

Statement of Investment Principles

Shaw Group Pension Scheme

September 2019

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1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees of the Shaw Group Pension Scheme (the "Trustees") on various matters governing decisions about the investments of both the NHS Final Salary Section, which is the defined benefit ("DB") section, and the defined contribution ("DC") section of the Shaw Group Pension Scheme (the "Scheme").

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory ("Quantum"), the Trustees' actuaries and investment consultants, and after consulting Shaw healthcare (Group) Limited (the "Sponsoring Employer") as required by the Pensions Act 1995 (the "Act") and subsequent legislation. Quantum has the knowledge and experience required under Section 36(6) of the Act.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Act and Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Regulations"). The SIP also reflects the Trustees' response to the voluntary code of investment principles set out in Paul Myners' publication "Institutional Investment in the United Kingdom: A Review". The Pension Regulator's Code of Practice 13, which was published in July 2016, has also been considered by the Trustees when drafting this SIP.

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed. The SIP also takes into account the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018 for policy on financially material considerations, including Environmental, Social and Corporate Governance ("ESG") factors (including climate change), their stewardship policy (voting and engagement) and their approach to member views (if any).

2. DB – Investment objectives and strategy

2.1. Investment policy

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The Trustees are aware of the need to invest assets in the best and sole interest of the members and beneficiaries and in a manner which helps ensure that the benefits promised to members are provided. It also noted that powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

The Trustees recognise that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustees, with the help of their advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of their objectives and other related matters in 2011.

The Trustees noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which has bond-like characteristics.

Over the long term, meeting these objectives requires that a rate of return is achieved which exceeds the rate of return available on risk free assets. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

2.3. The Trustees' policy for securing their target Scheme Specific Funding level?

The Trustees' policy is to endeavour to attain a Scheme Specific Funding (SSF) level of 100% or more of the Technical Provisions (as set out in the Statement of Funding Principles) by the end of a reasonably prudent recovery period.

The Trustees believe that its current investment strategy remains consistent with the SSF regime.

2.4. What did the Trustees consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustees considered:

- the investment objectives;
- the Scheme's characteristics;
- investment management and other charges;

- the risks and rewards of alternative asset classes and investment strategies;
- the expectation that, over the long-term, equities and property are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate diversification between different asset classes;
- the difficulty for active managers to outperform stock markets;
- the financial strength of the investment manager;
- the financial strength of the investment manager's custodian; and
- the strength of the Sponsoring Employer's covenant to support the Scheme.

2.5. What risks were considered and how are they managed?

In order to achieve its objectives, the Trustees recognise the need to invest across the risk spectrum. The Trustees identified the following investment risks:

- the risk of a deterioration in the Scheme's funding level;
- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not achieve the expected rate of return;
- the risk that the value of technical provisions will increase due to unknown factors such as increased inflation and/or life expectancy;
- the risk of mis-match between the value of Scheme assets and technical provisions;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate cash flow requirements;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets;
- the imprecision of the ways in which risks are to be measured and managed;
- the risk of a deterioration of the Sponsoring Employer's covenant; and
- the risk that ESG factors, including climate change, adversely impact the value of the Scheme's assets if this is not given due consideration and/or misunderstood.

The Trustees recognise these different types of risk and seek to minimise them as far as possible by the use of regular monitoring of investment performance, by a deliberate policy of diversification, by taking account of future payments and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme objectives.

Given the complex and correlated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

2.6. What is the investment strategy?

The investment strategy uses two key types of assets:

- "matching assets": which exhibit characteristics similar to those of the Scheme's liabilities. Typically, matching assets are low risk fixed income investments and the return from them is similar to the return on UK government bonds (referred to as the 'minimum risk' return);

- “return seeking assets”: which target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets which, over the long term, might be expected to deliver 3% to 4% pa above the minimum risk return.

Following the investment strategy review in July 2011, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, which support the Scheme’s investment objectives. Details of this are set out in the DB - Appendix.

2.7. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Scheme. These pooled funds are accessed through an implementation solution provider, Mobius Life Limited. Details of the funds, manager, styles, benchmarks and target returns used by the Scheme can be found in DB - Appendix.

2.8. Cashflow and re-balancing

The Scheme invests contributions into the portfolio each month following the asset split as set out in the DB Appendix. When additional cashflow is required, the Scheme disinvests from the most overweight fund in accordance to the asset split. The split is reviewed during the Scheme’s Actuarial Valuation which can lead to rebalancing back to the agreed asset split if sufficiently adrift.

2.9. Investment in the Sponsoring Employer

The Trustees do not hold any direct investment in the Sponsoring Employer.

3. DB – Investment strategy for Additional Voluntary Contributions (AVCs)

3.1. How was the investment strategy determined?

It is possible for active members of the DB section of the Scheme to pay AVCs into the Scheme. Any AVCs paid will be invested in accordance with the strategy for the DC section which is outlined in this statement.

The Trustees have a responsibility to provide a suitable investment vehicle for the investment of members' AVC accounts. In deciding upon the AVC fund strategy to offer, the Trustees considered the same objectives and risks as when setting the DC investment strategy as detailed in this statement (see section 4).

The Trustees have also taken into account members' potential circumstances, members' potential attitudes to risk and the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns, in deciding on the AVC fund strategy to make available to members.

The Trustees keep the suitability and performance of these investments under review.

4. DC – Investment objectives and strategy

4.1. Investment objectives

The Trustees, with the help of their previous advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of their objectives and other related matters.

The Trustees' key aim is to provide investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' potential circumstances, in particular members' attitudes to risk and how this might vary with the term to retirement.

The Trustees noted that powers of investment must be exercised in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Trustees are aware of the need for assets to be invested in the best and sole interest of the members and beneficiaries and in a manner which helps ensure that the members' benefit aspirations are met.

4.2. What is the investment strategy?

The Scheme's default investment strategy allows members to invest in a range of pooled funds, including funds that aim to protect the value of the capital invested closer to retirement. The strategy was last reviewed in 2017.

The Trustees have set a "Lifestyle" investment strategy. The strategy was chosen to try to maximise expected long term investment returns, but with greater capital and annuity purchase protection as members near retirement, to fulfil their objectives. Details of this are set out in the DC - Appendix.

The Trustees also allow members to select their own funds (the 'Self-select strategy').

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Scheme. These pooled funds are accessed through an implementation solution provider, Mobius Life Limited. Details of the funds, manager, styles, benchmarks and target returns used by the Scheme can be found in DC - Appendix.

4.3. What did the Trustees consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustees considered:

- the investment objectives;
- the Scheme's characteristics;
- the Annual Management Charges (AMC);
- which equals the Total Expense Ratio (TER);
- Legal and regulatory obligations including the charge cap on "Member Bourne Deductions" for the DC section of the Scheme of 0.75%;
- the risks and rewards of alternative asset classes and investment strategies;
- the expectation that, over the long-term, equities are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate member choice to be available between different asset classes;
- the difficulty for active managers to outperform stock markets;
- the terms of the implementation solution by conducting a legal review of their policy documents;
- the financial strength and reputation of the investment managers; and
- the financial strength of the investment managers' custodians.

4.4. What risks were considered and how are they managed?

The Trustees identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that the investment managers will not achieve the expected rate of return;
- the risk that the real value of members' funds will fall due to increased inflation;
- the risk that members' funds experience high levels of volatility at retirement;
- the risk that annuity prices are high at retirement;
- the risk that members will invest too cautiously to achieve the return necessary to meet their benefit aspirations;
- the risk that members will invest too high a proportion of their funds in inappropriate asset classes;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of members' funds;
- the ways in which risks are to be measured and managed; and
- the risk that ESG factors, including climate change, adversely impact the value of the Scheme's assets if this is not given due consideration and/or misunderstood.

The Trustees recognise these different types of risk and seek to minimise them as far as possible by:

- regular monitoring of investment performance;
- educating members;
- manager policies; and
- reviewing ongoing appropriateness of strategy.

5. Appointment of investment managers

This section applies to the DB and DC sections of the Scheme.

5.1. How many investment managers are there?

The Scheme accesses its investment funds through Mobius Life Limited (“Mobius Life”), an implementation solution provider. Details of the underlying investment managers and funds are outlined in the Appendix, and further information concerning the implementation solution is set out in section 6.

5.2. What formal agreements are there with the investment managers?

The Trustees have signed policy documents with Mobius Life on behalf of each section of the Scheme.

5.3. What are the investment manager's responsibilities?

The investment managers are responsible for the day-to-day investment management of the investments and are responsible for appointing custodians if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

5.4. Custodians and administrators

The Scheme’s investments are through pooled investment vehicles. There is, therefore, no need for the Trustees to formally appoint custodians as the investment comprises policy units rather than the underlying stocks and shares. However, each manager has appointed a third party for the safe custody of assets held within the policies.

As all of the funds are held via Mobius Life, custody of the assets is held under the Mobius Life name.

6. Implementation solution

This section applies to the DB and DC sections of the Scheme.

6.1. Implementation solution

An implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place. This allows greater flexibility and efficiency when switching investments as the Scheme strategy changes or fund managers have to be replaced.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, assisting in ensuring that an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation, potential for access to wider fund universe, and potential fee reductions through economies of scale.

6.2. Accessing an implementation solution

Pension schemes enter into a unit linked life policy through a Trustee Investment Policy (“TIP”). The policy’s value is linked to the underlying investments, which the implementation solution provider, in this case Mobius Life, has been directed to purchase. Mobius Life is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that a pension scheme would have had with their fund managers where they would have invested directly with these managers and maintained a number of these individual relationships.

6.3. Safe guarding and protection of Mobius Life assets

There are a number of regulatory layers of protection in relation to the Scheme’s assets with Mobius Life. The key points to note are set out below.

- The Scheme’s assets are held in a Pooled Life Fund, which is held separately to Mobius Life’s shareholder and other Company assets.
- Submissions are made to the Prudential Regulation Authority and Financial Conduct Authority on a regular basis, which require the Mobius Life Board and an independent qualified actuary, the Actuarial Function Holder, to monitor the solvency of the Mobius Life business in relation to regulatory capital requirements. Mobius Life have appointed an independent qualified actuary to carry out this function, and any regulatory capital calculations are audited by the independent auditors.
- Mobius Life undertakes an annual Own Risk and Solvency Assessment (ORSA) together with the Actuarial Function Holder, as part of regulatory requirements of running an insurance company.

In Mobius Life’s Security of Assets document, they state that Mobius Life is a regulated life insurance company, the Scheme has access to the Financial Services Compensation Scheme (“FSCS”) in the event of Mobius Life becoming either insolvent or liquidated. The level of cover provided by the FSCS is currently 100% of the policy value when investing in insurance policies, with no upper limit, if Mobius Life defaults.

7. Other matters

This section applies to the DB and DC sections of the Scheme.

7.1. What is the Trustees' policy on the realisation of investments?

The assets are held in pooled funds, most of which can be realised easily if the Trustees so require.

7.2. How are the various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated on a fee basis, with budgets agreed for projects where appropriate. Where this approach is not possible, Quantum is remunerated on a time-cost basis. Quantum does not receive commission from the investment managers.

The investment managers are remunerated on a fee that is calculated as a fixed percentage of the total Scheme's funds held under management, plus the agreed fixed amount. These structures have been chosen to align the fund managers' interests with those of the Scheme. In addition, the fund manager pays commissions to third parties on the trades they undertake in the management of the assets. The Trustees seek to obtain annual statements from the investment managers setting out all the costs of the investments of the Scheme. This is to ensure that the costs incurred are commensurate with the services received.

7.3. Financially material considerations, non-financial matters and stewardship policies

7.3.1. Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme's investments (both in terms of risk and return) arising from financially material matters. The Trustees define these as including, but not limited to, ESG factors (including climate change).

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustees acknowledge that a large proportion of the Scheme's investments are implemented on a passive basis. This restricts the ability of the manager to take active decisions on whether to hold securities based on the investment managers consideration of ESG factors. The Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers, but may consider this in future.

7.3.2. Stewardship

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

7.3.3. Non-financial matters

The Trustees consider non-financial factors (where members have been forthcoming with their views) however the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.

7.4. Do the Trustees take any investment decisions of their own?

The Trustees are responsible for the investments of the Scheme's assets. They take some decisions themselves collectively and delegate others.

When deciding which decisions to make themselves, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision making structure:

Trustees

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisers and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the SIP.

Investment adviser

- Advise on all aspects of the investment of the Scheme's assets, including implementation.
- Advise on this Statement.
- Provide required training.

Investment (or fund) managers

- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

Implementation solution

- Facilitate the investment of assets in line with instructions received from the Trustees.

7.5. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract (e.g. units in pooled vehicle) and those where a product is purchased directly (e.g. the purchase of an insurance policy). The latter are known as direct investments.

The Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals. These include the vehicles available for members' AVCs. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, they will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

8. Review

The Trustees will, after significant changes in policy and at least every three years, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate.

The Trustees review the quarterly investment performance reports from the investment manager. The Trustees seek assistance from Quantum to review manager performance when they consider this appropriate.

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Signature

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Name

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Title

For and on behalf of the Trustees of the Shaw Group Pension Scheme

DB – Appendix

Investment manager

The Trustees have appointed Legal & General Investment Management (“LGIM”) to manage the Scheme’s investments. These investments are accessed through the Mobius Life implementation solution.

Investment strategy

The Trustees’ long term investment strategy is to split the Scheme’s assets as follows:

- 75% is to be invested in a Global Equity Fund
- 25% is to be invested in an Index-Linked Gilt Fund

The investment strategy is designed to achieve a return which is higher than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme’s liabilities.

Fund allocation

Manager	Fund	Target Asset Allocation
LGIM	Global Equity (70:30) Index	75%
LGIM	Over 5 Year Index-Linked Gilt	25%

All positive cash flow will be invested in line with the target asset allocation.

The asset allocation relative to the target asset allocation will be reviewed during each Scheme Actuarial Valuation.

Fund objectives

Global Equity (70:30) Index Fund

The Global Equity (70:30) Index Fund aims to provide diversified exposure to the UK and overseas equity markets. A 70/30 distribution between UK and overseas assets is maintained with the overseas allocation mirroring that of the FTSE All-World (ex UK) Index series. This includes developed and emerging markets.

Each individual asset class invests via LGIM's index funds, which, as they invest in the majority of the stocks available within their respective indices, have a significantly reduced risk of under-performing their market by a wide margin.

Over 5 Year Index-Linked Gilt Index Fund

The aim of the Over 5 Year Index-Linked Gilt Index Fund is to track the performance of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index to within +/-0.25% p.a. for two years out of three.

DC – Appendix

Default strategy

Investment manager

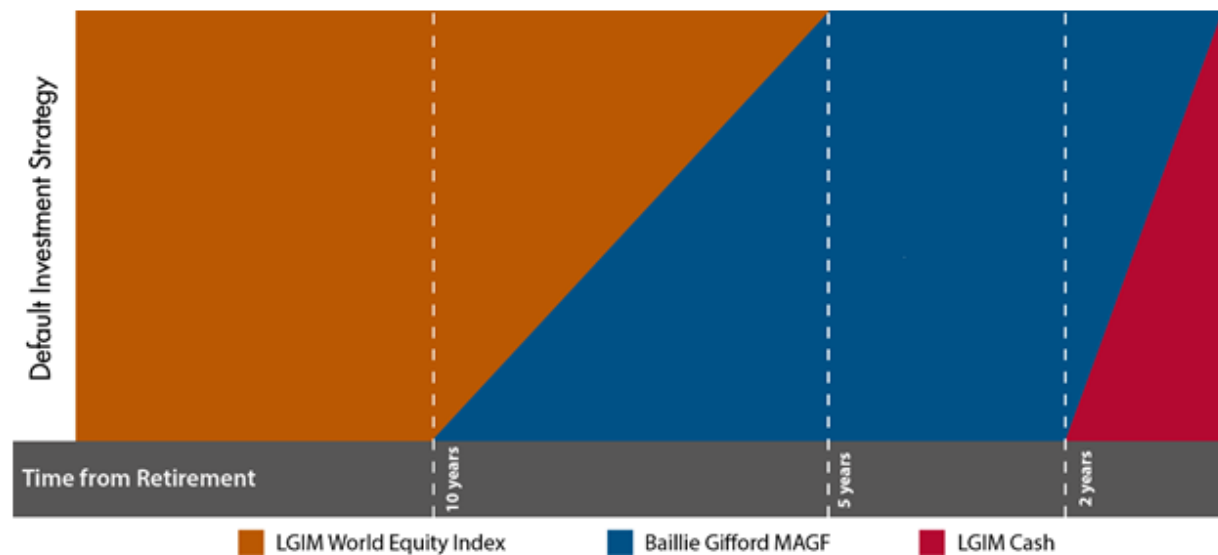
The Trustees have appointed LGIM and Baillie Gifford to manage the Scheme’s investments. These investments are accessed through the Mobius Life implementation solution.

Investment strategy

Default strategy

The current investment strategy for the DC section of the Scheme uses the ‘Lifestyle’ strategy set out below.

The Lifestyle strategy adopted will provide for all assets to be invested in the LGIM World Equity Index Fund until 10 years from each member’s Target Retirement Age. Monies then held in the member’s individual account will gradually be switched into the Baillie Gifford Multi Asset Growth (“MAGF”) Fund. At 2 years from each member’s Target Retirement Age, monies will be gradually switched into the LGIM Cash Fund until the member reaches retirement. At this stage the member will be 100% in the LGIM Cash Fund. This gradual switch realigns members’ monies on a monthly basis in line with the annual reallocation detailed in the lifestyle graph below.



The Trustees will make a member aware if they reach their target retirement age without taking their benefits. In this instance, the Trustees will discuss with the member if it is appropriate for them to change their target retirement age.

Self-select strategy

Information on the funds in the Scheme's default strategy and self-select strategy is presented in the table below.

Manager	Fund	Asset Class	TER (%)	Description
<i>LGIM</i>	<i>World Equity Index</i>	<i>Global equity</i>	<i>0.140</i>	The investment objective of the Fund is to track the performance of the FTSE World Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.
LGIM	Ethical Global Equity Index	Global equity	0.350	The investment objective of the Fund is to track the performance of the FTSE4Good Global Equity Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.
LGIM	UK Equity Index	UK equity	0.090	The investment objective of the Fund is to track the performance of the FTSE All-Share Index (less withholding tax where applicable) to within +/-0.25% p.a. for two years out of three.
<i>Baillie Gifford</i>	<i>Multi Asset Growth</i>	<i>Diversified Growth</i>	<i>0.565</i>	The aim of the Fund is to deliver attractive long-term returns with lower volatility than equity markets by investing in a diversified portfolio of assets. The performance objective is 3.5% p.a. ahead of UK base rates (net of fees) over rolling five year periods. They aim to deliver this return whilst limiting volatility to less than 10% p.a. over rolling 5 year periods.
LGIM	Managed Property	Property	0.720	The Fund aims to exceed the AREF/IPD UK Quarterly All Balanced Property Fund Index (UK PFI) over three and five year periods.
LGIM	AAA-AA-A Corporate Bond Index	Corporate bonds	0.125	The investment objective of the Fund is to track the performance of the Markit iBoxx £ Non-Gilts (ex-BBB) Index to within +/-0.5% p.a. for two years out of three.
LGIM	Over 15 Year Gilt Index	Government bonds	0.080	The investment objective of the Fund is to track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/-0.25% p.a. for two years out of three.
LGIM	Pre-Retirement	Bonds (annuity targeting)	0.125	The Fund aims to provide diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product.
<i>LGIM</i>	<i>Cash</i>	<i>Cash</i>	<i>0.100</i>	The Fund aims to perform in line with 7 Day GBP LIBID, without incurring excessive risk.

Please note: Funds in italics are part of the default strategy.

The TER is a measure of charges applied to the individual funds. It includes the Annual Management Charge ("AMC"), which covers those costs related to the ongoing management of the fund, as well as additional costs such as fund administration service costs, accounting and legal fees, and custodian and settlement charges.