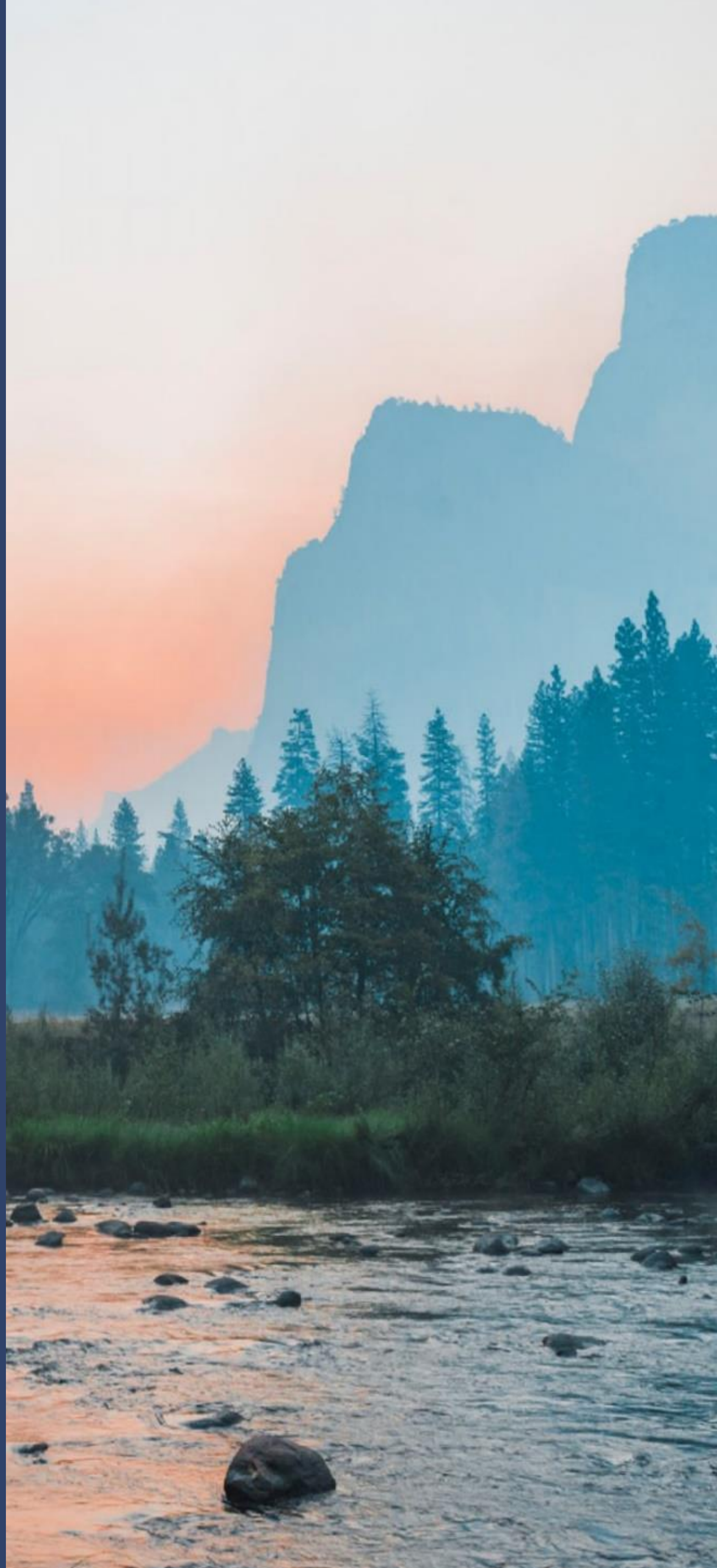
Addendum to the Statement of Investment Principles

For the EC Harris Group Pension Scheme

Effective from: 19 July 2023

This addendum to the Statement of Investment Principles ("SIP") for the EC Harris Group Pension Scheme (the "Scheme") has been produced by the Trustees of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme's investment arrangements.



Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustees

Our responsibilities include:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, 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 the policy for rebalancing between asset classes;
- 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, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters and in line with relevant legislation;
- 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 managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change, net zero alignment and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on and monitoring liability hedging and collateral management;

- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);
- assisting us with reviews of this SIP.

4. Fee structures

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

We have agreed terms with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management and in some cases a performance related fee. The fee rates are believed to be consistent with each of the investment managers' standard terms for institutional clients, with the exception of the Pyrford, Columbia Threadneedle, Alcentra and Arcmont investments, for which the Scheme was offered a discount to the standard rate. The fee rates agreed are considered by the Trustees to be competitive when compared with those of other similar investment managers.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively.

It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

As at 31 March 2023, the Scheme's 1 year 95% Value at Risk was estimated to be around £6m. This means that there is estimated to be a 1 in 20 chance that the Scheme's Technical provisions funding position will worsen by £6m or more, compared to the expected position, over a one-year period. When deciding on the current investment strategy, we believed this level of risk to be appropriate given the Scheme's objectives.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustees on a regular basis.

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 (eg equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements.

Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value. The Scheme is exposed to equity risk through its diversified growth and equity-linked gilt holdings.

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to solvency of the custodians of the funds. Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ringfenced from the investment managers, the regulatory environments in which the pooled fund managers operate and diversification of the Scheme's investments across a number of pooled funds. The Trustees carry out due diligence checks prior to the appointment of any new investment manager or fund, and monitor for changes to the operating environment of the pooled funds with the help of their investment advisers.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, where they invest in bonds or loans. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Scheme's assets provide protection (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we may undertake a manager selection exercise if appropriate. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice.

Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Liability Driven Investment ("LDI") makes use of derivative and gilt repos contracts, and is used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level.

To mitigate this risk, the Trustees have a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, the Trustees periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

Valuation risk

Some of the Scheme's assets (such as gilts) can be valued regularly based upon observable market prices. For other assets (such as private credit), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below.

Pyrford International ("Pyrford") – Diversified growth

The Scheme gains diversified growth fund exposure through a pooled fund called the Pyrford Global Total Return Fund. The objective of this fund is to provide a stable stream of real total returns over the long-term, with low absolute volatility and provide significant downside protection. Over the long-term, the fund has a target (which is representative of the return that could be expected from equities over the same period) to outperform the change in the Retail Price Index ("RPI") by at least 5% pa (before the deduction of fees).

Ruffer LLP ("Ruffer") – Diversified growth

The Scheme gains diversified growth fund exposure through a pooled fund called the Ruffer Absolute Return Fund. Ruffer does not have an official benchmark; the objective of the portfolio is to not lose money in any rolling 12 month period and to grow funds at a higher rate than would be achieved by depositing them in cash.

M&G Investments ("M&G") - Property

The Scheme is invested in property through a pooled fund called the M&G Pooled Pensions UK Property Fund, which is being wound down. As part of the fund's wind-down, M&G removed the fund's objective.

The Trustees are invested in an insurance contract with Prudential Pensions Limited: the underlying investment management for the contract is delegated to M&G Investment Management Limited, which in turn engages M&G Real Estate Limited.

Columbia Threadneedle Investments ("CTI") – Equity linked bonds

The Scheme invests in the CTI UK Equity-Linked Gilt Fund and the CTI Overseas Equity-Linked UK Gilt Fund. The investment objective of this funds is to provide a return combining capital and income by investing predominantly in UK government securities together with an exposure to UK and overseas equities respectively. The funds invest predominantly in over 15 year gilts and in deposits, cash and near-cash instruments. The equity exposure is achieved through exchange traded futures.

Columbia Threadneedle Investments ("CTI") – Liability driven investments ("LDI") and Liquidity

The Scheme invests in LDI through two pooled funds: the Real Dynamic LDI Fund and the Nominal Dynamic LDI Fund. The funds use a number of hedging instruments, which include government and AAA rated supranational / sovereign guaranteed Sterling bonds, money market instruments, swaps, futures and derivatives, as well as repos and reverse repos. The funds are leveraged, which enables a greater amount of the Scheme's liabilities to be hedged than the value of the assets invested with CTI.

The investment objective of the Real Dynamic LDI Fund is to provide interest rate and inflation protection. The Nominal Dynamic LDI Fund offers interest rate protection only. CTI measures performance against both gilts based and swaps based liability benchmarks.

The Scheme also invests in the CTI Sterling Liquidity Fund, which is a money-market fund that acts as the main source of collateral for the CTI LDI portfolio. The objective of the fund is to maintain high levels of liquidity and generate a return in line with money market rates (GBP Sterling Overnight Index Average).

Alcentra Limited ("Alcentra") – Private credit

The Scheme invests in private credit through a pooled fund called the Alcentra European Direct Lending Fund III. The fund aims to generate attractive risk adjusted returns by lending to middle market businesses predominantly operating in the UK and Europe.

Arcmont Asset Management LLP ("Arcmont") – Private credit

The Scheme invests in private credit through a pooled fund called the Arcmont Direct Lending Fund III. The fund aims to generate attractive risk adjusted returns by lending to predominantly UK and European based companies.

Additional Voluntary Contributions ("AVCs")

The Trustees have selected Aviva Life Services UK as the Scheme's money purchase AVC provider.

Part 4:
Monitoring and engaging with managers

Stewardship priorities

We have selected a priority theme to provide a focus for our monitoring of investment managers' engagement activities. We will review this regularly and update it if appropriate. Our current stewardship priority is climate change.

We chose this priority as it is a market-wide area of risk that is financially material for the investments and can be addressed by good stewardship. Therefore we believe it is in our members' best interests that our managers adopt strong practices in this area.

We will write to our investment managers regularly to notify them of our stewardship priorities and remind them of our expectations of them in relation to responsible investment – ie ESG considerations, climate change and engagement.

Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes; and we have a preference for managers and funds with net zero targets and credible plans to meet them. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

Manager monitoring

We receive information periodically to enable us to monitor our managers' responsible investment practices and check how effective they're being.

This information includes metrics such as our investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives.

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements.

Implementation statement including most significant votes

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our Statement of Investment Principles during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. In choosing the significant votes, we have regard to whether the votes relate to one of our stewardship priorities.