Hays Pension Scheme

Statement of Investment Principles
May 2023

1. **Introduction**

1.1 The Trustee of the Hays Pension Scheme (the "Scheme") has 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.

1.2 A description of the Scheme's current investment arrangements, based on these principles, can be found in the Trustee's Investment Policy Implementation Document ("IPID") which is available to members on request.

1.3 In preparing this Statement, the Trustee has consulted Hays plc (the "Principal Employer") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.

1.4 The Trustee seeks to maintain a good working relationship with the Principal Employer and will discuss any proposed changes to the Statement with the Principal Employer. However, the Trustee's fiduciary obligations are to the Scheme's members and these will take precedence over the Principal Employer wishes, should these ever conflict.

2. **Investment Objectives**

2.1 **Overall Policy**

2.2 The strategic management of the assets is the responsibility of the Trustee acting on expert advice. The day-to-day management of the main assets of the Scheme is delegated to independent investment managers who execute the investment strategy. The Trustee is responsible for the appointment and performance monitoring of the investment managers.

2.3 **Investment Objectives**

2.4 The primary objective of the Scheme is to provide pension and lump-sum benefits for members on their retirement and/or benefits on death, before or after retirement, and their dependents on a defined-benefits basis.

2.5 The Trustee's objective centres on a long-term target for the funding of the Scheme such that once met:

- dependency on the covenant of the Principal Employer will be significantly reduced;
- the Trustee's investment strategy is progressively de-risked and managed towards achievement of a target return implied by a "self-sufficiency" funding basis using an effective liability valuation discount rate of gilts flat p.a. as a proxy for the buy out target in 2028; and
- other material risks (e.g. longevity) will be reduced as appropriate.

2.6 The self-sufficiency funding target broadly represents a cautious calculation of the value of the Scheme's liabilities. This calculation is based on the investment returns that would ultimately be expected to be earned on the less risky, liability matching assets assumed to be held once the de-risking exercise is complete.

2.7 The Principal Employer and Trustee of the Scheme have agreed on the following key principles in respect of a long term funding strategy for the Scheme:

- **Long term funding target:** The Scheme will target a long term funding objective assessed using broadly the same assumptions as those underlying the statutory Technical Provisions (as set out in the Statement of Funding Principles as amended from time to time). These assumptions will differ from those underlying the Technical Provisions in three areas: the assumption for future commutation will be removed; there will be an explicit allowance for wind-up expenses; and the discount rate will be based on the relevant gilt yield curve with no margin for outperformance, i.e. gilts-flat. This target is intended as a proxy for the cost of securing the residual liabilities in 2028. It is accepted that insurer pricing will evolve and so this may not be sufficient to buy-out all members' benefits at any point in time. Recognising this, the long term funding target will be reviewed annually;
- **Long term strategy to meet the funding target:** The long term funding target will be met by a combination of Company contributions, investment returns on the Scheme assets, liability movements (i.e. impact of interest rates, inflation and demographic experience on the liabilities) and gains from agreed Member Incentive Exercises;
- **Decision making criteria for assessing contributions, investment strategy and Member Incentive Exercises:** Any opportunity, proposal or strategy decision will be assessed based on the following criteria:

- The proposal or strategy should reduce risk, which is currently measured using a 3 year 95% VaR number expressed as a percentage of liabilities, as measured on the long term funding target basis. Other risk measures may be introduced over time as the Scheme matures and the funding position improves.

  It should be noted that re-risking (by increasing the overall allocation to return-seeking assets) is not precluded in cases where the Scheme's funding level deteriorates and the Trustee and Principal Employer mutually agree such action is appropriate. The proposal or strategy should increase the chance of reaching the long term funding target as measured by the prevailing projected term to full funding on a the long term funding target basis.

- **Investment strategy de-risking triggers:** Funding level triggers (to reduce asset-related market risk) will be established and reviewed at least annually. Any investment de-risking will be mindful of the above principles and funding level triggers are designed to have approximately a 55% probability of being fully funded on the long term funding target basis by the target time horizon. The triggers allow for contributions continuing until 30 June 2028, in line with the Memorandum of Understanding (the Schedule of Contributions sets out contributions to 2025 and a three year extension has been agreed).

- The target time horizon for the Scheme's derisking strategy is 31 December 2028 i.e. the Scheme is targeting full funding on the long term funding target basis by this date.

3. Risk Management and Measurement

3.1 The Trustee recognises that for a period of time, in order to meet its objectives, it needs to invest in assets from which there is a greater likelihood of volatility in returns relative to movements in the value of the Scheme's liabilities compared to investing in a portfolio of liability-matching bonds and swaps. Investing a proportion of the Scheme's assets in equities and other non-gilt assets introduces a risk of a difference emerging in the performance of the Scheme's assets relative to the liabilities, including divergence due to changes in inflation and interest rates. The Trustee has taken advice on the matter and considered carefully the implications of adopting different levels of risk.

3.2 In addition the Trustee has reviewed the risk allocation of the Scheme's investments relative to the Scheme's liabilities and actively considers the balance of risks within the portfolio between interest and inflation risk and return-seeking risk.

3.3 In addition to this primary risk, the Trustee also recognises a number of other risks, in particular:

- the risk that may arise from the lack of diversification of investments. The Trustee aims to ensure that the asset-allocation policy results in an adequately diversified portfolio. 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 Scheme;

- the risk introduced by holding securities denominated in foreign currencies due to movements in exchange rates;

- the risk associated with holding illiquid assets such as property, meaning that an investment cannot be bought or sold in time to prevent or minimise a loss or cover the Scheme's liabilities. The Trustee has considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes occupy a small portion of the overall investment strategy;

- the risk associated with active investment management. The Trustee may appoint managers which it considers to have the skill and judgement to increase the expected return of Scheme assets on a net of fees basis. The Trustee understands that the use of active, rather than passive, management introduces additional risk. Where active risk is adopted, the Trustee considers this risk to be acceptable in the context of the Scheme's overall investment risk profile. The Trustee will monitor the performance of all investment managers.

- the risk associated with environmental, social and governance factors. This includes the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making, leading to underperformance relative to expectations. In addition, the extent to which climate change causes 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.

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

4. Investment Strategy

4.1 The Trustee has adopted a strategy with the aim of generating sufficient investment returns to achieve the Scheme's investment objectives.

4.2 The investment strategy takes account of:

- the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners);

- the level of disclosed surplus or deficit relative to a self-sufficiency liability valuation basis; and

- the expected strength of covenant of the Principal Employer.

4.3 The current strategic asset allocation is as follows:

Asset Class	Target Allocation %	Target Allocation (% exc buy-in)
Return Seeking Portfolio	8.0	12.0
Matching Portfolio	58.0	88.0
Bulk Annuity[1]	34.0	-
Total	**100.0**	**100.0**

[1]Based on the latest available buy-in value as at 31 March 2023, on a gilts-flat basis.

- The expected return over liability matching gilts for the total Scheme is gilts+0.7% p.a. based on Mercer Capital Market return assumptions as at 31 December 2022.

4.4 The Return Seeking Portfolio is designed to generate a long-term return above that from gilts. By allocating assets to a range of asset classes, and through the use of active management, it is intended that this additional return is generated in an efficient manner (i.e. such that expected returns are maximised relative to expected risk).

4.5 The Return Seeking Portfolio may include the following investments:

- equities (UK and global), through the use of derivative instruments to manage exposure synthetically; and

- growth fixed income mandates (including multi-asset credit).

4.6 The Matching Portfolio is designed to reduce risk and comprises of return-seeking and collateral-eligible bonds and liability-matching derivatives such as swaps.

4.7 The Matching Portfolio may include the following investments:

- Asset swapped fixed interest and index-linked UK gilts;

- Gilt total return swaps and sale and repurchase agreements;

- Sterling interest rate and inflation swaps; and
- Investment Grade Corporate bonds.

4.8 In addition the Trustee may, from time to time, invest in equity and gilt futures as necessary in order to manage the economic exposure to equity and bond markets.

4.9 The Bulk Annuity allocation represents the premium paid to Canada Life in August 2018 in order to cover pensioner liabilities (all pensioners as at 31 December 2017). The longevity and investment risk associated with these liabilities was therefore transferred to the insurer.

4.10 Asset allocation is actively monitored and a defined funding level based ‘flight path’ is in place, which sets out appropriate triggers (which is updated annually for prevailing market conditions). As the funding level moves towards being fully funded on the self-sufficiency basis, this flight path will guide decisions to move the allocation of investments from the current asset mix to a less volatile liability-matching and insurer-friendly portfolio.

4.11 Further details regarding the investment strategy’s implementation framework and the flight path approach can be found in the IPID.

5. Portfolio Construction

5.1 The Trustee has adopted the following control framework in structuring the Scheme’s investments, subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Section 3:

- There is a role for both active and passive management.
- To help diversify manager-specific risk, multiple manager appointments within a single asset classes are preferred where practical.
- At the total Scheme level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment risk with any one manager.
- Investment in derivatives is permitted either directly or within pooled funds as long as it aims to 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 liquidity and counterparty exposure), 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 Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- No investment in securities issued by the Principal Employer or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

6. Day–to-Day Management of the Assets

6.1 Whilst the day-to-day management of the Scheme's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

6.2 The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

6.3 The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

6.4 In addition the Trustee has determined a flight path for the Scheme's assets described in paragraph 4.10, which the Trustee considers will reduce the likelihood of the Scheme's dependency on the Principal Employer over time.

6.5 The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted as set out in Section 3.

7. Additional Assets

7.1 The Scheme consists of a defined benefit section. However, in addition the Trustee is responsible for the investment of the assets relating to the Additional Voluntary Contributions (AVCs) previously made by members. The Trustee reviews the investment arrangements and performance of these sections on a regular basis and takes advice as to their ongoing suitability.

8. Realisation of Investments

8.1 The investment managers have 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.

8.2 The Trustee monitors the allocation between the appointed managers and between asset classes and rebalances the portfolio as set out in the Investment Policy Implementation Documentation.

9. Policy on ESG, Stewardship and Climate Change

9.1 The Trustee believes that environmental, social and governance ("ESG") factors have a material impact on investment risk and return outcomes, and that good stewardship, exercised through voting and engagement, can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, such as climate change, present risk and opportunities that increasingly require explicit consideration.

9.2 The Trustee has given the appointed investment managers discretion when evaluating ESG issues, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

9.3 The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented annually.

9.4 The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

9.5 The Trustee does not currently explicitly consult members when making investment decisions.

10. Investment Manager Appointment, Engagement and Monitoring

10.1 Aligning manager appointments with investment strategy

The investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustee looks to its investment consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the investment consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The investment consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment, with the investment consultant's assistance, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Some appointments are actively managed and the managers are incentivised through remuneration (some via performance related fees) and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review appropriateness of using actively managed funds (on an asset class basis) periodically, and receives updates on performance from the managers and the investment consultant on a quarterly basis.

Some appointments are segregated and the Trustee has specified criteria in the investment manager agreements for the respective manager to be in line with the Trustee's specific investment requirements. For example, the Scheme's liability hedging portfolio is managed on a segregated basis and is tailored to the specific requirements of the Scheme.

Where the Trustee invests in pooled 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.

10.2 Evaluating investment manager performance

The Trustee (through the Investment Sub-Committee) meets with each investment manager on a regular basis, normally at least annually as deemed appropriate. As part of these meetings, the Trustee may review the decisions made by the managers and may challenge such decisions where appropriate to try to ensure the best performance over the medium to long term.

The Trustee considers the investment consultant's assessment of how each investment manager embeds ESG into its investment process. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

10.3 Time horizon

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over various time periods. The Trustee reviews the performance of the investments on an absolute basis and relative to pre-defined benchmarks (over the relevant period) on a net of fees basis. The Trustee's focus is long-term performance but will put a manager 'on watch' if there are short-term performance concerns.

If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustee may take the decision to terminate the manager.

10.4 Portfolio turnover costs

The Trustee will review portfolio turnover and associated transaction costs periodically and will engage with a manager if portfolio turnover is higher than expected. The Trustee has sought to monitor portfolio turnover costs with the support of an independent third party and will continue to monitor industry improvements concerning the reporting of portfolio turnover costs.

10.5 Duration of investment arrangements

The Trustee is a long-term investor and does not look to change the investment arrangements on a frequent basis.

There is no set duration for the manager appointments and currently the Scheme's investments are all in open-ended vehicles or segregated mandates. The Trustee 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 or if the manager appointment has been reviewed and the Trustee has decided to terminate the manager.

11. Review of this Statement

11.1 The Trustee 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 someone who the Trustee reasonably believes 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 on behalf of Hays Pension Trustee Limited, Trustee of the Hays Pension Scheme.

Signed: ______________________________ Date: ____________________________

Name: ______________________________

Signed: ______________________________ Date: ____________________________

Name: ______________________________