoring asset managers' total costs and the impact these costs can have on the overall value of the Fund's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their asset managers that can increase the overall cost incurred by the Fund's investments.

The Trustee collects annual cost transparency reports covering all of their investments and asks that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying to investment managers.

The Trustee expects all of its investment managers to offer full cost transparency via industry standard templates. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Fund.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Fund's investment consultant monitors this on behalf of the Trustee as part of the manager monitoring it provides to the Trustee and flags to the Trustee where there are concerns.
The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustee evaluates the performance of its asset managers relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the asset managers. The Trustee also reviews the remuneration of the Fund's asset managers on at least a triennial basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.
The Trustee assesses value for money received from its asset managers on a regular basis by benchmarking their asset managers relative to the wider market. This enables the Trustee to have a detailed understanding of the overall costs irrelevant of net of fees performance and identify opportunities to challenge asset managers where a particular manager or mandate is an outlier.

5. GOVERNANCE

The Trustee is responsible for the investment of the Fund's assets. The Trustee takes some decisions themselves and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

Trustee	Investment Committee
• Set structures and processes for carrying out their role. • Select and monitor planned asset allocation strategy. • Select and review direct investments (see below) • Consider recommendations from the Investment Committee. • Consult with the sponsoring employer	• Make recommendations to Trustee on: – Investment Strategy. – Selection of investment advisers and fund managers. – Structure for implementing investment strategy. • Monitor investment advisers and fund managers. • Monitor direct investments. • Make ongoing decisions relevant to the operational principles of the Fund's investment strategy.
Investment Advisers	**Fund Managers**
• Advise on all aspects of the investment of the Fund assets, including implementation. • Advise on this statement. • Provide any required training.	• Operate within the terms of this statement and their written contracts. • Select individual investments with regard to their suitability and diversification.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustee's policy is to review their direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on an ad-valorem basis, a performance related basis or a mixture of the two. The level of remuneration paid to fund managers is reviewed regularly by the Trustee against market rates to ensure the fund managers' interests are aligned with those of the Fund. In addition, fund managers pay commissions to third parties on many of the trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

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