



Colas (UK) Pension Plan – DC Section

Statement of Investment Principles

September 2020

Version Update

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1 Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Colas (UK) Pension Plan ('the Plan'). It describes the investment policy being pursued by the Trustees of the Plan and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles'). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005 and the Pension Regulator's Code of Practice for DC Schemes issued in November 2013.

The Scheme Actuary is Mofozul Ali of Xafinity Punter Southall, the Investment Adviser is River and Mercantile Solutions ('R&M Solutions') and the Legal Adviser is TLT LLP (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with Colas Limited ('the Principal Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan's assets and arrange administration of the Plan. Where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustees set general investment policy, but have delegated the day-to-day investment of the Plan's Defined Benefit ('DB') assets to the Total Investment Governance Solution ('TIGS') service of River and Mercantile Investments Limited, hereafter referred to as the 'Investment Manager'. The DB Section of the Plan is closed to new entrants. The Investment Manager is authorised under the FSMA and provide the expertise necessary to manage the investments of the Plan.

1.1 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the investment strategy they have implemented for the Plan. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Plan are invested in accordance with these Principles.

Signed  Date ... 8/10/2020 ...

For and on behalf of the Trustees of the Colas (UK) Pension Plan.

2 Plan Governance

The Trustees are responsible for the governance and investment of the Plan's assets. They consider that the investment structure set out in this SIP is appropriate for the Plan, as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Underlying Managers, the Fiduciary Manager, the Platform Manager or the relevant Advisers as appropriate. The responsibilities of each of the parties involved in the Plan's governance are detailed in **Appendix A**.

The Trustees believe that they should be collectively involved in the investment decision-making and have therefore decided not to appoint an Investment Sub-Committee to deal with investment matters.

The Trustees maintain a Statement of Investment Arrangements ("SIA") which sets out the specifics of investment implementation. This document is referred to later in this SIP.

3 Investment Objectives

In setting investment objectives, the Trustees recognise that members will have differing investment needs and tolerances for risk, which may change over time. The Trustees also take into account the expected level of investment expertise among members, the likelihood of members seeking professional advice in respect of their investment choices and the resulting risk of inappropriate decision-making by members.

The Trustees' objectives are therefore to:

- provide a suitable and understandable range of investment options for members, with appropriate investment guidelines, target returns and risk (where risk is measured by fluctuations in returns and the level of any falls in value);
- provide a default option that takes an appropriate level of risk on behalf of the member in pursuit of growth, according to their age and/or planned retirement date; and
- ensure contributions payable by the employers and members are invested in accordance with the options selected by members.

4 Default Investment Strategy

The Trustees have made available to members a default strategy.

4.1 Aims and Objectives of the default strategy

The Trustees' 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 Trustees' Policies in relation to the default strategy

i. The kinds of investment to be held and balance between them

The kinds of investments within the default strategy and balance between them are designed to be adequately diversified and suitable. See sections 5.3, "Diversification" and 5.4, "Suitability" for more details.

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

Risks applicable to the Plan 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.

iii. Expected return on investments

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

iv. Realisation of investments

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

v. Financially material investment considerations considerations and non-financial matters

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

vi. Corporate governance and stewardship policy

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

4.3 Best interests of members and beneficiaries

In designing the default strategy, the Trustees carried out a comprehensive review of the previous investment strategy, in conjunction with the Investment Adviser, focusing on member needs and outcomes, and cognisant of the impact of their policies, aims and objectives.

Following this review, the Trustees selected the combination of aims and objectives within the default, and their policies in order to achieve an investment strategy which it believes is in the best interests of relevant members and beneficiaries. This belief is supplemented by undertaking regular (at least triennial) investment strategy reviews of the default strategy, investment governance (at least quarterly) and value for member reviews (in conjunction with the advisers).

5 Investment Strategy

Having considered advice from the Investment Adviser, and also having due regard for the objectives and the members of the Plan, the Trustees have made available a number of investment options. Members can choose to invest their contributions in one or more of these investment options, or may rely on the default strategy, detailed in SIA.

The Trustees will ensure that each member's investments are invested in accordance with the fund options selected by the member.

5.1 Investment Options

The investment strategy involves a default lifestyle arrangement and a range of funds available on a self-select basis. These are detailed in the SIA.

5.2 Performance Objectives

The performance objectives vary by fund. A detailed breakdown of fund objectives is provided 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. The Trustees monitor the strategy regularly to ensure that they are comfortable with the choice of funds offered to members.

5.4 Suitability

The Trustees have taken advice from the Investment Adviser that the range of investment options offered to members is suitable. Members are responsible for choosing which of the self-select funds is most appropriate or choosing to rely on the default strategy for the investment of their own and their employer's contributions, based on their own individual circumstances.

5.5 Active and Passive Management

The Trustees invest in a combination active and/or passive fund options, which is in part determined by the range of Underlying Managers offered by the Platform Manager. These managers are selected by the Fiduciary Manager.

5.6 Review

The Trustees will review, in conjunction with the Investment Adviser, 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 Plan's investment objectives. Each investment option is monitored on a quarterly basis within the governance report and the suitability of the self-select fund range is regularly reviewed.

6 Strategy Implementation

6.1 Investment Arrangements

The Trustees have appointed Mobius Life Limited (“**Mobius**”) as the Platform Manager to provide the Platform for member investments. Mobius will provide services related to transition execution and the creation of insured funds, with ongoing administration of funds (including blended funds) at an overall Plan level.

R&M Solutions are employed by the Trustees as Fiduciary Manager to provide investment and management services, as defined in the Fiduciary Management Agreement (“FMA”) agreed between the Trustees and R&M Solutions. R&M Solutions must provide the Trustees with formal investment advice as required by Section 36 of the Pensions Act 1998.

The Trustees have selected a range of investment options for the members of the Plan. Full details are listed in the SIA.

6.2 Administrator

Administration of member data is provided to the Trustees by XPS Administration.

6.3 Fund Options

The range of funds offered to members was chosen to give members a suitable and understandable range of investment options from which they can select according to their individual circumstances both within the default arrangement and self-select range. The funds available to members are detailed in the SIA.

6.4 Investment of Contributions

A 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 fund provided, which is detailed in the SIA.

6.5 Transitions

The Trustees, in conjunction with their 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 Trustees, or Advisers on behalf of the Trustees, will monitor the performance of the default strategy and self-select funds against their own or the Trustees' own specified benchmarks.

The Trustees will regularly review the activities of the Fiduciary Manager to satisfy themselves that the Fiduciary Manager continues to carry out its work competently and has the appropriate knowledge and experience to provide fiduciary management services to the Plan.

As part of this review, the Trustees will consider whether or not the Fiduciary Manager:

- Is carrying out their work competently. The Trustees will evaluate the Fiduciary Manager based on, amongst other things:
 - The default strategy and self-select funds' performance versus their respective benchmarks.
 - The level of risk within the portfolios given the specified risk tolerances.
 - Has regard to the suitability of each investment and each category of investment.
 - 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.

If the Trustees are not satisfied with the Fiduciary Manager, they will ask the Fiduciary Manager to take steps to rectify the situation. If the Fiduciary Manager still does not meet the Trustees' requirements, the Trustees will remove the Fiduciary Manager.

7.2 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

7.3 Statement of Investment Principles

The Trustees will review this SIP 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, the Fiduciary Manager, Platform Manager or Adviser as part of such a review.

7.4 Trustees Recordkeeping

The Trustees maintain a record of all investment related decisions they have taken, together with the rationale in each case.

8 Fees

8.1 Managers

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 of the fund charges are set out in the SIA.

8.2 Advisers

R&M Solutions charges fees in respect of the funds offered as a proportion of the assets invested. These fees are deducted from assets at the rates set out in the SIA.

Otherwise, fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, unless the Trustees and the Advisers agree alternative arrangements in advance.

8.3 Custodian

There is no custodian appointed directly by the Trustees.

8.4 Value for Members

The Trustees review 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 Trustees consider, among other items, the absolute level of charges, the competitiveness of the Plan's charges relative to the marketplace and the levels of service provided by each of the Advisers.

9 Risks

The Trustees recognise a number of key risks to themselves and to the members of the Plan:

- i. **Value for Members Risk** – the risk that the Plan fails to offer value for money to members. This is addressed through regular review of the charges levied on member's assets.
- ii. **Inflation Risk** – the risk that the purchasing power of their investment account is not maintained. To try and manage this risk, the Trustees have offered a range of funds designed to achieve a return above the rate of inflation.
- iii. **Conversion risk** – the risk that the value of pension benefits that can be obtained is not maintained as retirement approaches, due to a member's assets not being suitably matched with their retirement objective. This risk is currently addressed in part within the default option, where the 'at-retirement' asset allocation reflects the three retirement income options of encashment, annuity purchase and income drawdown. Members may also self-select from the available fund range to match a particular retirement income decision.
- iv. **Capital Risk** – the risk that the value of the element to provide a tax-free cash sum is not maintained. To try and mitigate this risk, the Trustees have offered a range of funds designed to achieve a return above the rate of inflation.
- v. **Active Manager Risk** – the risk that the active investments underlying the Plan's investment options underperform. The Trustees have mitigated this risk by delegating fiduciary responsibilities to the Fiduciary Manager. The Fiduciary Manager utilises a wide range of funds, diversified across asset classes, sub asset classes and Underlying Managers to reduce the active manager risk.

This risk also relates to underperformance arising from underperformance of the Fiduciary Manager in its delegated duties. The Trustees mitigate this risk through frequent performance monitoring and governance.
- 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 Trustees carried out a comprehensive platform review to ensure they were comfortable with the choice of Platform Manager. The Trustees continue to monitor the Platform Manager to ensure they remain 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 Trustees receiving advice from the 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 Trustees have also offered a default fund with a "Lifestyling element" designed to phase members into lower risk and annuity price matching investments as they approach retirement.
- ix. **Organisational Risk** – the risk of inadequate internal processes leading to problems for the Plan. This is addressed through a regular monitoring of the Advisers.
- x. **Liquidity Risk** – the risk that members are not able to realise the value of their funds when required. The Trustees have addressed this risk by only offering funds which are considered liquid.
- xi. **ESG risks** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by ESG assessment at the point of investment with the Managers where applicable, or by requesting information on the ESG policies, adopted by the Managers.

The importance of each risk varies with time. Inflation is important throughout the whole period to retirement whereas pension purchase risk and capital risk become significant as retirement approaches.

The Trustees have provided a default option that aims to address the above risks through a member's life. R&M Solutions may vary the underlying asset allocation and Underlying Managers within this option from time to time in response to changing market conditions and Underlying Manager developments. This may include the use of derivatives.

The Trustees also provide members with a self-select fund range 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, terms to retirement and investment objective. The Trustees recognise 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, as well as by the use of more than one manager to avoid over exposure to one organisation.

The Trustees recognise that an efficient process for identifying, evaluating, managing and monitoring risks needs to be in place for the Plan. The Trustees 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 Trustees will keep these risks and how they are managed under regular review.

10 Other Considerations

10.1 Corporate Governance and Stewardship Policy

The Trustees and Fiduciary Manager have agreed, and will maintain, formal agreements setting out the scope of the Fiduciary Manager's activities, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995. Further information can be found in the SIA.

The Trustees have appointed the Fiduciary Manager to implement the Plan's investment strategy. The Investment Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Fiduciary Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Fiduciary Manager (as detailed further below):

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and restrictions detailed in the Fiduciary Management Agreement, and
- 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 such issuers to improve this medium- to long-term performance. The success of this will contribute to the Plan's performance, which is measured relative to the Trustees' long-term performance objectives.

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

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Platform Manager. The Platform Manager has in place a voting policy in respect of general meetings of a pooled fund.

The Fiduciary Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Fiduciary Manager reviews the governance structures of the Underlying 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 Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives. The method and time horizon for evaluating and remunerating Underlying Managers are determined by criteria set by the Fiduciary Manager, as detailed above.

The Trustees acknowledge the inherent potential conflicts of interest which exist as part of ongoing investment management business activities. As an FCA-regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also 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 Fiduciary Manager directly monitors these as part of the Underlying Managers' regulatory filings (where available). The Fiduciary Manager also monitors this as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available publicly here:

https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Fiduciary Manager oversees the turnover costs incurred by the Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Fiduciary Manager's expectations. Where there are material deviations the Fiduciary Manager engages with Underlying Managers to understand the rationale for such deviations and takes appropriate action.

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 Trustees delegate consideration of financially material factors to the Platform Manager, 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 Trustees (in conjunction with its advisors) as part of the manager selection criteria. This review occurs before funds are approved for investment. For invested funds, the Trustees request the Platform Manager monitor ongoing compliance with ESG and other factors, like stewardship, as a part of overall engagement.

10.3 Non-financial matters

The Trustees do 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 Trustees are aware of the importance of the safe custody and security of members' funds. The Plan's assets are held via an investment policy with the Platform Manager. The Financial Services Compensation Scheme ("FSCS") would provide cover to the Plan in the event of insolvency of the Platform Manager, who also has contractual agreements in place with Underlying Managers and would seek compensation as a result of insolvency of Underlying Managers or other related parties. Appropriate due diligence is done on the financial strength, custody and administration agreements of the

Underlying Managers and Platform Manager before an appointment is made and this is reviewed regularly by the Advisers and Fiduciary Manager in conjunction with the Trustees.

Appendix A - Responsibilities

Trustees

The main investment related responsibilities of the Trustees of the Plan 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 the investment policy for the Plan in terms of providing a range of funds from which members may choose to invest.
- iii. Assessing the quality of the performance and process of the Underlying Managers and Fiduciary Manager by means of regular reviews of the investment results and other information, through meetings and written reports.
- iv. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.
- v. Appointing and dismissing Platform Managers and the Fiduciary Manager.
- vi. Assessing the performance of the Advisers.
- vii. Consulting with the Employer when reviewing investment policy issues.
- viii. Providing any appointed organisations/individuals with a copy of the SIP, where appropriate.

Platform Manager

The main responsibilities of the Platform Manager are:

- i. At their discretion, but within the guidelines agreed with the Trustees, selecting and undertaking transactions in specific investments within each fund.
- ii. Acting in accordance with the principles set out in the SIP (as appropriate).
- iii. Providing the Trustees 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.
- iv. Informing the Trustees immediately of:
 - Any serious breach of internal operating procedures.
 - Any material change in the knowledge and experience of those involved in managing the Plan's investment options.

Investment Adviser

The Trustees have appointed R&M Solutions in a dual role as both Investment Adviser and Fiduciary Manager of the Plan's assets. The main responsibilities of R&M Solutions as Investment Adviser are:

- i. Participating with the Trustees in reviews of this SIP.
- ii. Informing the Trustees of any material breaches of this SIP, internal operating procedures or changes in the knowledge and experience of those involved in managing the Plan's investment options.
- iii. Advising the Trustees of any changes in the Plan's Platform Manager that could affect the interests of the Plan.
- iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Plan.
- v. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities,
- vi. Undertaking reviews of the Plan's investment arrangements including reviews of the self-select funds and the lifestyle structure.

Fiduciary Manager

The main responsibility of R&M Solutions as Fiduciary Manager are:

- i. Investment Management services as set out in the Fiduciary Management Agreement ("FMA") and below.
- ii. At the discretion of R&M Solutions but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the Trustees' stated objective.
- iii. Selecting the Platform Manager, which the Trustees appoint in order to make use of the Fiduciary Manager's services.

Legal Adviser

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

- i. Liaising with the Trustees to ensure legal compliance including those in respect of investment matters.