

# *Statement of Investment Principles*

**For the Crest Nicholson Group Pension and Life Assurance Scheme**

**Effective from: May 2022**



## 1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the Crest Nicholson Group Pension and Life Assurance Scheme.

It sets out our policies on various matters governing investment decisions for the Crest Nicholson Group Pension and Life Assurance Scheme (“the Scheme”), which is a Defined Benefit (“DB”) Scheme. This SIP also covers the Additional Voluntary Contribution arrangements (“AVCs”).

The “employer” refers collectively to Crest Nicholson plc and Crest Nicholson Operations Ltd.

This SIP replaces the previous SIP dated March 2022.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. Reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

## 2. Investment objectives

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the expected return on the Scheme assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in the SIP addendum;
- that the Scheme has a long-term journey plan in place to help it achieve full funding on the self-sufficiency (as measured by gilts + 0.5% per annum) basis. Progress against this long-term journey plan is reviewed on a regular basis via reporting from our advisers. The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme; and
- the Trustee’s ultimate objective is to buyout the Scheme with an insurer. The Trustee measures progress versus this objective on an ongoing basis but is not (at this stage) targeting a formal completion date.

Progress against the Scheme’s investment objectives set out above is reviewed on a regular basis (at a minimum, quarterly).

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members’ risk / return objectives.

### 3. Investment strategy

With input from our advisers and in consultation with the employer, we review the investment strategy on an ongoing basis, considering the objectives described in Section 2.

The current investment strategy is summarised in the following table:

Asset class	Strategic allocation
<b>Growth Investments</b>	<b>17.0%</b>
Equity	7.0%
Alternatives	10.0%
<b>Fixed Income Investments</b>	<b>83.0%</b>
Fixed Income Defensive	38.5%
Fixed Income Growth	44.5%
<b>Total</b>	<b>100.0%</b>
Target level of interest rate and inflation hedging (on the self-sufficiency basis)	100%

Our policy is to target an appropriate level of investment risk given the Scheme's circumstances, mindful of the investment returns required to achieve the Scheme's objectives. We believe that the strategy above meets this objective.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers and after discussion with the employer whether it is appropriate to rebalance the assets considering factors such as market conditions and anticipated future cash flows.

As the Scheme matures over time, we intend to de-risk the investment strategy to reflect the change in the liability profile. This means that the investment strategy is expected to target a higher allocation to lower risk assets as the Scheme matures.

### 4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, we consider a number of risks, including, but not limited to, those set out in the SIP addendum. Some of these risks are more quantifiable than others, but we have tried to allow for the relative importance and magnitude of each risk.

We considered a wide range of asset classes for investment, taking account of the expected returns and risks associated with those asset classes, how these risks can be mitigated where appropriate, as well as beliefs about investment markets and which factors are most likely to impact investment outcomes. The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 5.0% per annum.

In setting the strategy it is our policy to consider:

- the Scheme's investment objectives, including the target return required to meet these;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the overall best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- 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;
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate;
- any other factors which we believe to be financially material over the time horizon to the funding of future benefits by the investments of the Scheme;

- our investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes; and
- legal risks, for example, relating to investment fund structures, jurisdiction and domicile of funds, and potential for the Scheme incurring liabilities.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns.
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified.
- long-term environmental, social and governance (ESG) is one factor that trustees should consider when making investment decisions and the Trustee believes that some managers may be able to improve risk-adjusted returns by taking account of ESG factors.
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the factors set out in Section 4, the need for suitable and appropriately diversified investments and other points covered under Regulation 4 of the 2005 Investment Regulations.

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

The Trustee and investment managers 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.

Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because most of the Scheme's assets are held in pooled funds, but we encourage our managers to improve their practices where appropriate.

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

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

Our policy is to evaluate each of our investment managers by considering performance, as well the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.



## 6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments. The Trustee recognises that the liquidity of investments may change over time, particularly in periods of market stress.

The Trustee keeps sufficient cash available for benefit payments and other outgoings and informs the investment advisors of any liquidity requirements over this. The Trustee's preference is for investments that are readily realisable, but the Trustee recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (for example, private credit).

## 7. Financially material considerations and non-financial matters

We considered how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

Within each asset class, we consider investment options that give increased weights to ESG considerations. Decisions regarding the approach taken with respect to ESG are made on a case by case basis.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice on an annual basis (and engage with managers where we feel improvements can be made).

We have limited influence over managers' investment practices where assets are held in pooled funds, however, we recognise the role we have via the fund managers through voting policies and engagement at a Board level to encourage positive ESG standards. Where necessary and appropriate, we encourage our managers to improve their ESG practices within the parameters of their fund. We do not consider 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.

We have developed a standalone responsible investment framework which sets out its policies regarding this topic in more detail. A copy of this document is available on request.

## 8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

We do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with current and prospective investment managers on matters including ESG and stewardship. We expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with their policies on stewardship, considering the long-term financial interests of the beneficiaries. We expect the managers to communicate their policies on stewardship to us from time to time, and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year. We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.