Johnson Group Defined Benefit Scheme

Statement of Investment Principles – March 2023

1. Introduction

The Trustee of the Johnson Group Defined Benefit Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 as well as taking into account the principles underlying the Investment Governance Group's Code of Best Practice for pension scheme investment.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The specifics of the Scheme's investments arrangements are detailed in the Investment Policy Implementation Document ("IPID"), which is available on request.

In preparing this Statement the Trustee has consulted the Scheme sponsor to ascertain whether there are any material issues of which the Trustee should be aware of in agreeing the Scheme's investment arrangements.

2. Process For Choosing Investments

The Trustee's process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Agree the level of investment return expectation consistent with meeting the objectives set.
- Construct a portfolio of investments that is expected to achieve the return expectation (net of all costs) with the minimum degree of risk.

In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of Mercer Limited ("Mercer"), who are regulated by the Financial Conduct Authority ("FCA") and whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Governance

The Law Debenture (JGDBS) Pension Trust Corporation is the sole Trustee of the Johnson Group Defined Benefit Scheme.

The Trustee considers that it has the skills, information and resources to evaluate critically the advice which it receives on the Scheme's strategic asset allocation and investment managers to decide an effective strategic asset allocation and investment manager structure for the Scheme. The Trustee has appointed Mercer separately as actuary and investment consultants. The Trustee has also delegated the implementation of a number of investment functions to Mercer under an Investment Manager Agreement. Mercer's performance under each role is assessed regularly by the Trustee.

The agreements between the Trustee, the investment managers and Mercer do not form part of this Statement but are contained in separate documents.

4. Investment Objectives

The Trustee's overriding objective is to invest the Scheme's assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustee is aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.

The Trustee and Committee have agreed that the long-term funding and investment objective for the Scheme was to target becoming fully funded on a gilts + 0.5% p.a. basis by 31 December 2028 and to reduce the 1 year Value at Risk (VaR) measure to below £15m if possible. The Trustee and Committee have agreed to maintain a level of investment risk (and hence expected returns) over the long term in order to target a funding level above 100% over the long term.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme. The Trustee has considered the following risks over the Scheme's anticipated lifetime:

- The risk of deterioration in the Scheme's funding level, including due to changes in interest rate and inflation expectations which is managed by the Scheme investing in a Liability Driven Investment mandate and hedging a proportion of the interest rate and inflation sensitivity of the Scheme's liabilities.

- Due to the nature of Liability Driven Investment, the Scheme could be required to provide additional collateral to the strategy at short notice to maintain hedging and keep the levels of leverage within permissible ranges. The Trustee has discretion to disinvest the Scheme assets to meet these collateral calls and would seek to use the Scheme's cash holdings as a primary source of liquidity.

- The risk of a deterioration in the strength of the Company Covenant.

- The risk that the appointed investment managers, in the day-to-day management of the assets, will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active management involves such a risk. However, it believes that this risk is outweighed by the potential gains from successful active management in certain asset classes.

- The Trustee recognises that whilst increasing risk increases potential returns, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as increasing volatility in the Scheme's funding position. The Trustee takes advice on the matter and (in light of the objectives noted in Section 4) carefully considers the implications of adopting different levels of risk.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Because of the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained primarily via pooled vehicles.

- The documents governing the investment managers include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment managers are not authorised to invest in asset classes outside of their mandate without the Trustee's prior consent.

- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from the investment managers. These reports include an analysis of the overall level of return, along with their component parts, to ensure the returns achieved are consistent with those expected.

- The safe custody of the Scheme's assets is delegated to professional custodians.

- Environmental, social and governance risk as outlined in Section 11.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered.

6. Portfolio Construction

The Trustee has adopted the following control framework when structuring the Scheme's investments:

- At the total Scheme level, and within individual investment manager appointments, investments should be broadly diversified to ensure there is not a concentration of risk in any one investment or in investments linked by a single issuer. This restriction does not apply to investment in UK Government debt.

- Investment in derivatives is permitted either directly or within pooled funds as long as they facilitate efficient portfolio management. In particular, a lower allocation to bonds would typically lead to the use of derivatives so as to provide moderate leverage and therefore better manage interest rate and inflation risk.

7. Investment Strategy

The target asset allocation as at the date of this Statement is as follows:

Asset Class	Manager	Target Benchmark Allocation (%)
Private Market Debt	A diverse range of managers appointed via delegation to Mercer	20.0
Long Lease Property	M&G	20.0
Buy & Maintain Credit	Insight	30.0
Liability Driven Investment & Cash	Insight	30.0
Total		**100.0**

*Actual allocation to LDI will vary over time as a result of changing interest rate and inflation expectations. The Trustee does not intend to rebalance this allocation if the allocation deviates from the benchmark weight as rebalancing may change the level of interest rate and inflation hedging. At the time of writing, the target hedge ratio is 70% of total liabilities valued on a gilts + 0.5% p.a. basis for both interest rates and inflation.

Whilst the Trustee does not have strict control ranges, the Scheme's asset allocation is monitored regularly and will be rebalanced towards the strategic benchmark as deemed necessary.

8. Day-to-Day Management of the Assets

The Trustee delegates the day-to-day management of the assets to the investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers, the use of financial instruments by the appointed managers and the balance between active and passive management. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

Details of the appointed managers can be found in the IPID, which is available to members upon request.

9. Additional Assets

Under the terms of the Trust Deed the Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

10. Realisation of Investments

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

The Trustee monitors the allocation between the appointed managers and between asset classes and will rebalance the portfolio as and when necessary.

11. Responsible Investment and Corporate Governance

The Trustee believes that good stewardship and environmental, social and 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 Trustee also recognises that long-term sustainability issues, including climate change, present risk and opportunities that increasingly require explicit consideration. The Trustee has given the investment managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring of investment manager ESG integration is included in the quarterly investment monitoring reports prepared by the Trustee's professional advisors.

Member views are not taken into account in the selection, retention and realisation of investments, but members have a variety of methods by which they can make views known to the Trustee.

The Trustee takes into consideration non-financial matters when assessing the overall investment strategy and managers, as such, members' views on 'non-financial matters' (where 'non-financial matters' include members' ethical views separate from financial considerations such as financially material ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments.

In line with previous sections of this SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class the Trustee has appointed them for.

For active mandates, the Trustee looks to their investment consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund's appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) each year.

As the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The Trustee will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustee meets with the investment managers on average every 1-2 years and will consider decisions made including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis over a full market cycle. The Trustee's focus is on long term performance but may put a manager 'on watch' if there are short term performance concerns.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees.

The Trustee will ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustee. The Trustee will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

There is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment is reviewed and the Trustee decides to terminate for a more suitable appointment.

12. Corporate Governance

The Trustee believes that the Scheme's investment managers should retain discretion when exercising voting rights but policy and actions should be subject to periodic review, by the Trustee. It is expected that each investment manager will update the Trustee on any changes to their corporate governance policy.

13. Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

14. Review of this Statement

The Trustee 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 Trustee 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.

Agreed by the Trustee of the Scheme on 7 March 2023.