Statement of Investment Principles

This is the Statement of Investment Principles made by MPF Trustee Limited ("the Trustees") of the Menzies Pension Fund ("the Fund") in accordance with the Pensions Act 1995 (as amended). It is subject to periodic review by the Trustees at least every three years and without delay after any significant change in investment policy.

On the 31 May 2017 the Fund's assets and liabilities were sectionalised into Section A and Section B. On 8 June 2018, the Trustees transacted a deferred premium buy-in with Pension Insurance Corporation ('PIC') in respect of Section B. Under this arrangement, the liabilities of Section B transferred to PIC exceeded Section B's assets at the transaction date. The outstanding balance due to PIC was determined to be the 'Remaining Premium' and is being repaid in quarterly instalments over the period to February 2022. Given the allocation of the Section B assets is managed by PIC this Statement focuses Section A's investment strategy.

In preparing this Statement, the Trustees have consulted with the employer of Section A (John Menzies Plc) and the employer of Section B (Menzies Distribution Limited). Advice from the Investment Practice of Hymans Robertson LLP has also been considered.

The Trustees are supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the code and to produce a statement of their commitment to the code.

1.1 Objectives

The Trustees' primary objective is to ensure that each Section of the Fund has sufficient cash to pay member benefits as and when they fall due.

The funding specific objectives of each Section are as follows:

- Section A – To be fully funded on the Section's Technical Provisions basis (gilts +2.25% p.a. pre-retirement / 0.5% p.a. post-retirement) by 31 March 2026. The Trustees also aim to achieve 100% funding on a gilts basis by 2034.
- Section B – To pay any Remaining Premium in respect of the deferred premium buy-in with PIC by February 2022.

1.2 Investment Strategy

The Trustees have translated their objective for Section A into a suitable strategic benchmark (as mentioned previously Section B does not have a strategic benchmark because the Section's assets were transferred to PIC to fund the deferred premium buy-in).

All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark reflects the choice and mix of funds in which Section A invests. The strategic benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk for the Section.

The investment strategy takes due account of the maturity profile (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners) and the funding level of Section A. The Trustees monitor the Section's asset performance relative to the strategic benchmark.

The Trustees monitor strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund and will normally be reviewed annually. Written advice is received as required from professional advisers.

Section A invests in a wide variety of asset classes including equities, bonds and property. The Section also invests in leveraged Liability Driven Investment ("LDI") funds in order to reduce the Section's exposure to interest rate and inflation risk.

Risk

Section A is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Section are as follows (many of the risks below are not applicable to Section B given assets and liabilities are now managed by PIC).

1.2.1 Funding risks

- **Financial mismatch**

  1. The risk that Section A's assets fail to grow in line with the developing cost of meeting Fund liabilities.

  2. The risk that unexpected inflation increases the pension and benefit payments and the Sections assets do not grow fast enough to meet the increased cost.

- **Interest rate risk** – The risk that interest rates fall which increases the value of the Fund's liabilities and this is not matched by an increase in the value of the Fund's assets.

- **Changing demographics** – The risk that longevity improves, and other demographic factors change increasing the cost of the Section's benefits.

- **Systemic risk** - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

- **Covenant risk** – The risk that the sponsoring Company is unable, or unwilling, to contribute into the Fund.

The Trustees measure and manage funding risks as follows:

The Trustees measure and manage financial mismatch in two ways. As indicated above, the Trustees have set a strategic asset allocation benchmark for Section A. They assess risk relative to that benchmark by monitoring the Section's asset allocation and investment returns relative to its respective benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities. The LDI portfolio includes an element of interest rate and inflation hedging to help reduce the implications of interest rates and inflation risk.

The Trustees keep under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Trustees seek to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

The Trustees receive regular updates from John Menzies plc and Menzies Distribution Limited to get a greater understanding of the sponsors' financial positions and plans for the future.

1.2.2 Asset risks

- **Concentration** - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- **Illiquidity** - The risk that the Section cannot meet its immediate liabilities because it has insufficient liquid assets.

- **Interest rate risk** – As noted above, the risk that the Section's assets will fluctuate because of changes in market interest rates.
- **Currency risk** – The risk that the currency of the Section's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- **Other price risk** – The risk that the Section's value will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
- **Credit risk** – The risk that one or more of the issuers of the Section's bond holdings default on their payments.
- **Manager underperformance** - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- **Leverage** – The risk that any leverage used in the Section's investments magnifies any losses that are incurred.
- **Environmental, Social and Governance (ESG) risks** – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- **Climate risk** - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees measure and manage asset risks as follows:

They provide a practical constraint on the Section's investments deviating greatly from the intended approach by setting diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Trustees' expected parameters. The Trustees have delegated manager performance measurement and mandate rebalancing to the Fund's in-house Pension team.

By investing across a range of assets, including quoted equities and bonds, the Trustees have recognised the need for some access to liquidity in the short term.

Section A invests in a range of overseas markets which provides a diversified approach to currency markets. Section A also invests in a diversified range of bonds, which are predominately investment grade, to reduce the potential impact of any bond defaulting.

The risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio. In appointing several investment managers in Section A, the Trustees have considered the risk of underperformance by any single investment manager.

The Trustees do not expect investment managers to take excess short-term risk and will regularly monitor each manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustees reduce the risk associated with using leverage by investing in pooled funds which have pre-defined leverage benchmarks, leverage limits and recapitalisation processes.

The Trustees' approach to the consideration of ESG risks and climate risk is set out in further detail below.

1.2.3 Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustees take professional advice and consider the appointment of specialist transition managers.

- Custody risk - The risk of losing economic rights to the Section's assets, when held in custody or when being traded.

- Credit default - The possibility of default by a counterparty in meeting its obligations (this is also applicable for Section B in respect of the Section's policy with PIC i.e. there is the risk that PIC fails to meet the payment obligations of the deferred premium buy-in).

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Section or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

1.3 General investment principles

To achieve their objectives the Trustees have agreed the following:

1.3.1 Choosing Investments

The Trustees have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Where appropriate, and where commercial considerations permit, the terms of the investment manager's mandate and the basis on which the manager is engaged will be defined specifically for the Fund. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Fund.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all of its managers against industry standards.

Given the size and nature of the Fund (and its sections), the Trustees have decided to invest the majority of the Fund's assets on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Fund, particularly in relation to diversification, risk, expected return and liquidity.

The Trustees also invest a portion of Section A's assets in a segregated investment mandate. The investment choice of this mandate has been delegated to the manager, subject to certain benchmarks and guidelines.

Section A invests in a LDI portfolio, which invests in assets that will respond to changes in interest rates and inflation in a similar, but not necessarily identical, manner to changes the Section's liabilities.

The Trustees have a set of Investment Beliefs (see Appendix) that provides a framework for all investment decisions that Trustees make. These Beliefs are reflected in the Fund's underlying assets and in the Trustees' ways of working.

The Trustees review the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in an asset class or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Trustees recognise the long-term nature of the Fund's liability profile and appoints managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Fund objectives.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees review the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

1.3.2 Kinds of investments to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash and property, either directly or through pooled funds. The Fund may also make use of contracts of insurance, derivatives, contracts for difference and other derivatives (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all these classes of investment to be suitable in the circumstances of the Fund and all are permitted under the Trust Deed.

1.3.3 Balance between different kinds of investments

The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market each manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

1.3.4 Expected return on investments

Over the long term, the overall level of investment return for Section A is expected to exceed the rate of return assumed by the Trustees in their Statement of Funding Principles and Recovery Plan.

1.3.5 Realisation of investments

The majority of Section A's investments may be realised quickly if required. Within Section A, the property and some of the assets in the diversified growth mandate are less liquid and may take time to realise.

1.3.6 Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the manager's portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report, on at least an annual basis, on the underlying

assets held within the portfolio and details of any transactions over the period. The Trustees will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

1.4 Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustees have explicitly acknowledged the relevance of climate change and ESG factors in framing their investment beliefs and these beliefs are reflected in the principles set out below and the broader implementation of strategy.

1.4.1 Strategic considerations

The strategic benchmark has been determined using appropriate long-term 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.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees will discuss the potential impact of climate change with their advisors and, where relevant and to the extent that they are able, will consider reflecting the inherent uncertainties in their choice of funding assumptions. The Trustees will periodically discuss climate change with their investment adviser and investment managers to consider the potential implications for the Fund's investments.

1.4.2 Structural considerations

Given the discretion afforded to the active investment managers, the Trustees expect that their investment managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

1.4.3 Selecting investment managers

Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual investment managers. The Trustees have discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their investment managers and are satisfied that the investment managers are following an approach which takes account of all financially material factors.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees will review the index benchmarks employed for the Fund on at least a triennial basis.

In selecting new investment managers for the Fund, where relevant to the investment mandate, the Trustees explicitly consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making. They monitor compliance with these standards on a periodic basis.

1.5 Consideration of non-financially material factors in investment arrangements

Given the objectives of the Fund, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

1.6 Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

1.6.1 Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustees have reviewed the voting policies of their investment managers and determined that these policies are appropriate. The Trustees will request their investment managers provide details of any change in their house policies on a regular basis.

The Trustees do not engage directly but believe it is sometimes 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. Where necessary, investment managers are expected to notify the Trustees of any issue on which may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Fund and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest to the Trustees.

1.6.2 Monitoring

Investment managers report on voting activity to the Trustees on a periodic basis and the Trustees periodically monitor investment managers' voting activity and may review managers voting patterns. The Trustees may also monitor investment managers' voting on particular companies or issues affecting more than one company.

The Trustees review manager voting activity on a periodic basis and use this information as a basis for discussion with their investment managers. Where the Trustees deem it appropriate, any issues of concern will be raised with the manager for further explanation.

Managers are challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

1.7 Additional voluntary contributions (AVCs)

The Fund's members may also hold AVCs. The Trustees review the suitability of their AVC offering on a regular basis in line with Regulator's Code of Practice 13 and the 2015 Regulations.

Signed for and on behalf of the
Trustees of the Menzies Pension Fund

Appendix – Investment Beliefs

Beliefs	Interpretation
We should only take risk to the extent that is needed to achieve our objectives ("objective driven investment") and the covenant has the ability to support the risk.	*Understand the need to take risk to generate excess returns to achieve certain funding levels. If those are achieved, the excess returns are no longer required and so the risk should no longer be taken.*
We expect that risk will be rewarded in the long term, although for some risks this will depend on current market conditions.	*We expect that equity, property, credit and liquidity risk will be rewarded over time. For risks such as interest rates and inflation, where we might expect some kind of long term equilibrium, this will depend on whether current market levels are significantly above or below that long term equilibrium. We will remove risks that we do not expect to be rewarded as far as possible.*
Diversifying helps to reduce risk, in particular some of the potential extremes of risk, but it does have its limits.	*Increasing diversification has a diminishing marginal benefit and is also limited by increasing costs as mandate sizes reduce, increasing governance as the number of mandates increases and reducing universe of uncorrelated risks.*
Markets are dynamic and so asset prices will vary from fundamental value.	*There are mis-pricings that can be taken advantage of, typically this is delegated to active investment managers.*
There is a limited governance budget and portfolios should reflect this.	*The focus should be to prioritise the key potential areas of risk and return e.g. the key strategic risks and how to manage them rather than getting distracted into lots of different areas.*
Understanding the assets and their underlying risks is essential	*The Trustees should only agree to invest in asset classes that they understand. This means that ongoing training is required, particularly of more complex investments e.g. LDI*
Active and passive management both have a role within the Fund's investment strategy however active management is only expected to be used where appropriate.	*Actively managed funds should be genuinely active to generate sufficient excess returns (net of fees) to justify inclusion in the Fund's strategy.*
Effective management of liquidity is important, particularly for a maturing scheme.	*We are aware that redeeming assets will incur costs and will be dependent on market conditions/timing. It is expected that the Fund's benefits will be paid from a combination of contributions and income.*
We believe that Environment, Social and Governance (ESG) factors can add value to performance over the longer term however it is not the key criteria for selecting an investment manager or specific mandate.	*Responsible investment is delegated to the Fund's investment managers. The Trustees expect that managers of both actively and passively managed funds will engage with companies on ESG factors and exercise their best judgement when using their voting powers. The Trustees ask the Fund's investment managers to keep them up to date on their ESG policies and voting actions but do not ordinarily seek to screen or intervene in the managers' decisions.*