J C Bamford Lifeplan

Statement of Investment Principles – September 2021

1. Introduction

The Trustees of the J C Bamford Lifeplan ("the Lifeplan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Lifeplan's investments. A separate Summary of Investment Arrangements ("SIA") document detailing the specifics of the Lifeplan's investment arrangements is available upon request.

In preparing this Statement the Trustees have consulted the Sponsoring Company, JC Bamford Excavators Ltd, to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Lifeplan's investment arrangements.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set; and
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

In considering the appropriate investments for the Lifeplan, the Trustees have obtained and considered the written advice of Hymans Robertson LLP ("the Investment Consultant"), whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees' objectives are to invest the Lifeplan's assets in the best interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Lifeplan is exposed. The Trustees' primary objectives are as follows:

- To ensure that the Lifeplan can meet its obligations to members and other beneficiaries.
- To pay due regard to J C Bamford Excavators Ltd's interests in the size and incidence of employers' contribution payments.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risks upon which the Trustees focus are those that arise through a mismatch between the Lifeplan's assets and its liabilities and the long term covenant of the employer.

- The Trustees recognise that whilst increasing investment risk increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Lifeplan's accruing liabilities, as well as producing more short-term volatility in the Lifeplan's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously and strength of the employer covenant) considered carefully the implications of adopting different levels of risk.

- The Trustees recognise 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 Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Lifeplan's assets and recognising the need to diversify, some investment exposure is obtained via pooled vehicles.

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Lifeplan. The managers are prevented from investing in asset classes outside their mandate without the Trustees' prior consent.

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

- The Trustees recognise that risks exist with respect to Environmental, Social and Governance ("ESG") factors, including the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making, which can lead to underperformance of assets relative to expectations. In both new and existing mandates the Trustees monitor the extent to which the managers integrate ESG issues in their investment processes.

Should there be a material change in the Lifeplan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the existing risk profile remains appropriate.

5. Custody of Assets

The safe custody of the Lifeplan's assets is delegated to professional custodians (either directly or via the use of pooled investment vehicles). A list of the custodians appointed on behalf of the Lifeplan is included in the SIA.

6. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Lifeplan's investments, subject to the overriding constraint that at the total Lifeplan level the expected level of risk is consistent with the level of risk being targeted and taking into account the risks detailed in Section 4:

- There is a role for both active and passive management in the Lifeplan's investment strategy.

- To help diversify concentration risk, the Lifeplan's assets are well diversified by mandate appointments where practical and appropriate.

- At the total Lifeplan level and within the mandates' underlying assets, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- Given the Lifeplan's long-term investment horizon, illiquid investments, for example property and debt assets, may be held to capture the illiquidity premium, whereby an investor is compensated in the form of higher expected return for tying up funds for a longer period of time.

- Investment in derivatives is permitted either directly or within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular illiquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Lifeplan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Lifeplan are predominantly invested on regulated markets.

- The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005, except where the Lifeplan invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Lifeplan's assets. This is typically confirmed as part of the Trustees' Investment Report within the Lifeplan's annual Report and Accounts.

- No investment is permitted by an appointed investment manager in the securities issued by the relevant manager's company or affiliated companies (other than any such securities in a pooled fund in which the Trustees invest).

- The use of leverage is permitted within the Lifeplan's Liability Driven Investment ("LDI") portfolio to enable the target interest rate and inflation hedge ratios to be achieved and maintained. A formal target has not been set with respect to the use of leverage but actual leverage will be monitored by the Trustees over time. Additional borrowing is not permitted except as to cover short term liquidity requirements.

7. Investment Strategy

The exact details of the Lifeplan's investment strategy (including the mechanics of asset allocation, rebalancing and contribution policy) are provided in the SIA. The Trustees seek to implement a strategy consistent with the objectives outlined in Section 3. The Trustees believe that the investment risk arising from the investment strategy are consistent with the overall level of risk being targeted.

The Trustees look to incorporate the implications of market movements into their investment strategy setting process. Whilst the Trustees do not seek to tactically time markets, they are prepared to make opportunistic switches between asset classes to add value where appropriate, in particular where the opportunity arises to increase the proportion of liabilities hedged to movements in inflation and interest rates in service of the Lifeplan's long term strategic objectives.

The Trustees distinguish between Protection assets, which are expected to reflect changes in the present value of the Lifeplan's liabilities; Income assets, which are expected to generate a stable return in excess of the Lifeplan's liabilities; and Growth assets, which are expected to outperform the liabilities over the long term.

The Trustees have agreed that the overall aim of the Lifeplan's Protection portfolio is to reduce the mismatch between the assets and liabilities in terms of changes to long-term interest rate risk and market implied inflation. With this in mind the Trustees have implemented a LDI portfolio to provide interest rate and inflation hedging. The Trustees will increase the target interest rate and inflation hedge ratios within the LDI portfolio over time as the Lifeplan's funding position improves.

The expectation is that assets will continue to be invested in a mixture of asset classes to provide diversification and meet the actuarial assumption for expected investment return. The Lifeplan's benchmark allocation is recorded in the SIA.

8. Day-to-Day Management of the Assets

The Trustees delegate the day to day management of the assets to a number of investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Lifeplan's investments and are carrying out their work competently.

The Trustees have appointed each of their investment managers to deliver a specific benchmark (or performance target, where appropriate), which overall will align to deliver the broader Lifeplan investment strategy. The Trustees ensure that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Lifeplan. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Lifeplan.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all of their managers against industry standards.

The Trustees have determined, based on advice from the Investment Consultant, a benchmark mix of asset classes and control ranges within which each appointed investment manager may operate.

The Trustees regularly review the continuing suitability of the Lifeplan's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. Any such adjustments are carried out 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 SIA.

The Trustees seek and consider written advice from the Investment Consultant when determining the appropriateness of each manager and mandate for the Lifeplan, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability.

9. Expected Return

The Trustees recognise the long-term nature of the Lifeplan's liability profile and appoint their managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Lifeplan's objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated.

All mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For closed-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees expect to generate a return, over the long term, consistent with the assumptions of the Scheme Actuary so as to meet the Trustees' funding objective. It is recognised that over the short-term performance may deviate significantly from the long-term target.

The Trustees review the performance of each of the Lifeplan's managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

10. Additional Voluntary Contributions

The Trustees give members the opportunity to invest in a range of funds at the members' discretion. Following the transition of Additional Voluntary Contributions ("AVCs") in the first half of 2020, all of the members' contributions are now invested in Aviva funds.

The Trustees review the investment performance, costs and management of the AVC funds on a regular basis and take advice as to the funds' and the provider's continued suitability, in proportion to the value of the investments.

11. Realisation of Investments

The majority of the Lifeplan's investments may be realised quickly if required. The Trustees monitor the allocation between the appointed managers and between asset classes and periodically rebalance the portfolio as set out in the SIA.

12. Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge their managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. The Trustees will request turnover costs incurred by the asset manager over the Lifeplan's reporting year.

13. Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and environmental, social, and governance ("ESG") [1] issues may have a material impact on investment returns.

- **Consideration of financially material factors in investment arrangements**

The Trustees recognise that a number of factors, including ESG factors, create uncertainty in the future returns that may be achieved from the investment strategy. The Trustees have adopted a policy of delegating responsibility for the consideration of ESG issues at a stock level to the individual investment managers.

Given the discretion afforded to the active managers, the Trustees expect that the investment managers will take account of all financially material factors including the potential impact of ESG factors in the execution of their mandate.

The Trustees have discussed the extent to which ESG issues, where relevant to a particular mandate, are integrated into the investment processes of the managers and are satisfied that the investment managers are following an approach which takes account of all financially material factors.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager, and that the manager has limited discretion to take account of factors that may be deemed to be financially material. The Trustees will review the index benchmarks employed for the Lifeplan on at least a triennial basis.

The Lifeplan's strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Lifeplan'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 Lifeplan's investment managers are expected to report on their adherence to the UK Stewardship Code on an annual basis where applicable.

---

[1] ESG issues include, but are not limited to:
Environmental – climate change, pollution and energy efficiency
Social – working conditions, diversity and health & safety
Governance – Executive remuneration, Board transparency, shareholder rights

- **Consideration of non-financially material factors in investment arrangements**

Given the objectives of the Lifeplan, the Trustees have not considered any non-financially material factors in the development and implementation of the investment strategy. The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

- **Selecting and monitoring investment managers**

In selecting new managers for the Lifeplan, the Trustees will explicitly consider potential managers' approach to responsible investment and the extent to which prospective managers integrate ESG issues in the investment process as a factor in their decision making.

The stance of each of the Lifeplan's investment managers with respect to ESG matters is reviewed at regular intervals with the support of the Trustees' advisers. The Trustees have discussed ESG issues and the extent to which such issues are integrated into the investment processes of their investment managers.

The Trustees aim to meet with all of the Lifeplan's investment managers periodically. The Trustees provide the managers with an agenda for discussion, including issues relating to individual holdings and ESG issues. Managers are challenged both directly by the Trustees and by the Investment Consultant on the impact of any significant issues including ESG issues that may affect the expected return prospects of the portfolio.

- **Stewardship, voting and engagement**

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

The Trustees have adopted a policy of delegating voting decisions on stocks to the investment managers on the basis that voting powers will be exercised by the managers with the objective of preserving and enhancing long-term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policies.

The Lifeplan's investment managers report on voting activity to the Trustees on a periodic basis. The Trustees will monitor the managers' voting activity and may review voting patterns over time. The Trustees may also monitor managers' voting on particular companies or issues affecting more than one investee company.

The Trustees do not engage directly with investee companies but believe it is sometimes appropriate for the investment managers to engage with key stakeholders relating to their investments – which may include corporate management, regulators and governance bodies – to improve corporate behaviours, improve performance and mitigate financial risks.

The Trustees review engagement activity undertaken by their investment managers as part of their broader monitoring activity. Where appropriate, the Trustees will engage with and may seek further information from the investment managers on how portfolios may be affected by a particular issue.

Detailed information on voting and engagement activity is captured within the Lifeplan's annual Implementation Statement, which is publicly available and published online.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Lifeplan and its investments and have ensured that each manager has an appropriate conflicts of interest policy in place.

- **Climate risk**

Climate change poses a risk to Defined Benefit pension schemes given the potential for a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting the Lifeplan's strategic benchmark. The Trustees periodically discuss climate change with the Investment Consultant and managers to consider the potential implications for the Lifeplan.

14. Compliance with this Statement

The Trustees will monitor the investment managers' compliance with this Statement periodically.

15. Review of this Statement

The Trustees 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 the Lifeplan's Investment Consultant.

3 September 2021
For and on behalf of the Trustees of the J C Bamford Lifeplan