

Compass Group Pension Plan **Statement of Investment Principles for Defined Contribution default arrangements**

The Trustee is required to prepare a statement of the principles governing investment decisions for assets held in the Compass Group Pension Plan ('the Plan'). This document describes the investment principles followed by the Trustee in relation to the Plan's defined contribution default arrangements.

This document has been prepared having obtained appropriate written advice from the Plan's investment consultant, Aon Investments Limited ('Aon').

This document will be reviewed regularly and, in particular, when there is a significant change in the Plan's defined contribution default arrangements or membership.

The defined contribution default arrangements apply to the following funds, unless members specified their own fund choice:

- Additional Voluntary Contribution funds transferred from Utmost Life and Pensions to Legal & General; and
- Defined Contribution funds transferred from M&G and Prudential to Legal & General.

Aims & Objectives

The key aim for the default arrangements is to provide a strategy that is likely to be suitable for meeting members' long and short-term investment objectives, taking into account members' term to retirement.

When setting the default arrangements, the Trustee considered the following:

- The need for appropriate diversification of asset classes.
- The differing investment priorities for members, depending upon their term to retirement.

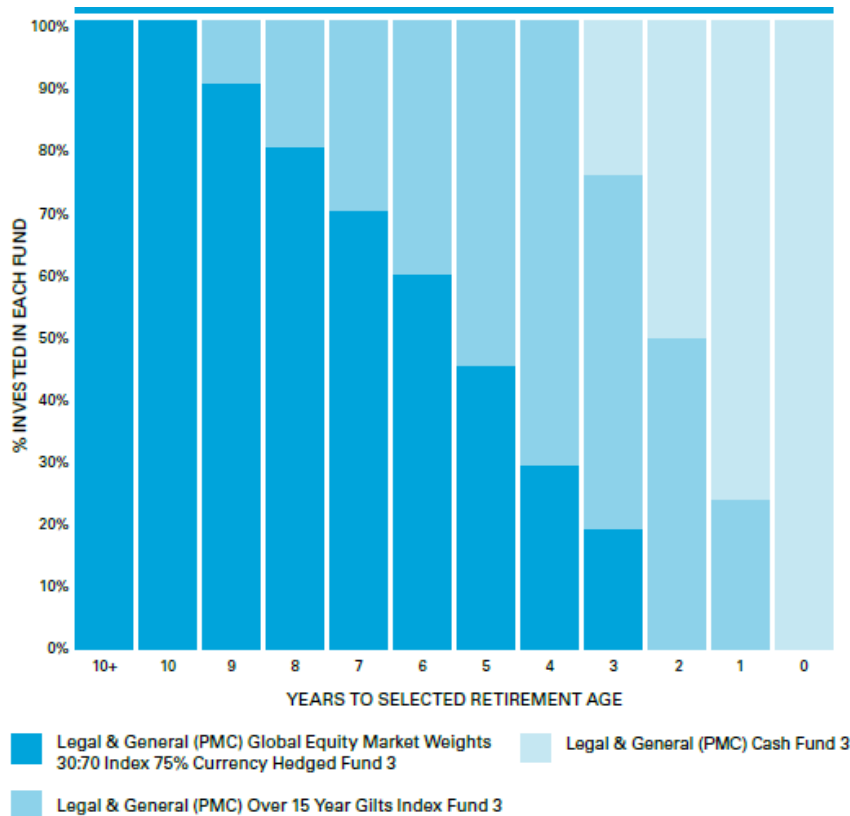
For members who had not yet reached normal retirement age at the time of their transfer, the default arrangement was initially the Legal & General (PMC) Global Equity Mixed Weights 30:70 Index 75% Currency Hedged 10 Year AVC Lifestyle Strategy. The Trustee moved members invested in the Legal & General (PMC) Global Equity Mixed Weights 30:70 Index 75% Currency Hedged 10 Year AVC Lifestyle Strategy who were more than 10 years from selected retirement age to the Legal & General Cash Lifestyle Strategy on 28 May 2024. We refer to these strategies as the former primary default arrangement and the new primary default arrangement respectively in this statement.

For members who were at or past normal retirement age at the time of their transfer, the default arrangement is the Legal & General (PMC) Cash Fund. This fund was chosen to minimise market volatility for members past retirement age, on the assumption they would take benefits in the very near future. Although the cash fund is not an ideal investment for members who intend to buy an annuity in the future, most of these members have a GMP underpin or are expected to take their funds as a cash lump sum. We refer to the Legal & General (PMC) Cash Fund as the secondary default in this statement.

The aim of the former primary default arrangement is to provide members with potential for higher levels of growth during the accumulation of their retirement

savings through exposure to equities. Members who are more than 10 years from retirement age can withstand the volatility associated with equity investment as their fund has sufficient time to recover stock market losses. Investments are then gradually switched to lower risk investments with the aim of reducing volatility. The gradual switch to lower risk funds means members have a greater chance of recovering losses if their fund starts to switch when markets are at a low point.

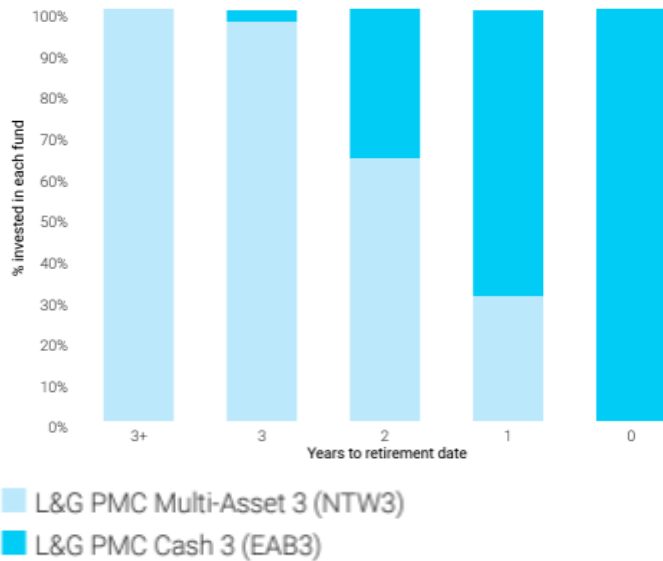
The structure of the former primary default arrangement is shown in the chart below.



Source: Legal & General

The aim of the new primary default arrangement is to provide members with potential for long-term investment growth through exposure to a diversified range of asset classes whilst they are more than three years from retirement age. Investments are then gradually switched to the Legal & General (PMC) Cash Fund with the aim of reducing volatility.

The structure of the new primary default arrangement is shown in the chart below.



Source: Legal & General

The aim of the secondary default arrangement is to preserve the defined contribution pension savings members have built up in the Plan, ready for when they take retirement benefits.

The investment objectives for each fund used in the default arrangements are set out below.

Fund	Benchmark	Investment objective
Former primary default arrangement – the Legal & General (PMC) Global Equity Mixed Weights 30:70 Index 75% Currency Hedged 10 Year AVC Lifestyle Strategy		
Legal & General (PMC) Global Equity Market Weights 30:70 Index 75% Currency Hedged	Composite benchmark	To capture the total returns of the UK and overseas equity markets as represented by the FTSE All-Share Index in the UK and the FTSE All World (ex UK) Index overseas while maintaining a fixed 30/70 weighting between the UK and the overseas assets. A total of 75% of the overseas assets (excluding emerging markets) will be currency hedged to sterling (exposure to emerging market currencies will be left unhedged).
Legal & General (PMC) Over 15 Year Gilts Index	FTSE A Government (Over 15 Year) Index	To track the performance of the its benchmark index (before charges) to within +/- 0.25% each year for two years out of three
Legal & General (PMC) Cash	IA Short Term Money Market	To provide capital protection with growth at short term interest rates.
New primary default arrangement – the Legal & General Cash Lifestyle Strategy		
Legal & General (PMC) Multi-Asset Fund	Not applicable	To provide long-term investment growth through exposure to a diversified range of asset classes.

Legal & General (PMC) Cash	IA Short Term Money Market	To provide capital protection with growth at short term interest rates.
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Secondary default arrangement – the Legal & General (PMC) Cash Fund

Legal & General (PMC) Cash	IA Short Term Money Market	To provide capital protection with growth at short term interest rates.
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Source: Legal & General

Governance

The Plan is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement.

The Trustee has set up a separate Investment Committee to monitor investment performance and to make recommendations on investment strategy and implementation to the full Trustee Board. The Investment Committee has certain limited decision-making powers which are set out in its Terms of Reference but these must then be reported in full to, and ratified by, the Trustee Board. Both the Trustee and the Company are represented at Investment Committee meetings.

However, the ultimate responsibility for deciding the Plan’s investment policy lies solely with the Trustee, although it consults with the employer on these issues either direct or via discussions at Investment Committee meetings.

The Trustee is satisfied that it has sufficient expertise, information and resources, or access thereto, to carry out its role effectively.

Realising investments

The default arrangements are invested in liquid assets and funds are dealt daily. Members’ pension savings can therefore be realised at short notice.

Risk

The Trustee recognises the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the default arrangements for the Plan.

In particular, the Trustee has considered the following risks in respect of the default arrangements:

- **Suitability** - the risk that the default arrangement will be unsuitable for the requirements of some members. The Trustee has taken steps to mitigate this risk by (i) offering defined contribution members the option to choose how their transfer would be invested, from the investment options available through the Legal & General arrangement. (ii) Providing members with online access to their Legal & General pension accounts so they can easily switch to an alternative investment option and (iii) by reviewing the suitability of the default arrangements, in view of the format in which members can take their benefits, and investment options available at the time, every three years.
- **Market risk** – the value of policies allocated for member benefits fluctuate with the movement in the underlying asset values. This means that when a

member takes retirement benefits, there is a possibility that the fund will have to be realised to provide retirement benefits at an inopportune time. The default arrangement for members who have not reached normal retirement age automatically switches into lower risk funds as members approach retirement with the aim of reducing volatility. The default arrangement for members at, or past, normal retirement age aims to minimise market risk by holdings funds in cash.

- **Annuity purchase risk** – the Lifestyle Profile switches investments to gilts and then cash as members approach retirement. For members who purchase an annuity with their funds, more expensive annuity rates could coincide with a time when the members' DC funds have lost value due to market fluctuations. To help mitigate this risk, the Lifestyle Profile switches to cash over the 3 years to normal retirement age, however the Lifestyle Profile does not protect against the impact of annuity rate changes.
- **Credit risk** – the risk of the provider / manager being unable to meet its financial obligations. Although it has not been tested in practice, the funds held in the Legal & General policy would be protected by the Financial Services Compensation Scheme, if Legal & General were unable to meet its obligations. The Trustee seeks to mitigate this risk further by offering only internally managed Legal & General funds to members and by considering the financial strength of Legal & General in the review undertaken every three years.
- **Inflation risk** – the absolute return on investments, and hence the value of the members' pension savings may be diminished by inflation. To help mitigate this risk, the fund used during the growth phase invests entirely in equities with the aim of providing real growth (in excess of inflation) over the long term.
- **Manager risk** - the failure of the fund managers to meet their objectives. The Trustee has sought to minimise this risk by using passively managed funds wherever feasible in the default arrangements.
- **Operational risk** – i.e. the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially).

Review and Control

The Trustee is satisfied that it has adequate resources to monitor the defined contribution default arrangements.

The Trustee receives, on a quarterly basis, a written report on the returns of the default arrangements together with supporting analysis such as benchmark returns.

The Trustee reviews from time to time the services provided by Aon, Legal & General and other service providers as necessary to ensure that the services provided remain appropriate for the Plan.

Some areas of review and control are delegated to the Investment Committee. The areas in which this committee can act are set out in its Terms of Reference.

Cost and Transparency

The Trustee recognises the importance of monitoring the level of investment costs incurred in the management of the defined contribution default arrangements and the impact these can have on the value of the assets. Although 'net of all costs' performance assessments provide an incentive for Legal & General to manage these costs the Trustee believes that regular and consistent monitoring of the costs will help to reduce any inefficiencies in the cost structure.

Cost Transparency

Investment management fees are determined as fixed percentages, which do not include performance elements. The Trustee believes that this is the most appropriate way in which to remunerate Legal & General.

The investment consulting fees payable to Aon are invoiced separately and are not borne by members.

The Trustee expects Legal & General to provide full cost transparency in line with industry standard templates.

The Trustee assesses the remuneration of Legal & General on an annual basis. This involves asking Legal & General to provide details of the costs incurred in managing the defined contribution default arrangements, using industry disclosure templates. These costs include portfolio turnover costs (transaction costs). Where the disclosed costs are out of line with expectations Legal & General will be asked to explain the rationale, including why it is consistent with its investment strategy.

Portfolio Turnover

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a reasonable level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

Evaluation of Performance and Remuneration

The Trustee undertakes analysis of the costs and performance for the defined contribution default arrangements on at least a triennial basis by receiving benchmarking analysis comparing the Plan's specific costs and performance of the underlying managers relative to those of the wider market. This is in line with the Trustee's policies on reviewing the kinds and balance of investments held.

Responsible Investment

The Trustee believes that in order to fulfil its commitment to act in the best financial interests of the Plan and its beneficiaries, it must act as a responsible steward of the assets in which the Plan invests.

Environmental, social and governance considerations

The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance ('ESG') factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of its delegated responsibilities, the Trustee expects Legal & General to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Plan's defined contribution default arrangements.
- As part of ongoing monitoring of Legal & General, the Trustee will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the integration of ESG on a periodic basis.
- Regarding the risk that ESG factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers the risk that ESG factors including climate change negatively impact the value of investments held if not understood and evaluated properly by taking advice from Aon when monitoring Legal & General's performance and suitability.
- The Trustee will include ESG-related risks, including climate change, on the Plan's risk register as part of ongoing risk assessment and monitoring.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan's defined contribution default arrangements are invested, , as ultimately this creates long-term financial value for defined contribution members.

The Trustee regularly reviews the suitability of Legal & General and takes advice from Aon with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by Legal & General. If Legal & General is found to be falling short of the standards the Trustee has set out in its policy, the Trustee undertakes to engage with Legal & General and seek a more sustainable position but may look to replace Legal & General.

The Trustee reviews the stewardship activities of Legal & General on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of Legal & General and ensure Legal & General uses its influence as a major institutional investor to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The defined contribution default arrangements are invested in pooled funds, which may result in indirect exposure to sectors or companies with higher ESG risks. The Trustee's expectation is that Legal & General will actively engage with companies it invests in to improve standards and influence behaviours.

The Trustee, through Aon, will engage with Legal & General as necessary for more information, to ensure that robust active ownership behaviours, reflective of its active ownership policies, are being actioned.

The transparency for voting should include voting actions and rationale with relevance to the defined contribution default arrangements, in particular, where: votes were cast against management; votes against management generally were significant and votes were abstained. Where voting is concerned the Trustee expects its asset managers to recall stock lending, as necessary, in order to carry out voting actions.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with Legal & General and other stakeholders. This may be on matters concerning an underlying asset, including its performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Policy on investing in illiquid assets

Whilst the Trustee does not invest in illiquid assets directly, the Trustee may hold illiquid investments on behalf of DC members within wider pooled funds in the new default arrangement.

The Trustee expects the vast majority of the underlying holdings in the Legal & General (PMC) Multi-Asset Fund to be liquid, but on occasion the underlying investment managers may allocate to underlying illiquid investments. Specifically, the Legal & General (PMC) Multi-Asset Fund may invest in private equity, infrastructure and forestry, for example. These are at the discretion of the investment manager, and the allocations may increase or decrease over time.

Whilst the Trustee recognises that illiquid investments may be associated with higher costs and liquidity risks, it nevertheless believes that the benefits of diversification and access to an illiquidity premium should benefit members in the long term. The Trustee also believes the underlying managers are best placed to use their discretion as to the appropriateness of holding illiquid investments in the Fund at any particular time, and to use the liquid portions of the Fund to ensure members have sufficient access to liquidity. Overall, each underlying fund is still expected to provide full daily liquidity.

Arrangements with Legal & General

The Trustee monitors the defined contribution default arrangements to consider the extent to which the investment strategy and decisions of Legal & General are aligned with the Trustee's policies. This includes monitoring the extent to which Legal & General:

- makes decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engages with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by Aon.

The Trustee receives annual stewardship reports on the monitoring and engagement activities carried out by Legal & General, which supports the Trustee in determining the extent to which its engagement policy has been followed

throughout the year. This is incorporated into the Plan's Implementation Statement.

The Trustee shares the policies, as set out in this SIP, with Legal & General, and requests that Legal & General reviews and confirms whether its approach is in alignment with the Trustee's policies.

Before appointment of a new investment manager, the Trustee would review the governing documentation associated with the investment and consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the defined contribution funds are to be invested in a collective vehicle, then the Trustee will express its expectations to the investment managers in by other means (such as through a side letter, in writing, or verbally at meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to Legal & General by other means (where necessary), and regular monitoring of Legal & General's performance and investment strategy, is in most cases sufficient to incentivise it to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where Legal & General is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with Legal & General but could ultimately replace it where this is deemed necessary.

There is no set duration for the arrangements with Legal & General, although its continued appointment will be reviewed periodically, and at least every three years.

The Trustee believes it has a duty as institutional investors to invest in a responsible manner and where appropriate will query managers on the rationale for holding positions in companies who contribute significant negative externalities to society.

Non-Financial Factors

In setting and implementing the investment strategy for the defined contribution arrangements, the Trustee does not explicitly take into account non-financial factors.

The Trustee of the Compass Group Pension Plan

P N Whittome

20 September 2024