

Barratt Group Pension & Life Assurance Scheme

Statement of Investment Principles

September 2020

1. Introduction

- 1.1 This Statement has been prepared by the Trustee of the Barratt Group Pension & Life Assurance Scheme (the “Scheme”) and replaces the Statement dated June 2020. It sets out the principles that govern decisions about the investment of the Scheme’s assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with these principles.
- 1.2 The Scheme consists of two parts, a Defined Benefit (“DB”) Section and a Defined Contribution (“DC”) Section. The DB Section is no longer available to new members joining the Scheme. The DC Section was launched in December 2001. Sections 1 to 5 relate to both Sections of the Scheme. Sections 6 onwards relate to the DB and DC Sections individually.
- 1.3 This Statement is designed to meet the requirements of the Pensions Act 1995 (as amended), the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation and associated requirements.
- 1.4 The Scheme’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document (“IPID”). This Statement and the IPID are available to Scheme members on request.
- 1.5 In preparing this Statement, the Trustee has obtained written advice from the Scheme’s Investment Consultant and the Trustee believes the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended). Where matters described in this Statement may affect the Scheme’s funding policy, input has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever this Statement is reviewed.
- 1.6 The Trustee’s investment powers are set out within the Scheme’s governing documentation and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these. The Trustee notes that, according to the law, it has ultimate power and responsibility for the Scheme’s investment arrangements.
- 1.7 The Trustee seeks to maintain a good working relationship with the Employer, Barratt Developments PLC, and will discuss any proposed changes to this Statement with the Employer. However, its fiduciary obligations to Scheme members will take precedence over the Employer’s wishes, should these ever conflict.
- 1.8 The Trustee does not expect to revise this Statement frequently because it covers broad principles. However the Trustee will review this Statement without delay in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Employer that it judges to have a bearing on the Statement. This review will occur no less frequently than triennially. Any such review will again be based on written expert advice and will be in consultation with the Employer.

2. Scheme Governance

- 2.1 The Trustee is accountable for the investment of the Scheme's assets. It has appointed a firm of professional consultants (the "Investment Consultant") to provide relevant advice. In particular, when considering appropriate investments for the Scheme the Trustee has obtained and considered the written advice of the Investment Consultant. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended). The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisers.
- 2.2 The Trustee retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the Scheme's strategic benchmark and investment manager structure. These decisions are made after considering recommendations from the Scheme's advisers.
- 2.3 The Investment Consultant's role is to:
- Provide recommendations on and propose a process for implementing the Scheme's investment strategy.
 - Monitor the incumbent Investment Managers and recommend changes as appropriate.
 - Assist in the selection of new Investment Managers / providers.
 - Co-ordinate the implementation of investment management arrangements.
 - Advise as to the implications of significant legislative, financial and economic changes.
 - Review the Statement and recommend changes as required.
 - Provide such advice as requested by the Trustee.
- 2.4 In relation to the DB section of the Scheme, the Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme.
- 2.5 This Statement is designed to fulfil the key objectives of the Myners' Code of Best Practice (applicable to DB and DC Schemes), first published in 2001 and revised in 2008, and the DC Code of Practice (applicable to DC Schemes only).

3. Day to Day Management of the Scheme's assets

- 3.1 Day-to-day management of the assets is delegated to professional Investment Manager(s) and / or Insurer(s) who are all regulated by the Financial Conduct Authority (the "FCA") and the Prudential Regulation Authority ("PRA").
- 3.2 The current investment manager(s) / insurer(s) are listed in the IPID.

- 3.3 Bulk annuity policies purchased from insurer(s) are done so with the aim of insuring Scheme liabilities and reducing the Scheme's funding level volatility.
- 3.4 The Trustee has recently entered into a bulk annuity contract with a single insurer following a careful suitability review and has taken steps to satisfy itself that the insurer has the appropriate knowledge and experience. As outlined in Section 2, the Trustee has also received written advice consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended). The Scheme also holds additional annuity policies, securing the liabilities of a much smaller proportion of the Scheme's membership.
- 3.5 The Investment Managers have full discretion to buy, sell and retain individual investments on behalf of the Scheme, subject to agreed guidelines. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters and timescales over which their performance will be measured. The IPID gives details of each Investment Manager's mandate.
- 3.6 The Trustee accepts that it is not possible to specify investment restrictions where assets are managed via pooled funds. Nevertheless, notwithstanding how the assets are managed it has taken appropriate legal and investment advice regarding the suitability of the investment management agreements and relevant investment vehicles.
- 3.7 The Trustee assesses the continuing suitability of the Scheme's Investment Managers and meets each Investment Manager in an agreed cycle to discuss their performance, activity and wider issues. The Investment Consultant provides help in monitoring the Investment Managers, both in the form of written reports and attendance at meetings.
- 3.8 As part of this monitoring process, the Trustee examines the risks being run by each of the Investment Managers. In particular, the variation in returns between each Investment Manager's portfolio and its benchmark is monitored. These figures are checked for consistency with the Investment Managers' agreed targets.
- 3.9 The Trustee will monitor the Investment Managers' compliance with this Statement annually. The Trustee will periodically check that the investment managers have given effect to the investment principles in this Statement and IPID where relevant, so far as reasonably practicable, and that in exercising any discretion the investment managers have done so in accordance with Section 4 of the Occupational Pension Schemes (Investment) Regulations 2005.
- 3.10 Sections 12 and 21 set out how the Trustee incentivises investment managers / insurers, where applicable, to operate in line with the Trustee's objectives.

4. **Portfolio Construction**

- 4.1 The Trustee has adopted the following principles:
- In relation to the DB assets of the Scheme, investments should **significantly reduce or remove asset portfolio risk relative to liabilities** calculated on a solvency basis, with the vast majority of assets held being annuity policies.

- In relation to the DC assets of the Scheme, a **range of investment options** to meet member's differing needs and attitudes to risk should be available, while avoiding over complexity.
- There is a role for both active and passive management. **Passive management** involves employing investment managers to track the return of a chosen benchmark appropriate to the asset class held. **Active management** involves employing investment managers who aim to outperform a benchmark but with the risk that they will underperform. By employing both the Trustee aims to take advantage of active management where it believes it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.

The Trustee recognises that active management gives rise to active risk, examples of which are:

- Active management within an asset category, defined as holding a combination of securities that differs from the asset class benchmark.
 - Active management across asset categories, which arises when the combination of asset categories held differs from that of the benchmark.
 - Skill-based investment strategies, e.g. market-neutral and arbitrage strategies, which are usually largely made up of active risk.
 - Manager selection risk arises due to the potential for selecting an active manager that underperforms its benchmark on a net of management and transaction fees basis.
- All DC investment options are via **pooled funds**.
 - **Specialist managers** are preferred over generalists because of the potential to access a higher level of expertise.
 - The amount invested in highly **concentrated portfolios** will take into account the level of risk this represents. Investments should generally be diversified to ensure unnecessary concentrations, e.g. by sector or issuer. This restriction does not apply to annuities or UK government debt.
 - The Trustee recognises that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Section 8 comments further on this in relation to DB assets. All DC assets are held within pooled funds that provide daily liquidity.
 - Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to 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 risk or to facilitate efficient portfolio management. Excluding annuity investment, the Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustee will not invest directly in the **Employer** or associated companies, but acknowledge that indirect investment is possible as a result of the investment policies of the Scheme's pooled investment managers. The Trustee will invest in such a way that indirect exposure will not exceed 5% of total assets.
- The Trustee will not **borrow** except to cover short term liquidity requirements.
- The safe **custody** of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).
- Across all of the Scheme's investments, the Trustee is aware of the potential for **regulatory and political risks**. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

5. **Non-Financial Matters**

- 5.1 "Non-financial matters" (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.

Defined Benefit Section

6. **Process For Choosing Investments**

- 6.1 The Trustee has considered its investment and funding objectives together and in light of the strength of the Employer covenant to ensure that the two are compatible and supportable.
- 6.2 The Trustee has then constructed a portfolio of investments consistent with these objectives. The main focus of the Trustee has been to construct a portfolio that reduces funding volatility to the extent possible on a low risk, solvency basis.
- 6.3 The Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

7. **Investment Objectives and Strategy**

- 7.1 The objectives set out here, and the risks and other factors referenced in this Section, are those that the Trustee determines to be financially material considerations in relation to the Scheme.
- 7.2 The Trustee's current objective is for all member benefits to be paid in full by regulated insurance companies.
- 7.3 It has therefore purchased annuity policies which insure all of the known liabilities.

7.4 Additional payments or expenses will be met from any available cash / other liquid assets in the first instance and/or payments from the Employer (as may be agreed by the Employer in the schedule of contributions in place from time to time) in the absence of available liquid assets.

7.5 Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, if the Scheme is bought out in full at some point in the future this could significantly reduce the Scheme's investment time horizon.

8. Risk Measurement and Management

8.1 There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme. The Trustee's policy on risk management over the Scheme's anticipated lifetime is set out below.

- The primary investment risk arises from a mismatch between the Scheme's assets and liabilities. This is minimised by matching 100% of the known liabilities with annuity policies held with regulated insurance companies.
- The Employer may be unable or unwilling to finance a shortfall between assets and liabilities. This risk is also minimised by holding annuity policies to meet the vast majority of benefits
- The recently purchased bulk annuity policy insures the majority of the Scheme's liabilities. This represents a concentration of risk that the provider does not make the required payments. As the policy is governed by insurance market solvency regulations, the Trustee believes this risk is low and has mitigated it by careful choice of provider and contract terms
- Although annuities are illiquid investments and cannot be traded on regulated markets, the Trustee is satisfied this is appropriate given the security they provide by paying members' benefits as they fall due

8.2 Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate. As its objective is to secure 100% of benefits via annuity contracts, the likelihood of material changes is considered very low.

9. Expected Return

9.1 An expected return on the annuity contracts has not been determined but is implicit in the price of the contracts.

10. Selection, Retention and Realisation of Investments

10.1 The selection, retention and realisation of assets are consistent with the overall principles outlined in this Statement.

10.2 The annuity policies will make regular payments to the Scheme in respect of the insured members and their benefit entitlements. These payments will be available to meet the Scheme's cash outflows.

10.3 Any additional cash flow requirements, such as expenses, are expected to be met from residual cash / liquid assets or - if there is a shortfall - additional payments from

the Employer as may be agreed by the Employer in the schedule of contributions in place from time to time.

11. ESG, Stewardship and Climate Change

- 11.1 The Trustee believes that environmental, social and corporate governance (“ESG”) factors, including climate change, could have a material financial impact on risk and return outcomes over the Scheme’s investment time horizon and that good stewardship can create and preserve value for companies and markets as a whole.
- 11.2 As the vast majority of the Scheme’s assets are invested in annuity contracts, the Trustee is reliant on the insurers’ policies on responsible investment and corporate governance and will review these from time to time as appropriate. The Trustee has implicitly delegated consideration of ESG issues, engagement and stewardship obligations to the insurers. As a result, the Trustee believes it has minimal direct exposure to risks arising from long-term sustainability issues, including climate change.
- 11.3 Residual assets of the DB Section of the Scheme are either held as cash or invested in liquid pooled funds which may include cash/liquidity and UK government bonds. Given the size and nature of these investments the Trustee also believes it has minimal direct exposure to risks arising from long-term sustainability issues, including climate change as a result of these investments.
- 11.4 Unless considered as a result of work undertaken by the Trustee on the DC Section of the Scheme, the Trustee will not consider the ESG policies of Additional Voluntary Contributions providers and associated investment funds as these are a small proportion of total assets.

12. Investment Manager / Insurer Arrangements

- 12.1 Alignment of Investment Manager(s) / Insurer(s) Objectives and Incentivisation
- Investment manager(s) are appointed to manage residual cash / liquid assets based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitable time horizon. This includes, in relation to any active management, appropriate levels of outperformance, and in relation to passive management suitable levels of “tracking error” against a relevant benchmark.
 - The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager’s idea generation, portfolio construction, implementation and business management, as well as the investment manager’s approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.
 - Insurer(s) are appointed with the aim of insuring the Scheme liabilities and reducing the Scheme’s funding level volatility. The Trustee also seeks expert advice in relation to these appointments. This includes an assessment of the insurer’s capabilities, knowledge and experience.
 - The Scheme’s residual assets which are held with investment manager(s) are invested in pooled funds. The Trustee accepts that it has no ability to specify the risk profile and return targets of the manager(s) other than through the choice of

specific vehicles. They will therefore select vehicles that best align with the Trustee's own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

- The Scheme's assets which are invested in annuity contracts are managed in line with the Scheme's specific liabilities and investment requirements. The Trustee understands that it has no ability to determine or influence the assets in which the insurers invest.
- The Trustee has historically made investment manager appointments with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon). However, whilst there is no formally set duration for the current manager mandates, residual assets currently invested have been done so with the expectation that they will be disinvested to meet part of a final insurer premium payment in a relatively short time frame. The short-term risk reducing characteristics of these investments is therefore important to the Trustee when assessing whether or not the funds have achieved their stated objectives. In any event, the investment manager appointment can be terminated at short notice (the scheme invests in assets with daily dealing frequency). As noted in Section 8 the Trustee recognises that the Scheme's annuity investments are illiquid investments and cannot be traded on regulated markets.
- Retention of investment manager(s) is dependent upon the Trustee having ongoing confidence that each investment manager will achieve its investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.
- Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis.

12.2 Performance Assessment and Fees

- The Trustee receives reporting on investment manager performance on a regular basis, via formal independent reports.
- Investment returns are measured on both an absolute basis and relative to one or more suitable benchmarks and targets.
- As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of the investment adviser, when assessing investment managers, which may include:
 - Personnel and business change
 - Portfolio characteristics (including risk and compatibility with objectives) and turnover
 - Voting and engagement activity (where applicable)

- Service standards
- The adviser's assessment of ongoing prospects based on their research ratings
- The investment manager(s) are remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager(s) to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. Investment managers are not remunerated based on portfolio turnover.
- The insurers do not receive ongoing remuneration from the Scheme; instead, the premium paid for the buy-in policy covers the insurer's implicit fees, with the Trustee's choice of insurer(s) taking into account the size of the premium. The Trustee is satisfied that this is the most appropriate basis for remunerating the insurer, and is consistent with the Trustee's policies as set out in this SIP.

12.3 Portfolio Turnover Costs

- Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate:
 - a. The Trustee does not monitor investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The insurers' obligations to make payments is not impacted by ongoing turnover costs;
 - b. The Trustee does not monitor regular cashflow costs (but seeks to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via the investment consultant.

13. Additional Voluntary Contribution Assets ("AVCs")

- 13.1 Members are able to improve their benefits by investing in defined contribution arrangements known as Additional Voluntary Contributions. These investments are invested separately from the other assets of the Scheme.

Assets in respect of members' AVCs are invested in a range of investment options. With the assistance of the Scheme's consultants, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustee and the needs of the members. More information on the AVC providers is detailed in the IPID to this Statement.

Defined Contribution Section

14. Process For Choosing Investments

- 14.1 The Trustee has considered the characteristics of a range of members and their associated investment needs when choosing which types of investment to make available. The range of funds offered include those which offer the prospect of

growth which exceeds the rate of inflation in the long term (“growth funds”), as well as funds that provide greater protection against changes in the cost of securing retirement benefits or volatile nominal market values (“defensive funds”).

- 14.2 The Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

15. **Investment Objectives**

- 15.1 The Trustee recognises that members of the Scheme have differing investment needs, that these may change during the course of their working lives and that they may have differing attitudes to risk. The Trustee believes that members should generally make their own investment decisions based on their individual circumstances. The Trustee regards its primary objective as making available a range of investment funds which enable members to tailor the strategy for their assets to their own needs. The Trustee also recognises that members may not believe themselves qualified to take investment decisions. As such, the Trustee makes available a default investment option.

- 15.2 These objectives translate to the following principles:

- Offering members a ‘Lifestyle’ investment strategy for the default investment option and ensuring that the other lifestyle investment strategies allow members to plan for their specific retirement objectives;
- Making available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerances of Scheme members;
- Providing general guidance as to the purpose of each investment option;
- Encouraging members to seek impartial financial advice from an appropriate party in determining the most suitable option for their individual circumstances;
- In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustee aims to make available a range of options which satisfy the needs of the majority of members.

The Trustee periodically reviews the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate.

16. **Risk Measurement and Management**

- 16.1 The Trustee has considered the risk from a number of perspectives over the Scheme’s anticipated lifetime. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on each member’s age and when each member expects to take his or her benefits from the Scheme.
- 16.2 In considering the range of funds to offer to members, the Trustee acknowledges that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire.

16.3 In designing the Scheme's lifestyle strategies, the Trustee has taken the proximity to target retirement date of members into account based on their stated retirement ages, and the associated financially material risks over the time horizon of these strategies.

16.4 The Trustee recognises the following risks in relation to the DC Section and takes the following steps to manage them:

- **Market risk** – the risk that the markets in which the funds are invested perform poorly such that the investment objectives are not met. This risk includes inflation, currency, credit and other price risks.

The Trustee manages this risk principally through offering members sufficient choice of investment vehicles, across the risk and return spectrum, to manage their own risks. The Trustee carries out periodic reviews of the overall range of funds with the assistance of their investment consultant and conducts regular assessment of the performance and performance prospects of each fund relative to its performance target.

- **Manager risk** – the risk that the individual fund managers perform poorly relative to the markets in which they invest, or their performance prospects deteriorate leading to the need to select a new fund manager.

The Trustee manages this risk in certain instances through offering passive investment management. This approach is expected to produce a return that is very close to the relevant market, whereas active management is expected to perform better than the relevant benchmark but may perform worse. For all funds, the Trustee assesses the performance and performance prospects of their fund managers, relative to relevant market benchmarks and / or each fund's objectives, on a regular basis both in terms of performance and performance volatility, with the assistance of their investment consultant.

- **Liquidity risk** – the risk that members will be unable to sell investments in a timely manner.

To mitigate this risk, the Scheme invests in daily dealt and daily priced pooled funds.

- **Environmental, Social and Corporate Governance (ESG) risk** – the risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme's assets.

The management of ESG related risks is delegated to investment managers, with oversight from the Trustee. See Section 20 for the Trustee's policies in this regard.

- **Default mismatch risk** - the risk that the investment profile of the default investment option is unsuitable for the requirements of some members. Further details regarding this risk and its management are provided in Section 17.

17. Investment Strategy

17.1 To meet the Investment Objectives and taking into account the risks identified above a range of lifestyle options and individual self-select funds which invest in equities, bonds and cash are available for member investment. More information on the funds

is detailed in the IPID to this Statement. Further details on the lifestyle options can be found in Appendix 1 and 2.

18. Default Investment Option

A proportion of members will actively choose the default investment option because they feel it is most appropriate for them. However, the vast majority of DC scheme members typically do not make an active investment decision and are invested in the default investment option. Further details on the default investment option can be found in Appendix 1.

18.1 The aims of the default investment option

- The default investment option is a strategy that manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.
- In designing the default investment option, the Trustee has explicitly considered the trade-off between risk and expected returns.
- If members wish to, they can opt to choose their own investment strategy or an alternative lifestyle strategy on joining but also at any other future date.
- Assets in the default investment option are invested in the best interests of members and beneficiaries as a whole, taking into account the profile of members.
- Assets in the default investment option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

18.2 Policies in relation to the default investment option

In addition to the Trustee's approach to portfolio construction, covered in Section 4, the Trustee believes that:

- The default investment option's growth phase structure, that invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that the default strategy that seeks to reduce investment risk (and expected return) as the member approaches retirement by investing in lower risk assets such as bonds and cash is appropriate.
- Based on the Trustee's understanding of the Scheme's membership and the new pension flexibilities which were introduced by the Government in April 2015, an investment strategy that targets flexible access to members' benefits through income drawdown is likely to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at

retirement – it merely determines the investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or even choosing their own investment strategy.

- For a small section of the membership, the default targeting annuity has been deemed to remain appropriate following a review of investment strategy in February 2019. These members are all within three years of their retirement and the Trustee felt it appropriate to maintain them in the current strategy, unless they chose otherwise.
- In view of the above, the Trustee has considered the risk of the default investment option and the other available fund options within the DC Section of the Scheme as outlined in Section 16 and 18.3.
- The Trustee has given the Investment Managers full discretion when evaluating voting rights, environmental, social, and ethical considerations in the selection, retention and realisation of investments within the default investment option (and other available fund options within the Defined Contribution Section of the Scheme), subject to adhering to the investment restrictions and objectives of each fund. However, the Trustee has in place a policy regarding such issues, which is outlined in Section 20 of this Statement. Currently no additional policies in this regard have been applied to the default arrangement and the core policy in Section 20 applies. The IPID outlines further information on the investments that are contained within the default investment option.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default strategy, a lifestyle targeting income drawdown at retirement (noting the small number of members whose default has been maintained as targeting annuity), is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

18.3 Risk in relation to the default investment option

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

In arriving at the current default option and the other available fund options within the DC Section of the Scheme, the Trustee has considered the following risks:

| Type of Risk | Risk | Description | How is this risk monitored and managed? |
|--------------|----------------|--|---|
| Market risks | Inflation risk | The risk that returns over the members' working lives does | The Trustee makes available a range of funds, |

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|-------------------------|---------------------------------------|--|--|
| | | not keep pace with inflation. | across various asset classes, with the majority expected to keep pace with inflation. |
| | Currency risk | The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate. | Members are able to set their own investment allocations, in line with their risk tolerances. Within active funds, management of many of these market risks is delegated to the investment manager. |
| | Credit risk | The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due. | The Trustee offers a mix of gilt funds and corporate bond funds that consist of highly rated credit issues. |
| | Equity, property and other price risk | The risk that market movements lead to a substantial reduction in the value of a member's savings. | Assets in the default options are well diversified and members have options across a range of asset classes to diversify their own selections. |
| Liquidity Risk | | The risk that the Scheme's assets cannot be realised at short notice in line with member demand, including the possibility of suspension of trading. | The Scheme is invested in daily dealt and daily priced pooled funds. The risk cannot be fully mitigated where the manager reserves the right to suspend trading |
| Investment Manager risk | | The risk that the appointed investment manager(s) underperform the benchmark return, fail to carry out operational tasks, do not ensure safe-keeping of assets, breach agreed guidelines or doesn't have the relevant skill or knowledge to manage the fund. | The Trustee regularly reviews the appropriateness of the investments and ongoing monitoring of the performance of the investment managers |
| Benefit conversion risk | | The risks that members are invested in a strategy that does not reflect the way in which they intend to take their | The Trustee makes available three lifestyle strategies which reflect the retirement options |

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|---|--|--|--|
| | | benefits at retirement. | <p>available.</p> <p>Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their savings as they approach retirement age.</p> <p>Members can select a lifestyle strategy in accordance with their personal preferences and retirement objectives.</p> |
| Environmental, Social and Corporate Governance ("ESG") risk | | The risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme's assets. | <p>The management of ESG related risks is delegated to investment managers.</p> <p>Refer to Section 20 of the Statement of Investment Principles for the Trustee's policies around responsible investment and corporate governance.</p> |
| Counterparty Risk | | The risk that a counterparty involved in a transaction may default on its contractual obligation. | The Trustee has contracts in place with all third party providers which will include appropriate liability clauses. |

The items listed above are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

- 18.4 The policy for exercising rights including voting rights detailed in section 20 below also applies to the default investment option.

19. **Selection, Retention and Realisation of Investments**

- 19.1 The selection, retention and realisation of assets is carried out in a way consistent with the Scheme's investment strategy and with the overall principles set out in this Statement.
- 19.2 In general, the Scheme's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those

investments within each fund (including funds used within the Scheme's default investment option).

- 19.3 Sales of pooled fund units are made in response to member requests.

20. **ESG, Stewardship and Climate Change**

- 20.1 The Trustee believes that environmental, social, and corporate governance (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 as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration. The investment strategy of the DC Section has been determined using appropriate 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.
- 20.2 The Scheme's assets are invested in pooled vehicles and the day-to-day management of the assets has been delegated to Investment Manager(s), including the selection, retention and realisation of investments within their mandates. In doing so, the Trustee has given the Investment Manager(s) (where relevant to their mandate) 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.
- 20.3 Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the primary role of the passive manager is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set for the DC Section of the Scheme.
- 20.4 Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.
- 20.5 The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing Investment Managers is undertaken on a regular basis and this makes use of the Investment Consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis.
- 20.6 The Trustee does not engage directly but believes it appropriate for its Investment Managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks.

- 20.7 The Trustee aims to monitor its Investment Managers' engagement activity on an annual basis in conjunction with its Investment Consultant. Where the Trustee deems it appropriate, any issues of concern will be raised with the Investment Managers for further explanation. The Trustee and its Investment Consultant may also challenge the Investment Managers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the assets.
- 20.8 The Trustee has not set any investment restrictions on the appointed investment manager(s) in relation to particular products or activities, but may consider this in future.
- 20.9 Unless considered as a result of work undertaken by the Trustee on the DC Section of the Scheme, the Trustee will not consider the ESG policies of Additional Voluntary Contributions providers and associated investment funds as these are a small proportion of total assets.

21. Implementation and Engagement Policy

21.1 Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the management of the asset class that is offered to members

The Trustee will seek guidance from the Investment Consultant, where appropriate, for their forward looking assessment of a manager's ability to outperform over a full market cycle for actively managed mandates and to track indices for passively managed mandates. 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 DC Section of the Scheme invests in. The Investment Consultant's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

The Trustee 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.

Where the Trustee invests 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.

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 using their specific investment process. If the Trustee is dissatisfied, then they will look to review the appointment.

21.2 Evaluating Investment Manager Performance

The Trustee receives investment manager performance reports. The Trustee reviews the performance against a suitable index used as the benchmark.

The Trustee focuses on long term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or the team responsible;
- There is a change in the underlying objectives or process of the investment manager; or
- There is a significant change to the Investment Consultant's rating of the manager.

21.3 Portfolio Turnover Costs

The Trustee monitors portfolio turnover costs, as part of the consideration of transactions costs, on an annual basis as part of its annual governance statement and value for members assessment.

21.4 Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. The Trustee will therefore 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 basis on which the manager was appointed changes materially (e.g. manager fees or investment process); or
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

22. Compliance with and Review of this Statement

22.1 The Trustee will monitor compliance with this Statement.

22.2 On a regular basis, the Trustee will review this Statement. It will also do so in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Employer, which it judges to have a bearing on the stated Investment Policy.

22.3 In the case of the DB Section, the regular review will occur no less frequently than every three years. Any such review will again be based on expert investment advice and will be carried out in consultation with the Employer. In the case of the DC Section, the Trustee will review the default lifestyle strategy at least every three years.

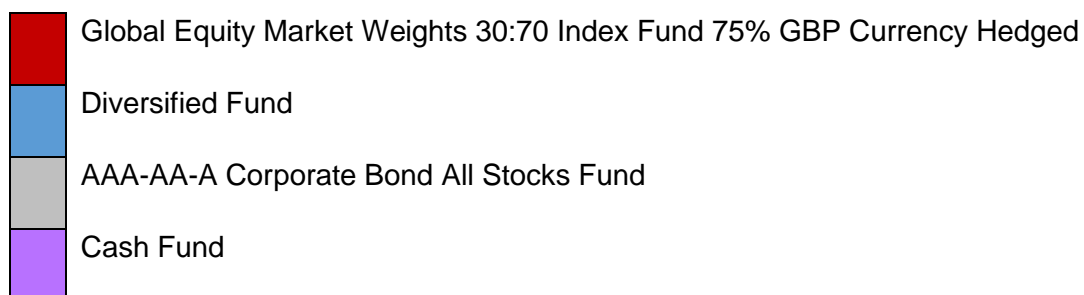
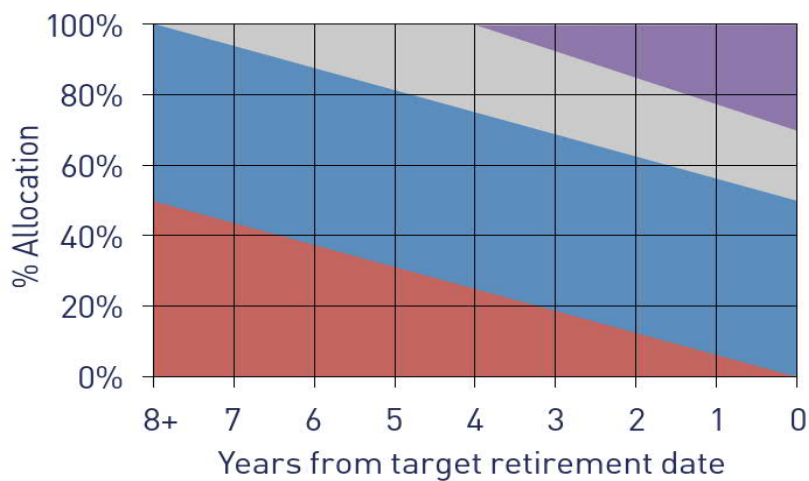
The Trustee of the Barratt Group Pension & Life Assurance Scheme

September 2020

Appendix 1 – Default Investment Option

The Variable Income Lifestyle is the default investment option for new members joining the Scheme and for a small proportion of the Scheme, the Secured Income Lifestyle remains appropriate following changes implemented in October 2019.

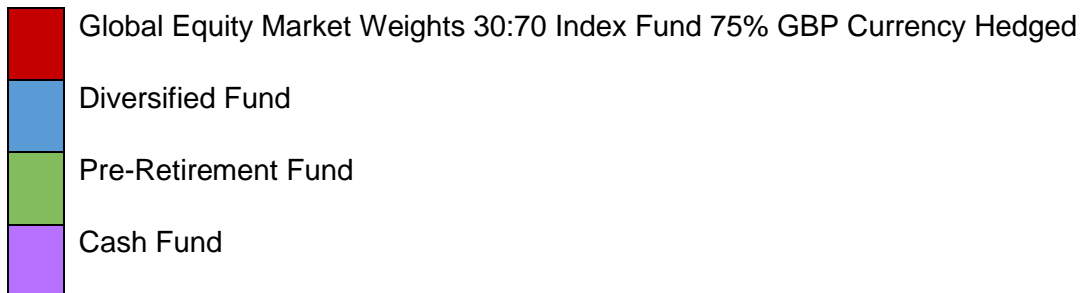
The glidepath for the default investment option is shown below. During the ‘growth phase’, the assets will be invested 50% in the Diversified Fund and 50% in the Global Equity Market Weights 30:70 Index Fund 75% GBP Currency Hedged. This phase continues until the member is within eight years of their Selected Retirement Age, after which assets gradually switch to being invested 50% in the Diversified Fund, 20% in the AAA-AA-A Corporate Bond All Stocks Fund and 30% in the Cash Fund as shown below.



Appendix 2 – Additional Lifestyle Options

Secured Income Lifestyle

The Secured Income Lifestyle strategy has the same growth phase as the Variable Income Lifestyle strategy; however, over the eight years to Selected Retirement Age, assets will gradually be invested into 75% in the Pre-Retirement Fund and 25% in the Cash Fund at retirement, as shown below.



Cash Lifestyle

The Cash lifestyle strategy also has the same growth phase as the Variable Income Lifestyle and Secured Income Lifestyle strategies; however, over the eight years to Selected Retirement Age, assets will be invested similarly to the Variable Income Lifestyle but will be invested 100% in the Cash Fund at retirement, as shown below.

