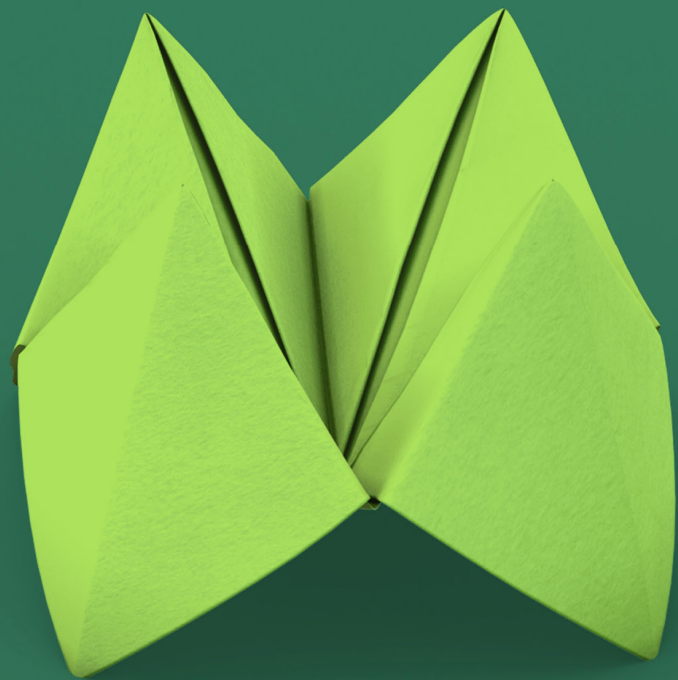
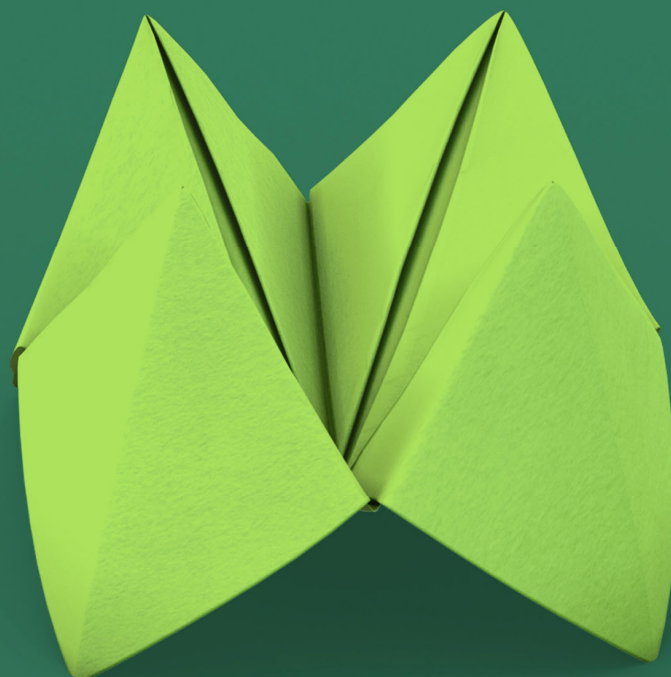


# Leighton Group Pension Fund Statement of Investment Principles



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May 2024



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A better way

May 2024

This Statement of Investment Principles ("the Statement") has been commissioned by and addressed to the Trustee of the Leighton Group Pension Fund ("the Scheme").

This document has been prepared by the Trustee of the Leighton Group Pension Fund ("the Trustee") after advice from Mark Garnett of Advisory Investment Services Limited ("AIS Ltd"). It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 and as amended by subsequent regulations.

This Statement and its contents are confidential to the Trustee and AIS Ltd.

For the purposes of this report, Leightons Holdings Limited is referred to as the "Company".

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Signatory of:



# 01 Introduction

This Statement sets out the principles governing decisions about investments for the Scheme and supersedes the previous Statement.

In preparing this Statement, the Trustee has:

- Consulted with the Company, although responsibility for maintaining this Statement and setting investment policy rests solely with the Trustee.
- Obtained and considered written professional advice and recommendations from Mark Garnett of Advisory Investment Services Limited (“AIS Ltd”) who is the Trustee’s appointed investment consultant. AIS Ltd is authorised and regulated by the Financial Conduct Authority (“FCA”). Mark has confirmed to the Trustee that AIS have the appropriate knowledge and experience to give the advice required by the Pensions Acts.

The Trustee will review this Statement at least once every three years to coincide with the triennial actuarial valuation or other advice relating to the statutory funding requirements. If there are any significant changes in any of the areas covered by this Statement, the Trustee will review it without further delay. Any changes made will be based on written advice from a suitably qualified individual and will follow on from consultation with the Company.

The Scheme is a defined benefits (“DB”) plan. The Trustee’s investment powers are set out in rule 16A of the Rules of the Scheme dated 21 May 1999 and subsequent amending deeds. This Statement is consistent with those powers.

## 02 Investment Objectives

The Trustee's overall investment policy is guided by the following objectives:

	The Trustee's primary investment objective for the Scheme is to ensure sufficiently liquid assets are available to meet all liabilities as and when they fall due. In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.
	The Trustee has considered the Company's covenant and has taken a long-term view to setting its funding and investment objectives. It is aware of the relationship between the investments held and the funding level of the Scheme liabilities and believes that its investment objectives and the resultant strategy are consistent with the valuation of those liabilities.
	To be fully funded on the Technical Provisions funding level within six years from 31 March 2019.

The Scheme Actuary has confirmed during the process of revising the investment strategy that the investment objectives and resultant strategy are consistent with the actuarial valuation methodology and assumptions used in the statutory funding objective.

## 03 Investment Responsibilities

### THE TRUSTEE

Under the legal documentation governing the Scheme, the power of investment is vested in the Trustee. Therefore the Trustee is responsible for setting the investment objectives and determining the strategy to achieve those objectives. It sets the overall investment target and then monitors the performance of its investment managers against the target. In doing so the Trustee considers the advice of its professional advisers, who it considers to be suitably qualified and experienced for this role.

Its duties and responsibilities include but are not limited to:

	Regular approval of this Statement and monitoring compliance with this Statement.
	Appointment, removal (where applicable) and review of its investment managers or investment consultant and their performance relative to relevant benchmarks.
	Assessment of the investment risks run by the Scheme.
	Monitoring and review of the asset allocation.

### INVESTMENT CONSULTANT'S DUTIES AND RESPONSIBILITIES

The Trustee has appointed AIS Ltd as its investment advisor. AIS Ltd provides advice when the Trustee requires it and/or when AIS Ltd feels it suitable to do so. Areas on which it can provide advice are as follows:

	Setting investment objectives, where relevant.
	Determining strategic asset allocation.
	Determining suitable funds and investment managers.
	Managing cashflow

It should be noted that the Trustee retains responsibility for all decisions.

Any services provided by AIS Ltd will be remunerated on either a time cost or fixed fee basis.

AIS Ltd does not receive any commission or any other payments in respect of the Scheme for investment services that will affect the impartiality of its advice. Any manager discounts received through the use of the investment platform are passed in full to the Scheme.

The Trustee is satisfied that this is a suitable adviser compensation structure.

## **INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES**

The Trustee, after considering suitable advice, has appointed various managers to manage the assets of the Scheme via the Mobius Life investment platform.

The underlying investment managers are detailed in Appendix 1 of this Statement. These investment managers are authorised and regulated by the FCA and are responsible for stock selection, asset allocation (if managing a multi-asset portfolio) and the exercise of voting rights. All the underlying managers are compensated by fund based charges on the value of the Scheme's assets that they hold.

The Scheme's agreed asset allocation is defined in Appendix 1.



## 04 Setting the Investment Strategy

### **INVESTMENT STRATEGY**

The Trustee has determined its investment strategy after considering the Scheme's liability profile, its own appetite for risk and the views, risk appetite and covenant of the Company. It has also received written advice from its investment consultant.

### **TYPES OF INVESTMENT**

The Scheme's assets are invested on behalf of the Trustee by Mobius Life Limited ("Mobius"), through an investment platform, with underlying investment managers.

The Trustee is permitted to invest across a wide range of asset classes, including but not limited to equities, bonds, cash, property and alternative asset classes. The use of derivatives is permitted by the guidelines that apply to the pooled funds.

The Trustee will monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should it discover this to be more than 5% of the portfolio.

### **BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENT**

The Scheme invests in assets that are expected to achieve the Scheme's objectives detailed previously. The allocation between the different asset classes is shown in Appendix 1 of this Statement.

The Trustee has considered the merits of both active and passive management for the different elements of the asset allocation and selected suitable types of management for each asset class. The current managers are shown in Appendix 1.

From time-to-time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected events.

The Trustee may also hold insurance policies which are for the benefit of certain members to match part or all of their liabilities.

### **EXPECTED RETURN ON INVESTMENTS**

The Trustee has noted the long-run relationships that exist between the returns from different asset classes and has noted the different expected risk/return characteristics of the various asset classes.

In particular, it has noted that equities can be expected to deliver a greater long-run real return (over price inflation) than that expected from fixed interest gilts, index-linked gilts or cash, but that typically equities are the most volatile asset class in terms of market returns on an annual basis.

The Trustee's chosen policy is to get a balance between stabilising the Scheme's funding level and pursuing a higher expected return to improve the Scheme's funding level.

### **REALISATION OF INVESTMENTS**

The Scheme's assets are invested in pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Scheme's investments can generally be readily realised, if necessary.

## **FINANCIALLY MATERIAL CONSIDERATIONS**

The Trustee has considered financially material factors such as environmental, social and governance (“ESG”) issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes it is investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its investment managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme’s assets are subject to the investment managers’ own policies on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment (‘UN PRI’) or other similarly recognised standards.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information provided by its investment consultant, to assess how the Scheme’s investment managers take account of ESG issues; and
- Request that all of the Scheme’s investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers’ processes, it will take this into account on whether to select or retain an investment.

## **NON-FINANCIALLY MATERIAL CONSIDERATIONS**

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

## **STEWARDSHIP**

The Trustee’s policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment managers on the Trustee’s behalf, having regard to the best financial interests of the beneficiaries.

The investment managers should engage with companies to take account of ESG factors in the exercise of such rights, as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers’ voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the investment managers to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment managers, with the help of its investment consultant, to influence the investment managers' policies. If this fails, the Trustee will review the investments made with the investment managers.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

## **INVESTMENT MANAGERS' ARRANGEMENTS**

### **Incentives to align investment managers' investment strategies and decisions with the Trustee's policies**

The Scheme invests in pooled funds. The Trustee acknowledges that the managers' investment strategies and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the investment managers' incentive.

The Trustee uses the fund objective/benchmark as a guide on whether the Scheme's investment strategy is being followed and monitors this regularly.

### **Incentives for the 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**

The Trustee selects managers based on a variety of factors including investment philosophy and process, which it believes should include assessing the long term financial and non-financial performance of the underlying companies.

The Trustee also considers the managers' voting and ESG policies and how they engage with the investee companies as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the investment managers' engagement and voting activities on an annual basis as it believes this can improve long term performance. The Trustee expects its managers to make every effort to engage with investee companies but acknowledges that its influence may be more limited in some asset classes, such as bonds, as it does not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but does expect by investing in those companies with better financial and non-financial performance over the long term that this will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the investment managers incentivises them to execute their investment policies consistently, as the longer the units are held the larger income to the investment managers.

If the Trustee feels that the investment managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

**How the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for asset management services are in line with the Trustee's policies.**

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the individual funds over at least a 3-5 year period or over a market cycle, if appropriate, when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The investment managers' remuneration is a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Scheme will depend upon the asset allocation. The charges are considered as part of the manager selection process. The charges are monitored regularly by the Trustee with the help of its investment consultant to ensure they are in line with the Trustee's policies for each fund. The Trustee believes that its own and each investment manager's goals are aligned.

**How the Trustee monitors portfolio turnover costs incurred by the investment managers, and how it defines and monitors targeted portfolio turnover or turnover range**

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to its investment consultant.

**The duration of the arrangement with the investment managers**

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or changes in the view of the investment managers can lead to the duration of the arrangements being shorter than expected.

**ADDITIONAL VOLUNTARY CONTRIBUTIONS ("AVCS") ARRANGEMENTS**

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of AVC is included in Appendix 1. From time-to-time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

## 05 Risks

The Trustee is aware and seeks to take account of a number of risks in relation to the Scheme's investments. Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. Overall, the Trustee measures and monitors its risks by receiving quarterly monitoring reports which report on the performance of its assets, its managers and the movements in the Scheme's liabilities. The key risks and the policies are as follows:

The key risks and the policies are as follows:

<b>Solvency and Mismatching risk</b>
This is measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. The risk is managed by setting a Scheme specific asset allocation with an appropriate level of risk.
<b>Concentration Risk</b>
This is measured by comparing the underlying asset allocation to the strategic asset allocation. It is managed through the diversification of the Scheme's assets across a range of different funds with different investment styles and underlying securities, and different investment managers.
<b>Investment manager Risk</b>
This is assessed as the deviation of actual risk and return relative to that specified in the investment manager's objectives. It is measured by monitoring on a regular basis the actual deviation of returns relative to investment manager's agreed objectives and an assessment of factors supporting the managers' investment process.
<b>Sponsor Risk</b>
This is assessed as the ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit. This is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor.
<b>Liquidity Risk</b>
This is monitored according to the level of cashflows required by the Scheme over a specified time period. The Scheme's administrators will assess the cash requirements to limit the impact of cashflow requirements on the Scheme's investment policy.  The risk is managed by having a suitable amount of readily realisable investments and by holding a certain level of cash type assets. The Scheme invests in assets that there are invested in quoted markets and are as readily realisable as the Trustee feels suitable given the Scheme's cashflow position and the expected development of the liabilities.
<b>Currency Risk</b>
The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in non-sterling assets or via currency investment. Some currency hedging maybe used to manage this risk.

### Loss and Investment Risk

There is a risk of loss of investment by each investment manager and potentially the custodian. This includes losses beyond those caused by market movements e.g. losses caused by fraud. The Trustee undertakes regular reviews of the internal controls and processes of the investment managers.

### Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio. This can lead to losses that may not have been factored into any assumptions. The Trustee has considered ESG issues as part of the investment process, but has made no explicit allowance for risks associated with climate change as they believe it is difficult to accurately quantify.

## 06 Compliance

The Trustee confirms that it has received and considered written advice from AIS Ltd on the establishment and implementation of its investment strategy.

The Trustee confirms that it has consulted with the Company regarding its strategy.

Copies of this Statement and any subsequent amendments will be made available to the Company, the investment managers, the Scheme Actuary and the Scheme Auditor upon request.

The Trustee will monitor compliance with this Statement annually. This will include a review of the suitability of the investment strategy on an ongoing basis and consideration of the continued suitability of the appointed investment managers.

### **Signed on behalf of the Trustee of the Leightons Group Pension Fund**

Name (BLOCK CAPITALS): CHRIS ROBERTS

Position: Director

Date of Signing: 9 July 2024

# Appendices



# Appendix 1

## STRATEGIC ASSET ALLOCATION

The Scheme has a strategic asset allocation as set out in the table below:

Portfolio	Allocation	Control Range	Asset Class	Allocation
Leveraged Liability Driven Investment ("LLDI") and Cash	39%	N/A	LLDI	39%
Bonds	49%	+/- 5%	<b>Index Linked Gilts</b> LGIM (15%)	15%
			<b>UK Corporate Bonds</b> BlackRock (7%) LGIM (10%)	17%
			<b>Multi-Asset Credit</b> (TwentyFour Asset Management 12%) (M&G 5%)	17%
Diversified Growth Fund ("DGF")	12%	+/- 4%	DGF	12%
<b>Total</b>	<b>100%</b>			<b>100%</b>

Notes: LLDI, Index Linked Gilts and LGIM Corporate Bonds will not be rebalanced in order to maintain a liability hedge ratio.

## REBALANCING AND CASHFLOW MANAGEMENT

The Trustee recognises that the asset allocation of investments will vary over time due to market movements. The Trustee seeks to keep the asset allocation in line with its benchmark but is cognisant of the costs of rebalancing.

Where possible, cash outflows will be met from the income of the Scheme's assets to minimise transaction costs. Where income is insufficient, monies will be raised through the sale of assets so as to move the allocation closer to the central benchmark allocation subject to consideration of liquidity issues, transaction costs, market conditions and the speed with which monies are required. Similarly, where cashflows in are received, the money will be invested in such a way as to bring the allocation into line with the central benchmark allocation.

## INVESTMENT MANAGERS

The Trustee has invested the Scheme assets through an insurance policy with Mobius Life. Mobius Life provides investment administration for the Scheme and so carries out the day-to-day management of the underlying investment managers.

The table below shows the investment managers appointed to carry out the day-to-day management of the assets, as well as the funds that they manage, their benchmarks and relevant objectives.

Underlying Investment Manager	Fund	Benchmark	Objective
Legal & General Investment Management	AAA-AA-A Corporate Bond – All Stocks Index Fund	iBoxx Non-Gilt ex BBB	Track to within +/- 0.5% gross of fees for two years out of three
	Over 15 Year Index-Linked Gilts Index Fund	FTSE IL Gilts > 15 years	Track to within +/- 0.5% gross of fees for two years out of three
	Dynamic Diversified Fund	Bank of England Base Rate	Outperform by +4.5% per annum gross of fees over a full market cycle
	Matching Core Funds	An investible Index of gilts and swaps	Hedging
BlackRock Investment Management	Up to 5 Year Corporate Bond Index Fund	iBoxx Sterling Non-Gilts 1-5 Year Index	Track benchmark
M&G Investments	Total Return Credit Investment Fund	SONIA	+3 to 5% gross of fees p.a. over a cycle
TwentyFour Asset Management	Strategic Income Fund	SONIA	+4.00% p.a. net of fees over a 1 year period

The investment managers' performance will be monitored on a quarterly basis.

Aviva is appointed as provider of AVC services.

## FEES

The fee arrangements for the investment managers are summarised below:

Investment Manager	Fund	Annual Management Charge
Legal & General Investment Management	AAA-AA-A Corporate Bond – All Stocks Index Fund	0.11% p.a.
	Over 15 Year Index-Linked Gilts Index Fund	0.08% p.a.
	Dynamic Diversified Fund	0.40% p.a.
	Matching Core Funds	0.09% p.a.
BlackRock Investment Management	Up to 5 Year Corporate Bond Index Fund	0.10% p.a.
M&G Investments	Total Return Credit Investment Fund	0.45% p.a.
TwentyFour Asset Management	Strategic Income Fund	0.50% p.a.

The Annual Management Charges (“AMCs”) quoted include the underlying managers’ AMCs and the platform fee Mobius Life charges.

With effect from 1 November 2023, Mobius Life will charge the Scheme a policy administration fee (‘PAF’). The PAF will be a monthly fee of £250 per calendar month, subject to annual inflationary increase, and will be collected directly from the Scheme’s assets quarterly in arrears.

AIS Ltd is remunerated on a fixed fee or time cost basis.

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## **Belfast**

Linen Loft  
27-37 Adelaide Street  
Belfast  
BT2 8FE

## **Birmingham**

Edmund House  
12-22 Newhall Street  
Birmingham  
B3 3AS

## **Bristol**

Castlemead  
Lower Castle Street  
Bristol  
BS1 3AG

## **Glasgow**

The Culzean Building  
36 Renfield Street  
Glasgow  
G2 1LU

## **Leeds**

Princes Exchange  
Princes Square  
Leeds  
LS1 4HY

## **London**

46 New Broad Street  
London  
EC2M 1JH

## **Manchester**

82 King Street  
Manchester  
M2 4WQ