STATEMENT OF INVESTMENT PRINCIPLES

For

THE COLT LIFE ASSURANCE AND RETIREMENT SCHEME

1. Introduction

The purpose of this Statement of Investment Principles ("SIP") is to set out the Trustees' policy on various matters in connection with the investment of The Colt Life Assurance and Retirement Scheme's ("the Scheme") assets. This SIP has been prepared by the Trustees of the Scheme and is designed to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

The Trustees are responsible for setting the Scheme's investment objectives and asset allocation and appointing the investment managers. The Trustees consider they have the skills to perform this role given they attend training sessions, receive presentations from their investment managers, and also receive expert advice from their actuary and investment advisor before making decisions.

The Trustees have taken appropriate written advice in preparing this statement, as required by legislation. Also as required by legislation, the Trustees have consulted the Employer during the preparation of this statement.

The Trustees monitor regularly all investment decisions affecting the Scheme, and the overall investment performance of their investment managers, with the assistance of their investment consultant. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The Trustees have appointed a number of agents and advisers to assist them in carrying out their duties. All such parties are remunerated on the basis of agreed set fees, with the exception of the Trustees' appointed investment managers, who are remunerated on the basis of an ad valorem charge. The above basis of remuneration is common within the pensions industry.

Investment Objectives

The Trustees' ultimate objective is to invest assets of the Scheme to meet member's benefits as and when they fall due.

To achieve this, the investment objectives are:-

i) to restore, and then maintain, the funding level of the Scheme at the lowest possible risk to the Scheme

ii) that there should be no direct investment

iii) that the investment structure should be maintained on a basis that retains flexibility in adjusting the future investment strategy, as and when necessary

iv) to take account of the long-term risks, including those relating to non-financial factors, when making investment decisions

To assist with these objectives, the Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as closely as possible.

2. Investment Strategy

The agreed investment policies have the aim of achieving a positive long term real return on the Scheme's assets. No specific projected return is targeted for individual asset classes, although in relative terms, over the long run it is expected that equities will outperform bonds and bonds will outperform cash.

Investment policies will be agreed with consideration to providing sufficient returns to cover the liabilities of the Scheme as they fall due, and of the need to avoid undue volatility of funding levels. The investment policies of the selected managers are, and will be, suitably diversified to spread the risks of investing in any one investment market, currency or asset. This is monitored by the Trustees through their regular review of fund performance and through advice from their investment consultant and actuary.

The investment managers have discretion to buy, hold or sell investments purely on their financial merits as suitable investments for the Scheme.

The Trustees may realise investments from their portfolios in order to make payments of benefits and costs under the scheme. The selection of investments to be so realised is at the discretion of the investment managers. The investment managers also have discretion to realise investments within the portfolios for the purpose of making new investments.

The current arrangements entered into by the Trustees are set out in Appendix A to this Statement.

These arrangements will be reviewed by the Trustees at least every three years or if there is a significant change in any of the areas covered by the statement. The Trustees will consult with the Employer before amending the investment strategy.

3. Investment Arrangements

The Trustees set the overall investment target and then monitor the performance of their managers against that target.

The Trustees have delegated their discretion to make decisions about the selection of specific investments to their investment managers who have confirmed that they will exercise their discretion in accordance with the Pensions Act 1995. The Trustees do not currently make any decisions about specific investments themselves and do not make any direct investments.

The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments. The Trustees decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

The Trustees closed the AVC Scheme to new members with effect from April 2006 and to all additional contributions from April 2013. Those that have contributed are permitted to continue within the AVC Scheme and their cumulative funds are invested either within the Scheme as a fixed interest security or with The Equitable Life Assurance Society or the Clerical Medical Investment Group.

4. Investment Risk

The Trustees invest in assets that are expected to achieve the Scheme's Investment Objectives.

The Trustees consider the risks for the Scheme with regard to its investment policy and Scheme liabilities. Before deciding to take some investment risk relative to the liabilities, the Trustees receive advice from the investment consultant and scheme actuary.

The Scheme invests in a broad range of asset classes including:

- Equities
- Bonds
- Cash
- Property

Through pooled funds and diversified asset funds.

The Scheme also invests in a range of Liability Driven Investment (LDI) funds. These funds allow the Scheme to gain leveraged exposure to interest rates and inflation in order to better match the exposure of the Scheme's liabilities to these risks.

The Trustees have considered the following risks with regard to their investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

- Interest rate risk
- Inflation risk
- Credit risk

– Currency risk
– Volatility risk
– Liquidity risk
– Concentration risk
– Covenant risk
– Governance risk
– ESG/Climate risk

In this context, governance risk relates to the fact that each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.

ESG/Climate risk relates to the fact that the Trustees have considered long-term financial risks to the Scheme and deem ESG factors, as well as climate risk, to be potentially financially material and. The Trustees will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

5. Policy on ESG Considerations, Stewardship and Non-Financial Matters

Policy on ESG considerations

The Trustees' have set policies in relation to these matters. These policies are set out in Appendix B for ease of disclosure.

Policy on stewardship

The Trustees' have set policies in relation to these matters. These policies are set out in Appendix B for ease of disclosure.

Policy for taking into account non-financial matters

The Trustees do not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers. The Trustees do not expect their managers to consider any non-financial factors in the selection, retention and realisation of underlying holdings in the pooled funds.

6. Policy on arrangements with asset managers

Aligning the investment strategy and decisions of the asset manager with the Trustees' investment policies

When choosing an investment manager, the Trustees select the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

The Trustees recognise that when investing in pooled funds there is limited scope to influence the investment managers' strategy and decisions but has resolved to:

- Monitor the performance of the Funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustees' expectations.

- In the event that the investment manager ceases to invest in line with the Trustees' policies and expectations, including the management of ESG and climate related risks, their appointment will be reviewed.

Incentivising investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

In making investment decisions, the Trustees expect the Scheme's active investment managers to assess the long-term financial and non-financial prospects of any investment. The Trustees believe that non-financial factors – such as ESG risk, climate risk and the engagement of investment managers with the companies in which they invest – may have a long-term impact on returns and therefore investment managers should take these into consideration when making decisions.

In order to encourage this, the Trustees have notified the manager of the following:

- The Trustees believe the use of rolling timeframes, typically around 3 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon and will therefore focus on the performance of the investment managers over this timeframe. In particular, in the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.

- The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

- The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Trustees monitor this activity within the Implementation Statement in the Scheme's Annual Report and Accounts.

How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for investment management services are in line with the Trustees' policies

<u>Evaluation of investment managers' performance</u>

From time to time the Trustees review the investment managers' performance on a net of fees basis. This is considered over periods of at least 3 years, which is consistent with the Trustees' wider investment policies. This review reflects not only fund returns, but also whether the investment managers continue to invest in line with the Trustees' expectations in terms of their investment approach, philosophy and process. This includes the investment managers' approaches to ESG and climate risk.

Remuneration of asset managers

The Scheme invests exclusively in pooled funds. In all cases, the investment manager's remuneration is linked to the value of the assets they manage on behalf of the Scheme. Therefore, as the asset grow in value, due to successful investment by the investment manager, the manager receives more in fees and as values fall they receive less. The Trustees believe that this fee structure incentivises the manager to invest in a way that benefits the Scheme; in particular, it enables the investment manager to focus on long-term performance.

The Trustees ask the Scheme's Investment Consultant to assess whether the investment management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time to time.

How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. However, equally the Trustees believe that active managers can add value through turnover of investments.

When underperformance is identified, the level of turnover may be investigated with the investment manager concerned if it is felt this may have been a significant contributor to the underperformance. In these cases, the Trustees define the target turnover with respect to the market conditions and peer group practices.

The duration of the arrangement with the investment manager

All of the Scheme's investments, excluding the private equity holdings, are in open-ended pooled funds and as such there are no pre-agreed timeframes for investment. However, the Trustees' approach to investing means that investments are expected to be held over a period of 3 years or more.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed periodically as appropriate. As part of this review, the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

7. Review of the SIP

The Trustees will keep this Statement under review (at least every three years or if there is a significant change in any of the areas covered by the statement) to ensure that these principles remain appropriate to the Scheme, and to ensure that the reviews mentioned in the statement are carried out.

8. Agreement

This statement was agreed by the Trustees and replaces any previous statements. Copies of this statement and any subsequent amendments will be made published on a publicly accessible website and thereby be available to the Employer, the investment managers, the Scheme Auditor and Scheme members.

G H French
September 2020

Appendix A - Overall Asset Allocation

The Trustees have set a target to hedge 85% of the liabilities' exposure to interest rates and inflation (measured on the Scheme Funding basis). As a result, the split between the LDI Portfolio and the remainder of the Scheme's assets is not fixed and is driven by the level of assets required to achieve the target level of hedging. As at 30 September 2019 approximately 22% of the Scheme's assets were invested in the LDI Portfolio (which includes the LIBOR Plus Fund and Liquidity Plus Fund).

The current target strategic asset allocation for the Scheme excluding the LDI investments is shown below. The Trustees recognise that the actual asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalance.

Allocation (%)	**Asset**	**Investment Manager**
12.5%	Corporate Bonds	Insight
19.5%	Liquid credit	Insight
19.0%	Diversified Growth Fund	Threadneedle
19.0%	Diversified Growth Fund	Invesco
12.5%	Equities - Fundamental Index	BlackRock
6.5%	Equities - Passive	BlackRock
6.0%	Secondary Property	Threadneedle
2.5%*	Private Equity	BlackRock
2.5%*	Private Equity	Schroders

The Scheme may also hold cash investments to help manage liquidity requirements.

* Note on Private Equity
The Scheme's Private Equity holdings are in distribution stages and there is expected to be a gradual reduction in the allocation to these assets over time.

Appendix B - The Scheme's Policies on Environmental, Social and Governance ("ESG") Considerations, Stewardship and Investment Manager Arrangements

1. Policy on ESG considerations

The Trustees have considered long-term financial risks to the Scheme and believe that environmental, social and governance factors (including but not limited to climate change) are potentially financially material and will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

Given the maturity profile of the Scheme and the objective to fund future member benefits from the Scheme's assets as they fall due, the Trustees have a potentially long-term time horizon over which it takes into account the financial materiality of ESG factors (including climate change).

The Trustees consider ESG factors more pertinent for some areas of investment rather than others. For example, the Trustees believe there is less scope for ESG issues to have a major impact within the Scheme's Liability Driven Investments than within the Scheme's equity portfolio.

The Trustees have elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take ESG factors (including climate change risks) into account in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

- Selection of investments: Assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

- Retention of investments: Develop a monitoring process in order to monitor ESG considerations on an ongoing basis by seeking information on the responsible investing policies and practices of the investment managers.

- Realisation of investments: The Trustees will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

When reviewing existing investments and selecting new investments, an investment manager's abilities in relation to ESG and climate risk considerations will not take precedence over other factors, including (but not limited to) historical performance or fees.

From time to time, the Trustees may ask the Scheme's investment managers to attend meetings and provide updates on the funds, which the Trustees expect to include an update on ESG and climate risk considerations. The Trustees recognise that they will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG and climate risk in making their investment decisions.

The Trustees will engage with investment managers regarding issues believed to have a material impact (both positive and negative) on future returns. Where investments are held in pooled funds, social, environmental and governance considerations are set by each of the investment managers. The Scheme's managers are signatories to the UN Principles of Responsible Investment (UN PRI).

In order to establish and maintain an investment portfolio that incorporates ESG, the Trustees will:

1. Receive, where considered necessary, training to understand the key issues around ESG factors and latest developments;

2. Assess, as part of their process for reviewing managers, the managers' approaches to ESG issues within each mandate; and

3. Consider a manager's approach to ESG as part of any new manager selection exercises.

2. Policy on stewardship

The Trustees believe that good stewardship and positive engagement can lead to improved governance and potentially better risk-adjusted investor returns.

As an investor in pooled funds, the Trustees currently adopt the policy of delegating the exercise of the rights (including voting rights) attaching to the Scheme's investments to the investment managers, who are signatories to the UK Stewardship Code or equivalent. The Trustees expect the investment managers to take account of ESG factors and climate risk when exercising these rights and will monitor this through the annual Implementation Statement.

The Trustees also delegate the undertaking of engagement activities to the investment managers, which includes entering into discussions with company management in an attempt to influence behaviour. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund. As part of this, the Trustees expect their active investment managers to assess and monitor developments in the capital structure for each of the companies in which the manager invests. This should include monitoring developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure. The Trustees recognise that monitoring the capital structure of the assets held is less relevant for passive investment managers. However, the Trustees will also monitor developments in ESG, climate risk and related issues for their passive investment manager. This expectation has been communicated to the Scheme's investment managers.

In selecting and reviewing their investment manager, where appropriate and applicable, the Trustees will consider the investment manager's policies on engagement and ESG and how those policies have been implemented. If the Trustees find that any investment manager is not engaging with the companies in which the manager invests in a suitable manner or is not taking sufficient account of ESG matters in its exercising of voting rights, it will engage with that investment manager with the help of the Scheme's investment consultants.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have appropriately managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the companies in which the manager invests.