Prosper de Mulder Senior Executive Fund

Statement of Investment Principles – July 2020

1. Introduction

The Trustees of the Prosper de Mulder Senior Executive Fund ("the Fund") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. The Trustees' investment responsibilities are governed by the Fund's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustees have consulted SARIA Limited ('the Company') to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Fund's investment arrangements. The Trustees have also received and considered written advice from Mercer Limited ("Mercer").

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager to implement the Trustees' strategy. In this capacity, and subject to agreed restrictions, the Fund's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA, and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Fund's assets on a day to day basis.

In considering the appropriate investments for the Fund the Trustees have obtained and considered the written advice from the investment consultant whom the Trustees believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees are required to invest the Fund's assets in the best interest of the members, beneficiaries and the Company and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regard to investment policy are:

- to ensure that the long term return expectations for the investment strategy are consistent with the funding strategy;
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- to consider the interests of the Company in relation to the size and volatility of the Company' contribution requirements.

The Trustees understand, following discussions with the Company, that it is willing to accept some degree of volatility in the Company' contribution requirements in order to minimise the long-term cost of the Fund's benefits.

The objectives set out above and the risks and factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in section 12.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees policy on risk management over the Fund's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Fund's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's accruing liabilities as well as producing more volatility in the Fund's funding position.

- To control this risk the Trustees, having considered their objectives, have decided to put in place a relatively low risk investment strategy for the Fund and have delegated the implementation of the strategy to Mercer.

- The Trustees recognise that even if the Fund's assets are invested in matching assets there may still be a mismatch between the interest-rate and inflation sensitivity of the Fund's assets and the Fund's liabilities due to the mismatch in duration between matching assets and actuarial liabilities.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Portfolio to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.

- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.

- To help diversify manager specific risk, within the context of each of the, the Trustees expect that the Fund's assets are managed by appropriate underlying asset managers.

- By Investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Fund's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Fund's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Fund are predominantly invested on regulated markets.

- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Fund's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Fund is subject to currency risk because some of the investment vehicles in which the Fund invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.

Should there be a material change in the Fund's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered. In addition, the investment strategy will be reviewed approximately annually.

5. Investment Strategy

The Trustees, with advice from the Fund's investment consultant and Scheme Actuary, reviewed the Fund's investment strategy at the start of 2020. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

The Fund currently has a target allocation of 100% to the Matching Portfolio after hitting all de-risking triggers in place for the Fund. The Matching portfolio is designed to hedge the interest and inflation risk inherent in the Fund's funded liabilities. Investment in each asset class is via pooled funds managed by Mercer.

Responsibility for monitoring the Fund's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities.

6. Performance Objective

The strategic and tactical allocation of assets within the matching portfolio is delegated to Mercer. Performance objectives have been set for each asset class and are monitored regularly by the Trustees. The tables below set out the performance objectives for the asset classes in which the Fund may invest, at the time of writing

Please note that the Mercer High Income Property Fund, Multi-Asset Credit Fund and Liquid Alternatives Strategies Fund are legacy growth assets which, due to their dealing cycles, are in the process of being sold down over the coming months.

Asset Class	Benchmark Index	Performance Target (%p.a.)[1]	Tracking Error Expectation (%p.a.)[1]
MGI UK Long Gilt	FTSE A Over 15 Year Gilts Index	Perform in line with the benchmark	Less than 0.25
MGI UK Inflation Linked Bond	FTSE Actuaries Over 5 Years Index-Linked Gilts Index	Perform in line with the benchmark	Less than 0.25
Mercer UK Credit	BofAML Sterling Corporates & Collateralised Excluding Subordinated Financials Index	0.75 (gross of fees)	1.0 - 1.5
Mercer Sterling Nominal LDI Bond	n/a [2]	n/a	n/a
Mercer Sterling Inflation Linked LDI Bond	n/a [2]	n/a	n/a
Mercer Flexible Enhanced Matching Fixed – Medium and Long	Exact benchmark will be fund dependent [3]	Perform in line with the benchmark	n/a
Mercer Flexible Enhanced Matching Real - Medium and Long	Exact benchmark will be fund dependent [3]	Perform in line with the benchmark	n/a
Mercer Flexible Enhanced Matching Inflation	Exact benchmark will be fund dependent [3]	Perform in line with the benchmark	n/a
Mercer Tailored Credit Fund 1	n/a [4]	n/a	n/a
Mercer High Income UK Property CCF	FTSE A Over 15 Year Gilts Index	1.0 – 2.0	n/a
Mercer Liquid Alternative Strategies	HFRI FOF Market Defensive Index (GBP Hedged) [5]	Cash + 3 - 5% (net of fees)	5.0 - 7.0 [6]
Mercer Multi-asset Credit	**Reference Index:** 50% BofAML Global High Yield Constrained Index 50% S&P/LSTA Global Leveraged Loan Index	**Long term primary objective:** Cash + 3 - 5% p.a. (net of manager fees) **Medium-term and secondary objective:** to achieve better risk-adjusted returns than the reference index	5.0 - 10.0 [7]

[1] *Measured over rolling 5 year period unless otherwise stated.*

[2] *These funds invest in a range of gilts and gilt strips defined by Mercer and so have no quoted benchmark.*

[3] These portfolios aim to match the performance of a series of fixed or index-linked cash flows, discounted using the derivative or gilt yields depending on the instruments being utilised, over the lifetime of the funds, and so have no quoted benchmark.

[4] This fund is not comparable to a benchmark index due to the nature of buy and maintain strategies, and hence has no quoted benchmark or tracking error target. The fund aims to capture the credit spread premium in the most efficient way by investing in a diversified portfolio of bonds.

[5] This is the short term outperformance target for the strategy, for a long term benchmark please reference the performance target.

[6] This is the expected risk target for the fund, this is an absolute value not measured relative to the benchmark.

[7] Expressed as expected volatility (annualised standard deviation of monthly returns) ranges given these strategies have a cash plus objective.

Additional Assets

In addition to the assets shown in the table above, the Trustees also hold some investments in a number of properties.

Cash not required by the manager for investment is held in bank accounts operated by the Administrator to the Fund acting on the instructions of the Trustees.

7. Expected return on assets

The Actuarial Valuation carried out as at 5 April 2019 implied an overall return on the Fund assets of approximately 0.6% p.a. in excess of the return on Gilts. At the date of the Actuarial Valuation the Trustees expected to exceed this return over the longer term.

Based on current long term assumptions for the asset classes held within the Fund it is reasonable to expect a return from the Fund's current investment strategy that is 0.3% p.a. above a Gilt return, at time of writing. This level of expected return takes into consideration derisking activity that has taken place since the Actuarial Valuation.

Expected returns are not guaranteed and performance may differ significantly, especially in the short term.

8. Rebalancing

Rebalancing ranges have been set in the context of the Fund's target asset allocation.

9. Realisation of Investments and cash flow management

The Trustees on behalf of the Fund hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Fund's asset's in line with the Fund's strategic allocation. Mercer is responsible for raising cash flows to meet the Fund's requirements.

10. ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Fund's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's investment processes and those of the underlying managers in the monitoring process. Mercer and MGIE are expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

11. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Fund, in particular, long-term liabilities.

As Mercer manages the Fund's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds. However, the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive and consider investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Fund's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Fund.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Fund's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Fund. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Fund's annualised MiFID II compliant Personalised Cost & Charges statement. The Fund's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

12. Custodian and Advisors

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that the investment manager has procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Ian Wade of Mercer Limited has been appointed Scheme Actuary.

The actuary performs a valuation of the Fund at least every three years, in accordance with regulatory requirements. The last valuation was performed by the Fund Actuary, with an effective date of 5 April 2019. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Company's contribution rate.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

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Date

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Trustee

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Trustee

The Trustees of the Prosper de Mulder Senior Executive Fund