Pendragon Group Pension Scheme

Defined Benefit Section

Statement of Investment Principles

Date prepared: June 2023

Date signed: June 2023

1 Introduction

1.1 This is the Statement of Investment Principles prepared by Pendragon Group Pension Trustees Limited ("the Trustee") as Trustee of the Pendragon Group Pension Scheme ("the Scheme"). This statement sets down the principles governing decisions about the Scheme's investments to meet the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.2 In preparing this statement, the Trustee has consulted with Pendragon plc ('the Employer'), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities. Consistent with the requirements of the Competition and Markets Authority, the Trustee monitors the appropriateness of their investment consultants against defined objectives.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustee are set out in Rule 18 of the Trust Deed & Rules, dated 24 September 2012. This statement is consistent with those powers.

2 Choosing Investments

2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in the Appendix to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will consult the Employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to reduce the risk of the assets failing to meet the liabilities over the long term; and
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Scheme is permitted to invest in a wide range of assets including equities, diversified growth funds, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives), Liability Driven Investment ("LDI"), Special Purpose Investment Vehicles ("SPIV") and annuity policies.

4.2 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's Auditor.

4.3 The Trustee has, having received advice from all relevant professional sources, invested in a Special Purpose Investment Vehicle ("SPIV"). This takes the form of a Central Asset Reserve ("CAR"). The CAR holds and will hold as an asset, real estate in the form of properties previously owned by the Employer.

The CAR has agreed leases with the Employer allowing the Employer to operate the properties for a period of 21 years. Under the terms of the leases, the Employer will pay an agreed rent to the CAR.

The CAR has been established as a Scottish Limited Partnership (SLP). By investing in the SLP, the Trustee has become a limited partner in the SLP and acquires the right to a guaranteed income stream for a specified period of time, under the terms of the partnership agreement. The CAR will be valued by an appointed Actuary at least annually.

In the event of the insolvency of the Employer, the Trustee will have recourse to the capital value of the property subject to agreed maxima determined by the solvency of the Scheme as advised by the Scheme Actuary.

The Trustee has been advised by the appointed legal adviser that this is not an Employer Related Investment (ERI).

The Trustee recognises that the investment falls into the classification of not being traded on regulated markets under the terms of the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will take ongoing investment advice to ensure that the value of this investment by comparison to the whole Scheme asset value does not exceed what the Trustee would consider to be prudent.

The Trustee has recognised that the CAR is potentially illiquid, owing to there not being an active market for this investment. However, the Trustee accepts this risk given the guaranteed nature of the income stream and in the event of employer insolvency, the Trustee will have recourse to physical property, which may be sold on the open market.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

6.2 **Risk versus the liabilities:** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Covenant risk:** The creditworthiness of the Employer and the size of the pension liability relative to the Employer's receipts from donations are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer's covenant.

6.4 **Solvency and mismatching:** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.5 **Asset Allocation risk:** The asset allocation is detailed in the Appendix to this Statement and will be monitored on a regular basis by the Trustee.

6.6 **Fund manager risk:** The Trustee monitors each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.7 **Concentration risk:** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.8 **Liquidity risk**: The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.9 **Currency risk:** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

6.10 **Loss of investment:** The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

6.11 **Environmental, Social and Governance ("ESG") factors:** The Trustee believes that ESG factors could be financially material. The Trustee has a policy to consider these, alongside other factors when selecting or reviewing the Scheme's investments and more details on the Scheme's approach is set out in appendix 2.

7 Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's fund managers as frequently as is appropriate in order to review performance.

8 Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.

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beyond the expected

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9 Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10 Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.9. The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.10. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.11. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.12. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.13. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers. For closed ended funds, the Scheme reviews the appointment with the investment manager as the manager releases new iterations of the funds (which the Trustees may consider further investment into) and at, or just prior to, maturity of the closed-ended fund.

10.14. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11 Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the fund managers, the Actuary and the Scheme Auditor upon request.

Signed: ………………………………………………………………

Date: ………………………………………………………………

On behalf of Pendragon Group Pension Trustees Limited, the Trustee to the Pendragon Group Pension Scheme

Appendix 1

Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

Policy on financially material considerations

The Trustee believes that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustee's views for each asset class in which the Scheme invests is outlined below.

Multi-asset funds

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching the investments by the Scheme's multi-asset fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Active Equity

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the equity markets. The Trustee accepts that fund managers will be guided by the fund's underlying benchmark and, therefore, may not be entirely unconstrained in relation to concerns relating to ESG. The Trustee therefore requires that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Credit

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings, across both private and public markets. The Trustee recognises that fixed income assets do not include voting rights, however, they support engagement with companies by their managers, particularly in private markets where the manager may be responsible for a larger share of any investment. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustee believes this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

General

The Trustee is comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out above. This position is monitored periodically, at least annually. In the future, the views set out above will be taken into account when appointing and reviewing managers.

The Trustee is comfortable that all of the investment managers are managing the respective funds with ESG taken into account as far as it is possible for that particular asset class and within applicable guidelines and restrictions.

Before considering any new mandate, the Trustee will require the manager to be a signatory to the United Nations supported Principles for Responsible Investment (PRI). At the time of writing, all of the Scheme's investment managers are PRI signatories.

The Trustee has instructed their investment advisors, Barnett Waddingham, to review how ESG issues are taken into account for each of the Scheme's mandates, and to report back on an annual basis against their beliefs for each asset class set out above. This reporting will be incorporated into the quarterly investment monitoring report that the Trustee receives.

Stewardship

Stewardship encompasses the exercise of rights (including voting rights) attaching to the Scheme's investments, and the engagement by and with investment managers.

The Trustee delegates responsibility for stewardship activities attaching to the Scheme's investments to its investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value. In addition to the exercise of voting rights, managers are expected to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.

The Trustee periodically reviews engagement activity undertaken by their investment managers to ensure that the policies outlined above are being met and may explore these issues with its investment managers as part of the ongoing monitoring of the ESG integration and stewardship activities of its investment managers.

The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council and expects the Scheme's investment managers to have corporate governance policies in place which comply with these principles. The Trustee monitors the UK Stewardship Code signatory status of the Scheme's investment managers as part of the regular ESG monitoring.

Engagement on relevant matters

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers the Trustee does not prioritise non-financial matters. Based on the size and maturity of the Scheme, the Trustee utilises pooled investment vehicles. This approach means it is less practical and efficient (from a return and cost perspective) to take account of such non-financial matters.