

# *Statement of Investment Principles*

**For the Mitie Group plc Pension Scheme**

**Effective from: 2 March 2022**



## 1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by Directors of Mitie Group Pension Trustee Company Limited (the “Trustee” or “We”) of the Mitie Group plc Pension Scheme (the “Scheme”).

It sets out our policies on various matters governing investment decisions for the Scheme, which is a Defined Benefit (“DB”) Scheme. This SIP also covers the Additional Voluntary Contribution arrangements (“AVCs”).

This SIP replaces the previous SIP dated 5 September 2019.

This SIP has been prepared after obtaining and considering written advice from Lane Clark & Peacock (“LCP”), our strategic investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the Principal Employer, Mitie Treasury Management Limited (the “Employer”) in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy, and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

## 2. Investment objectives

The primary objective for the Trustee is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis);
- the Trustee and Employer have agreed a longer term objective that the Scheme should be fully funded on a “self-sufficiency” basis, defined as the technical provisions basis but with a discount rate of gilts +0.5% pa, by 31 March 2030; and

- that the expected return on the Scheme assets is maximised whilst managing and maintaining risk at an appropriate level.

## 3. Investment strategy

With input from our advisers and in consultation with the Employer, we reviewed the investment strategy over the period from September 2021 to January 2022 considering the objectives described in Section 2.

The Scheme has a linear de-risking investment strategy in place. The strategic allocation at each six-monthly de-risking point is shown in the table below:

Date	Growth portfolio	Credit portfolio	Matching portfolio	Total
31/03/2022	38.4%	21.6%	40%	100%
30/09/2022	36.8%	23.2%	40%	100%
31/03/2023	35.1%	24.9%	40%	100%
30/09/2023	33.5%	26.5%	40%	100%
31/03/2024	31.8%	28.2%	40%	100%
30/09/2024	30.2%	29.8%	40%	100%
31/03/2025	28.5%	31.5%	40%	100%
30/09/2025	26.9%	33.1%	40%	100%
31/03/2026	25.2%	34.8%	40%	100%
30/09/2026	23.6%	36.4%	40%	100%
31/03/2027	21.9%	38.1%	40%	100%
30/09/2027	20.3%	39.7%	40%	100%
31/03/2028	18.6%	41.4%	40%	100%
30/09/2028	17.0%	43.0%	40%	100%
31/03/2029	15.3%	44.7%	40%	100%
30/09/2029	13.7%	46.3%	40%	100%
31/03/2030	12.0%	48.0%	40%	100%

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Scheme’s circumstances. We believe that the strategy above meets this objective.

We have signed an agreement with Schroders IS Limited (“Schroders”), previously River and Mercantile Investments Limited, a fiduciary manager, setting out in detail the terms on which the assets are to be managed. The fiduciary manager has some discretion in terms of asset allocation, but generally is responsible for rebalancing the assets if material deviations from the strategic allocations occur.

## 4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the investment strategy it is our policy to consider:

- the best interests of all members and beneficiaries;
- our investment objectives, including the target return required to meet these objectives;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and our ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant; and
- the need for appropriate diversification between different asset classes to manage investment risk so that both the overall level of investment risk and the balance of individual asset risks are appropriate.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the funding of the Scheme including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- investment managers who can consistently spot and profitably

exploit market opportunities are difficult to find, and therefore passive management may be appropriate in certain markets. However, investment markets are not always efficient and there may be opportunities for good active managers to add value;

- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified;
- ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors; and
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium, and long term.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our strategic investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have a signed fiduciary management agreement with our fiduciary manager, setting out in detail the terms on which the assets are to be managed. The fiduciary manager's primary role is the day-to-day investment management of the Scheme's investments. The fiduciary manager is authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The fiduciary manager has been delegated responsibility for exercising their powers to give effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

We have some influence over our fiduciary manager's investment practices due to the nature of the Scheme's arrangement and we have set specific guidelines within the investment agreement that our fiduciary manager must adhere to.

Our view is that the fees paid to our fiduciary manager, and the possibility of its mandate being terminated, ensure it is incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions. In practice our fiduciary manager can align its strategy and decisions to our policies in

relation to strategy, long-term performance of debt/equity fund managers, engagement, and portfolio turnover.

It is our responsibility to ensure that the fiduciary manager's investment approach is consistent with our policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. We expect our fiduciary manager, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with the fund managers who invest in the underlying issuers to improve their performance. We assess this when selecting and monitoring our fiduciary manager.

We evaluate our fiduciary manager's investment performance by considering performance over both shorter and longer-term periods as available. Generally, we would be unlikely to terminate our fiduciary manager mandate based on short-term performance grounds alone. We would also expect our fiduciary manager to be unlikely to terminate an underlying investment manager mandate on short-term historical performance grounds alone.

Our policy is to evaluate our fiduciary manager by reference to its performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. The fiduciary manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We 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 fiduciary manager. We expect our fiduciary manager to consider the potential impact of portfolio turnover and resulting transaction costs as appropriate when managing the Scheme's investment mandate.

## 6. Realisation of investments

The fiduciary manager has discretion over the timing of realisation of investments of the Scheme within the portfolio that it manages, and in considerations relating to the liquidity of investments.

When appropriate, we, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the fiduciary manager of any liquidity requirements. Our preference is for investments that are readily realisable, but we recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid.

## 7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We reflect the Scheme's approach to ESG and other financially material factors through our investment strategy and fiduciary manager selection decisions.

We expect our fiduciary manager to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates it is set. We believe our fiduciary manager has the skills and processes to do this, and periodically review how the fiduciary manager is taking account of these issues in practice.

We can influence the fiduciary manager's investment practices due to the nature of the Scheme's arrangement. Although the fiduciary manager has limited influence over the underlying investment managers' investment practices where assets are held in pooled funds, we expect our fiduciary manager to encourage the investment managers to improve their practices where appropriate.

We do not consider any 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.

## 8. Voting and engagement

We recognise our 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.

We have delegated to our fiduciary manager the exercise of rights attaching to investments, including voting rights, and engagement with underlying managers who invest in issuers of debt and equity, stakeholders, and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors

We do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with the fiduciary manager on matters including ESG and stewardship.

We have delegated the monitoring and engagement with issuers or other holder of debt or equity to our fiduciary manager (we acknowledge the fiduciary manager can only engage with the underlying investment managers who invest directly in issuers) and expects the fiduciary manager to exercise ownership rights and undertake monitoring and engagement in line with the fiduciary manager's policies on stewardship, considering the long-term financial interests of the beneficiaries.

We expect the fiduciary manager to communicate its policies on stewardship to us from time to time and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year.

We can influence the fiduciary manager's stewardship practices due to the nature of the Scheme's arrangement. Although the fiduciary manager has limited influence over the investment managers' stewardship practices where assets are held in pooled funds, we expect our fiduciary manager to encourage the investment managers to improve their practices where appropriate.

We seek to appoint a fiduciary manager that has strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.