JCB Service No.3 Scheme

Statement of Investment Principles - October 2024

1. Introduction

The Trustees of the JCB Service No.3 Scheme ("the Scheme") 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 Scheme's investments. A separate document detailing the specifics of the Scheme's investment arrangements ("the Summary") is available upon request.

In preparing this Statement the Trustees have consulted with the Sponsoring Employer to the Scheme and considered written advice from Mercer Limited ("Mercer"), the Trustees' Investment Consultant, to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Scheme's investment arrangements.

2. Process For Choosing Investments

The stewardship of the Scheme's investment arrangements falls into the following three primary areas of responsibility:

- The *strategic management* of the assets, which is fundamentally the responsibility of the Trustees, acting on expert advice, and is driven by the investment objectives set out in Section 3 below.

- The *day-to-day management* of the assets, which is delegated to the Trustees' selected investment manager. Details are outlined in Section 7 below, with full details in the Summary.

- The *ongoing measurement and monitoring* of the performance of the appointed manager against predetermined benchmarks. Again, this is the responsibility of the Trustees.

The process for choosing investments is as follows:

- Identify appropriate investment objectives.

- Agree the level of risk consistent with meeting the objectives set.

- 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 Scheme the Trustees have obtained and considered the written advice of Mercer, 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' objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed several objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objective is as follows:

- To ensure that it can meet its obligation to the beneficiaries of the Scheme.

Additional objectives are as follows:

- To achieve a return on the total Scheme which is compatible with the level of risk considered appropriate.
- To pay due regard to the Sponsoring Employer's interest in the size and incidence of contribution payments.

All the assets of the Scheme are invested, on behalf of the Trustees, by BlackRock Advisors (UK) Limited ("BlackRock").

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, and the Trustees believe may be financially material to the Scheme. The Trustees policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustees aim to mitigate this risk by investing a proportion of the Scheme's assets in instruments that are expected to react in an equivalent way to movements in the Scheme's liabilities caused by changes in long-term interest rates and inflation expectations.

- The Trustees recognise that whilst increasing 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 Scheme's accruing liabilities, as well as producing more short-term volatility in the Scheme's funding position. As a result, the Trustees expect to be increasingly invested in bonds as the Scheme matures.

- The Trustees also recognise that there is a risk in holding assets that cannot easily be sold - should the need to sell arise. The Scheme's assets, held in the form of pooled investment vehicles, are readily redeemable and can be cancelled at any time.

- The Trustees recognise the existence of market risk, namely that the value of securities, including equities, foreign exchange and interest-bearing assets, can go down as well as up. The Trustees believe that diversification by asset class limits the impact of any single market risk.

- The Trustees recognise the risks that may arise from a 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 Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The Trustees acknowledge that active management can materially add to long-term investment returns. However, active management also carries the risk of underperforming a passively managed alternative (net of the additional investment management fees associated with active management).

- The Scheme is subject to currency risk. Currency risk is managed by investing in currency hedged pooled fund investment vehicles.

- The Trustees recognise that Environmental, Social and Governance ("ESG") issues, including climate change, may have substantive impacts on the global economy and therefore investment returns. The Trustees seek to minimise this risk by taking them into account in the selection, retention, and realisation of investment mandates.

- The documents governing the manager's appointment include several guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The manager is prevented from investing in asset classes out with their mandate without the Trustees' prior consent.
- Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees meet regularly with the Scheme's investment manager and receive regular reports from the Investment Consultant. 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 safe custody of the Schemes' assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

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

5. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Scheme's investments. This is subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Section 3:

- Passive management will be used for various reasons, including:
  - To diversify risk.
  - Invest in markets deemed efficient where the scope for active management to add value is limited.
- All other things being equal, there is a preference to invest via pooled funds, however segregated investments will be considered as circumstances require.
- At the total Scheme level and within individual manager appointments 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.

- Investment in illiquid investments, such as property or pooled property funds, may be held if they do not exceed 15% of the Scheme's total assets.

- Investment in derivatives is permitted either directly or within pooled funds, if 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 (particularly liquidity and counterparty risk) such investments will normally only be made with the purpose of reducing the Scheme'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 Scheme are predominantly invested on regulated markets.

- No investment in securities issued by the Scheme's Sponsoring Employer or affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

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

- Borrowing is not permitted except as to cover short-term liquidity requirements.

6. Investment Strategy

The table below outlines the benchmark allocation for the Scheme. Further details are given in the Summary.

Portfolio / Asset Class	**Portfolio Benchmark (%)**
Buy and Maintain UK Corporate Bonds	12.5
2068 Gilt	38.0
2062 Index Linked Gilt	49.5
Total	**100.0**

7. Day–to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to BlackRock. The Trustees have taken steps to satisfy themselves that BlackRock have the appropriate knowledge and experience for managing the Scheme's investments and that they are conducting their work competently.

The actions of the investment manager are reviewed on an ongoing basis through receipt of regular written reports from the investment manager and receipt of written reports from Mercer whenever their research results in a change in their views of the manager.

The investment manager is regulated by the Financial Conduct Authority ("FCA"). As required by the FCA, the Trustees have signed an Agreement with the investment manager which complies in all respects with this Statement. The Agreement provides important protection for the Scheme and for the Trustees. It also sets out the terms on which the assets are managed, including the investment briefs and the restrictions under which the investment manager works.

Details of the arrangements with the appointed manager can be found in the Summary, which is available to members upon request.

8. Monitoring the Investment Manager, Advisers and Decision Making

8.1 Aligning Manager Appointments with Investment Strategy

The investment manager is appointed based on the strength of their capabilities and, therefore, the perceived likelihood of the manager achieving the expected return and risk characteristics required for the asset classes in which the Scheme invests.

The Trustees will seek guidance from their investment consultant, where appropriate, on their forward-looking assessment of a manager's ability to deliver upon its stated objectives. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation, and business management (amongst other things), in relation to the particular investment strategies that the Scheme invests in. Where available, the consultant's manager research ratings assist with due diligence and decisions around the selection, retention, and realisation of manager appointments.

The Trustees will review an appointment if the investment objective for a manager's fund changes, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

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

The investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to review the appointment.

8.2 Evaluating Investment Manager Performance

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year and 3 years. The Trustees review the absolute performance and relative performance against a suitable index used as the benchmark on a gross of fees basis. The Trustees' focus is on long-term performance. However, as noted above, they may review the appointment if:

- There are sustained periods of the manager failing to achieve its stated investment objectives.
- There is a change in the portfolio manager of a fund.
- There is a change in the underlying objectives of the investment manager.
- There is a significant change to the investment consultant's rating of the manager.

The appointed investment manager is remunerated by way of a fee calculated as a percentage of assets under management.

8.3 Portfolio Turnover Costs

The Trustees do not currently actively monitor portfolio turnover costs across the whole portfolio. However, the Scheme's investment manager reports performance net of transaction costs and therefore the manager is incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask the manager to report on portfolio turnover costs. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager's fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

8.4 Manager Turnover

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

For the pooled funds in which the Scheme's assets are invested, there is no set duration for the manager's appointment. The Trustees therefore will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.
- The manager appointment has been reviewed and the Trustees have decided to terminate.

9. Expected Return

The Trustees expect to generate a return, over the long-term, consistent with the assumptions of the Scheme Actuary. It is recognised that there will be periods when performance may deviate significantly from the long-term expectation.

10. Realisation of Investments

The investment manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees monitor the allocation between asset classes and rebalances the portfolio as set out in the Summary.

11. Socially Responsible Investment and Corporate Governance

The Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration.

The Trustees have given the appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees will also consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process (using their Investment Consultant's ESG ratings provided as part of regular reporting to the Trustees) and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment manager's policy on voting and engagement. The Trustees will use this assessment in decisions around the selection, retention, and realisation of manager appointments.

A change in ESG rating does not mean that the fund will be removed or replaced automatically. The Trustees will ask the investment manager to comment on these areas when they present from time-to-time at Trustee meetings.

Non-financial considerations, including members' ethical views, are not explicitly considered in the selection, retention, and realisation of investments.

12. Compliance with this Statement

The Trustees will monitor compliance with this Statement on a regular basis and will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and Employer.

This review will occur no less frequently than every three years to coincide with the Scheme's actuarial valuation. Any such review will be in consultation with the Employer.

Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed for and on behalf of the Trustees of the JCB Service No.3 Scheme

.... 28 OCTOBER 2024
Signed **Date**

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