Statement of Investment Principles for the Grosvenor Pension Plan

September 2020

1. Introduction

1.1. The purpose of this Statement of Investment Principles

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Grosvenor Pension Plan ("the Trustees") on various matters governing decisions about the investments of the Grosvenor Pension Plan ("the Plan"), a Defined Benefit ("DB") Plan.

1.2. Input to the SIP

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP ("LCP"), the Plan's investment adviser and actuary, who the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP.

The principal employer, which has been nominated for this purpose by each of the employers with active members in the Plan, has been consulted on the SIP. The current investment managers of the Plan have been provided with a copy of the SIP. The managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

1.3. Legal and statutory background to the SIP

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (the "Act"), as amended by the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations") (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

The Plan's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Plan's Trust Deed.

2. Investment objectives

The Trustees' primary long-term objective is to ensure that the Plan should be able to meet benefit payments as they fall due. In order to achieve this primary objective, the Trustees aim to obtain the maximum rate of return on a suitable mix of assets, so as to reduce the need for future contributions from the employer, consistent with an acceptable level of risk of the return being materially less than expected. The Trustees have had regard to the wishes of the employer and to the financial covenant of the employer.

3. Summary of the Plan's investment strategy

Analysis of the Trustees' overall investment objectives has led the Trustees to invest the Plan's assets in:

- a bond portfolio; and
- a growth portfolio.

The investment profile of the bond portfolio is designed to reduce, to an acceptable level, movements in the value of the Plan's assets relative to its liabilities caused by changes in interest rates and inflation expectations.

The growth portfolio is invested in more volatile assets, such as equities, which are expected to deliver a higher return (than bonds) in the longer term.

The Trustees will, on a regular basis, consider the allocation of the Plan's assets between the bond and growth portfolio, the allocation of assets within these portfolios and the managers appointed to manage them (including the managers' contracts, their performance and their fee arrangements).

The Trustees also have target benchmark asset allocations within the bond and growth portfolios. A set of monitoring ranges have been established to act as a trigger for the Trustees to consider whether to rebalance the Plan's asset mix. The Trustees monitor the asset allocation against these ranges regularly and will consider with their advisers whether it is appropriate to rebalance the assets taking into account factors such as market conditions and anticipated future cash flows.

The Trustees have also made available a range of Additional Voluntary Contribution ("AVC") options for members.

4. Other matters

4.1. Choosing investments

Before making any investment selection decision of their own, it is the Trustees' policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustees' policy to review their own investment selection decisions on a regular basis, based on written advice.

The Trustees have appointed one or more investment managers who are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities. The investment managers' primary role is the day-to-day management of the Plan's investments. Subject to the terms of the signed agreements between the Trustees and the investment managers, and their respective benchmarks and guidelines, the managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this SIP, so far as is reasonably practicable.

4.2. Monitoring the investment arrangements

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Investment manager performance is evaluated by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment adviser to consider portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

4.3. Kinds of investment to be held

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The Plan's assets may be invested in a wide range of UK and overseas market securities, including, but not limited to, equities and fixed interest and index-linked bonds and cash. The Trustees do not invest directly in individual companies or assets, instead investing through pooled investment vehicles managed by professional investment managers.

The Trustees also considered the employer's principal business risks, in particular its exposure to property risks, when deciding on the types of investment to make.

4.4. Balance between different kinds of investments

The balance between different kinds of investments will reflect the Plan's overall investment strategy, as outlined in section 3 above, as well as the views of the Plan's investment managers relative to their respective benchmarks.

4.5. Investment risk measurement and risk management

When deciding how to invest the Plan's assets, the Trustees consider a wide range of risks, including, but not limited to, those set out in Appendix B. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

4.6. Expected return on investments

The Trustees are aware of the historic and expected investment returns on a range of common investment types. This information has been taken into account when setting the Plan's investment strategy.

4.7. Realisation of investments

The investment managers have discretion over the timing of realisation, and liquidity, of the investments held within the portfolios that they manage.

The Trustees have considered the Plan's ongoing cash flow needs and how easily the Plan's investments can be realised to meet these needs. As such, the Trustees believe that the Plan currently holds an acceptable level of readily realisable assets.

When appropriate, the Trustees decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers or the administrator of any liquidity requirements.

4.8. Investment beliefs

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- strategic asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;

- risk should primarily be reduced by holding a well-diversified portfolio of growth assets providing exposure to a suitable mix of the illiquidity, credit and equity risk premia;
- regular consideration should be given to avoiding, hedging or diversifying risks that are typically unrewarded, such as interest rates, inflation and currency;
- investment markets are not always efficient and there may be opportunities for good active managers to add value. In any case, some assets must, by necessity, be managed actively;
- responsible investment by investing in companies who consider environmental, social and governance (ESG) factors, and engaging as long-term owners of capital should be able to improve risk-adjusted returns;
- long-term environmental, social and economic sustainability is a key factor that the Trustees should consider when making investment decisions; and
- investment managers' responsible investment credentials should form part of the Trustees' manager selection criteria.

4.9. Consideration of financially material and non-financial matters

The Trustees have considered how ESG and ethical factors should be taken into account in the selection, retention and realisation of investments given the time horizon of the Plan and its members.

The Trustees consider that it is necessary in all circumstances to act in the best financial interests of the beneficiaries and are endeavouring to do so by investing primarily in suitable pooled funds.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees will appoint managers that have appropriate skills and processes to do this. Furthermore, the Trustees expect all of their investment managers to be signatories to the United Nation's Principles for Responsible Investment ("UN PRI").

The Trustees will consider investment options that give increased weight to ESG considerations, where such options are available. For example, the Trustees have considered passive funds that explicitly include ESG factors, such as low carbon emissions, in the investment process.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds. However, the Trustees have received a copy of the investment managers' published corporate governance policy which explains the investment managers' approach to ESG as well as ethical factors and the Trustees are satisfied with the policies as described.

The Trustees will review from time to time how their managers are taking account of ESG in practice. This may include meeting with the investment managers and questioning them on their approach, reviewing managers' responsible investment / ESG policies and any updates to these policies, and receiving updates from the Plan's investment adviser on its view on the managers' responsible investment credentials.

The Trustees have considered how to take into account non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. The Trustees have sought to align the Plan's investment strategy with the employer's approach to ESG, which the Trustees believe to be a reasonable representation of members views (and also a financially material consideration), rather than taking explicit account of any non-financial matters.

4.10. Stewardship

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. In doing so, the Trustees have considered The UK Stewardship Code (the "Code") issued by the Financial Reporting Council ("FRC"). The Trustees support the Code.

The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations. The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the Code, and from time to time the Trustees review how these are implemented in practice. The Trustees encourage their managers to improve their practices where appropriate.

The Trustees cannot usually directly influence the investment managers' policies on the exercise of investment rights where the Trustees hold assets in pooled funds. The Trustees understand that investment rights will be exercised by the investment managers in line with the investment managers' general policies on corporate governance, which are provided to the Trustees from time to time, taking into account the financial interest of the beneficiaries.

4.11. Myners

The Myners principles are a set of voluntary "best practice" principles for pension fund trustees to consider when making investment decisions. Appendix C reflects the Trustees' response to the Myners voluntary code of investment principles.

4.12. Reporting

From time to time the Trustees will communicate with members and other parties where relevant about the Plan, its investments and its overall performance.

5. Review

The Trustees will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

R. Davis

For and on behalf of the Trustees of the Grosvenor Pension Plan **Date 30 September 2020**

Investment governance, responsibilities, and decision-making

The Trustees have decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Plan overall. The Trustees' investment powers are set out within the Plan's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment / risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, policies regarding responsible ownership and how such responsibilities are discharged;
- reviewing and modifying the content of this SIP from time to time as appropriate;
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;

- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios, including management of ESG risks; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustees in reviews of this SIP.

4. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

5. Working with the Plan's employer

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

The Trustees' policy towards risk, risk measurement and risk management

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees' are willing to bear within the Plan in order to meet their investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long-term objectives before attainment of those objectives is seriously impaired. The Trustees aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future, including employer contributions;
- the Plan's long-term and shorter-term funding targets;
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Plan's cash flow requirements; and
- the level of expected return and expected level of risk, now and as the strategy evolves.

When deciding on the investment strategy for the Plan, the Trustees believe the level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity and the Plan's objectives.

2. Approach to managing and monitoring investment risks

The Trustees consider that there a number of different types of investment risk that are important for the Plan. These include, but are not limited to:

- Strategic risk – this is the risk that the performance of the Plan's assets and liabilities diverge in certain financial and economic conditions. This risk has been taken into account in the Trustees' investment strategy review and will be monitored by the Trustees on a regular basis.
- Inadequate long-term returns – a key objective of the Trustees is that, over the long term, the Plan should have adequate resources to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Plan to produce an adequate long-term return.

- Investment manager risk – this is the risk that the investment managers fail to meet their investment objectives. Prior to appointing each of the investment managers, the Trustees undertook an investment manager selection exercises. The Trustees monitor the investment managers on a regular basis.
- Custodian risk – this is the risk that the custodian fails in one or more of its duties in particular safeguarding the Plan's investments. The Trustees are aware that the investment managers review the selected custodians and the services provided from time to time.
- Lack of diversification risk – this is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustees' ability to meet their investment objectives. The Trustees believe that the need for the Plan's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 3 and the guidelines agreed with investment managers.
- Liquidity/marketability risk – this is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Plan's cash flow requirements and believe that this risk is managed appropriately via the measures described in Section 4.7.
- ESG risks – ESG factors relate to the interaction of the Plan's investments with: the physical environment (environmental); communities, workforces, wider society and economies (social); and the governance structures of the organisations / markets invested in, including investment managers (governance, including corporate governance). ESG factors are sources of risk to the Plan's investments, some of which could be financially material, over both the short and longer term. These include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf. The Trustees' policies in relation to ESG factors are described in Section 4.9.

3. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Plan. Examples include mortality risk (the risk that members live, on average, longer than expected), interest rate risk (the risk that decreases in the discount rate used will increase the calculated present value of the Plan's future liabilities) and sponsor covenant risk (the risk, for whatever reason, that the sponsoring employer is unable to support the Plan as anticipated) and political risk (the risk that political decisions adversely impact the Plan's assets and / or liabilities).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustees believe that they have addressed and are positioned to manage this general risk.

The Trustee's position with regard to the Myners voluntary code of investment principles is described below:

Principle	Compliance
1. Effective decision-making	The Trustees are compliant with this principle
2. Clear objectives	The Trustees are compliant with this principle
3. Risk and liabilities	The Trustees are compliant with this principle
4. Performance assessment	The Trustees are compliant with this principle
5. Responsible ownership	The Trustees are compliant with this principle
6. Transparency and reporting	The Trustees are compliant with this principle