The Costain Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

12 October 2022

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of The Costain Pension Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

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

1.2. In preparing this statement the Trustee has consulted Costain Engineering & Construction Ltd., (the Company), and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation. The Trustee confirms that it complies with the Myners Principles, which are outlined in the Appendix to the Statement of Investment Principles.

1.4. The Trustee will review this statement at least every year or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Clause 26.1 of the Definitive Trust Deed & Rules, dated 4 March 2011. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of its managers against that 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.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Addendum to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights except in specific circumstances set out in the Appendix.

2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Company before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- To ensure that the Trustee can meet its obligations to the beneficiaries of the Scheme;
- To agree an appropriate Recovery Plan (in the event of a funding deficit) and to seek to maintain funds at or above a level necessary to meet the Statutory Funding Objective requirements of the Pensions Act 2004;
- To pay due regard to the Company's interests in the size and incidence of employer's contribution payments;
- Over the medium to long term to be fully funded on a self-sufficiency basis (i.e. liabilities calculated assuming the Scheme's assets are all invested in gilts), and correspondingly to have removed the majority of the investment risk from the portfolio;
- To invest in a diversified portfolio of assets which is expected to generate returns consistent with the self-sufficiency target with an acceptable level of risk; and
- To gradually reduce the impact of movements in gilt yields and inflation on the funding position so that there is very low exposure to these risks once the Scheme is fully funded on the Technical Provisions

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that it believes is appropriate in order to meet the Scheme's objectives.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustee monitors from time-to-time the Company-related investment content of its portfolio as a whole and will take steps to alter this should it discover this to be more than 5% of the portfolio. Typically this check is carried out by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Addendum to this Statement.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Addendum to this Statement.

5.3. 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 items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Addendum to this Statement and is monitored on a regular basis by the Trustee. The majority of the Scheme's investments are held on an investment platform and the funds will be automatically rebalanced to the target allocation if the actual allocation moves outside of specified control ranges.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in its annual Implementation Statement.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging at the discretion of some of the Investment Managers is employed to manage the impact of exchange rate fluctuations. The Trustee has instructed Legal & General to invest the equity holdings 50% in a currency hedged fund (which aims to hedge the developed market currency movements) and 50% in a non-hedged version.
Loss of investment	The risk of loss of investment by each investment manager and custodian is considered by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Scheme's Auditors undertake an annual review of the internal controls and processes of each of the investment managers as part of the Scheme's annual Accounts process.

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by its professional advisors on these matters, who they deem to be appropriately qualified. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Scheme's investment advisor meets the Scheme's investment managers as frequently as is appropriate in order to review performance and the Trustee meets the Scheme's investment managers from time to time as required.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1. The Trustee has set policies in relation to these matters. These policies are set out in the Appendix.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with its investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with its own investment objectives for the part of the portfolio being considered, it will consider using another manager for the mandate.

10.3. The Trustee carries out a strategy review at least every three years where it assesses the continuing relevance of the strategy in the context of the Scheme's membership and its aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers are aware of this.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in its investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Trustee monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.9. The Trustee monitors the performance of its investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.10. The Scheme invests predominantly in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied.

10.11. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.13. The Trustee acknowledges that portfolio turnover costs can impact on the performance of its investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.14. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.15. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

10.17. For closed ended funds, the Scheme reviews the appointment with the investment manager as the manager releases new iterations of the funds (which the Trustee may consider further investment into) and at, or just prior to, maturity of the closed-ended fund.

11. Additional Voluntary Contributions

11.1. Prior to 1 October 2009, the Trustee provided an Additional Voluntary Contribution (AVC) facility through the Scheme for members who elected to contribute AVCs. The AVC facility was closed to new contributions with effect from 1 October 2009, but the Trustee continues to decide on the AVC provider with whom the members' accumulated AVCs are invested. When reviewing these investments, the Trustee will obtain written advice from an adviser who must have the knowledge and experience required under the Pensions Act. The value of the AVC investments is small and therefore any reviews, and any advice received as part of these reviews, will be proportionate to the value of the remaining AVC investments.

12. Compliance with the Statutory Funding Objective

12.1. Under the Statutory Funding Objective, the Scheme must have sufficient and appropriate assets to cover its technical provisions. These technical provisions are an estimate, made using actuarial principles, of the assets needed at any particular time to make provisions for the benefits that have already accrued under the Scheme, including pensions in payment, benefits payable to the survivors of former members and those benefits accrued by other members which will be payable in the future. The technical provisions are calculated using an accrued benefits funding method and assumptions chosen by the Trustee, after considering advice from the Actuary and obtaining the Company's agreement. If the assets are insufficient to meet the Scheme's technical provisions, the Trustee and the Company are required to agree and implement a Recovery Plan in order to eliminate the deficit.

12.2. The funding principles adopted by the Trustee for securing that the Statutory Funding Objective is met are set out in a Statement of Funding Principles. The latest Statement of Funding Principles, as at the date of this document, is dated 31 March 2020.

13. Agreement

13.1. This statement was agreed by the Trustee, and replaces any previous statements. 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.

Signed: G Mills **Date:** 12 October 2022

On behalf of The Trustee of The Costain Pension Scheme

Appendix 1: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially Material Considerations

The Trustee considers that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) are potentially financially material for the Scheme over the length of time during which the benefits provided by the Scheme for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of Investment Principles.

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

Where appropriate, the Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

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

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

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

The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The below sets out the Trustee's view on how ESG factors are integrated across the specific asset classes in which the Scheme invests.

Multi-asset funds - the Trustee believes that ESG issues will potentially be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments.

Money market – the Trustee does not believe there is significant scope for ESG issues to improve risk-adjusted returns within the Scheme's cash holdings.

Passive equities – the Trustee accepts that when investing passively in equity index tracker funds, after an index has been selected, there is little that the manager can do within the investment process selecting stocks. However, the Trustee believes that positive engagement on ESG issues can lead to improved risk-adjusted returns. Therefore, the Trustee looks to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company.

Private credit – the Trustee believes that ESG issues can potentially be financially material to the risk-adjusted returns achieved by the Scheme's private credit assets. There are no voting rights attached to the underlying investments, but the Scheme's manager is expected to engage with the companies it lends to in order to improve their approach to these issues. In some cases, it may also be appropriate to link the financial terms of the loans to specific ESG targets.

Liability Driven Investments - the Trustee believes that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's LDI assets. This is because these holdings are considered "least risk" when constructing the investment strategy and are held for protection purposes.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustee will obtain training on ESG considerations where needed in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- The Trustee is comfortable that all of the investment managers are managing their respective funds with ESG taken into account and will put in place and keep updated a working document setting out details on the managers' approaches. Through its investment consultant the Trustee will request information on the investment managers' ESG policies and integration on an annual basis.

2. Non-financially material considerations

The Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future qualify of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

3. The exercise of voting rights

The Trustee's policy with regards to the delegation of voting rights applies different ways to specific types of investments.

Additional Voluntary Contribution Funds - The Trustee has voting rights in relation to additional voluntary contribution funds. The Trustee has delegated the authority to vote in relation to these holdings to the Chairman, who is required to report back to the other directors on any votes cast. The Chairman is obliged to consult with the other directors in relation to any matters that, in his opinion could be deemed to be contentious, prior to voting on behalf of The Trustee of the Costain Pension Scheme.

Pooled Investments – When investing in pooled funds, the Trustee delegates responsibility for the exercising of any rights (including voting rights) attaching to investments to the relevant fund managers.

The Trustee also expects managers to engage with companies in relation to ESG matters. The Trustee is comfortable with the fund managers' strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor. The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from its investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with its investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code. All the Scheme's investment managers have reviewed and have policies compliant with the UK 2020 Stewardship Code. The Trustee will continue to monitor its investment managers against this standard.

4. Engagement activities

The Trustee acknowledges the importance of ESG and climate risk within its investment framework. When delegating investment decision making to its investment managers the Trustee provides its investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of its investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers it to be part of its investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Company's business. Through the Trustee's consultation with the Company when setting this Statement of Investment Principles, the Trustee has made the Company aware of its policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

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

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee, investment manager and the investee companies.

In selecting and reviewing its investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

Appendix 2: Myners Principles (as updated in October 2008)

The Trustee confirms compliance with the following principles:

Principle 1: Effective decision-making	• Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. • Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
Principle 2: Clear objectives	• Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.
Principle 3: Risk and liabilities	• In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. • These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.
Principle 4: Performance assessment	• Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. • Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.
Principle 5: Responsible ownership	• Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. • Trustees should report periodically to members on the discharge of such responsibilities.
Principle 6: Transparency and reporting	• Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Trustees should provide regular communication to members in the form they consider most appropriate.