BDO Pension Scheme – DC Section

Statement of Investment Principles

July 2020

1. Introduction

This Statement of Investment Principles in respect of the DC Section of the BDO Pension Scheme ("the Scheme") has been drawn up by the Directors of the BDO Pension Trustees No.2 Limited ("the Trustee") in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Plans (Investment) Regulations 2005 and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

This Statement will be reviewed by the Trustee at least every three years and immediately following any significant change in investment policy.

The Statement is published and is freely available to the public as well as Members of the Scheme.

The areas covered in this statement are:

Section 2. The Decision Making Process
Section 3. Investment Objectives
Section 4. Investment Strategy
Section 5. Investment Manager Structure
Section 6. Risks
Section 7. Environmental, Social and Governance (ESG)
Section 8. Conflicts of Interest
Section 9. Incentivisation of Investment Managers
Section 10. Portfolio Turnover Costs

2. Decision Making Process

The Trustee

The investment of the Scheme's assets is the responsibility of the Trustee and the Scheme Rules gives the Trustee broad powers on investment. There are no restrictions (however expressed) on any power to make investments by reference to the consent of the Employer.

The Trustee's policy is to seek professional advice on investment strategy. It decides on the investment strategy after considering investment advice from the Investment Consultant. The Trustee recognises that its level of investment expertise must be kept under review in order to be able to critically evaluate this advice.

The Trustee Directors meet regularly and ensure that adequate time is set aside to discuss investment issues. In determining their investment strategy, the Trustee Directors address:

- the need to consider a full range of asset classes,
- the risks and rewards of a range of alternative asset allocation strategies,
- the suitability of each asset class,
- the need for appropriate diversification, and
- the Scheme's Investment Objectives.

The Investment Consultant

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. The Investment Consultant also monitors and reports on the performance of the Investment Managers.

The Investment Consultant is paid on a fixed fee or a time cost based fee, and their appointment is reviewed from time to time by the Trustee.

Broadstone Corporate Benefits Limited has been appointed as Investment Consultant to the Trustee on the basis that the Trustee Directors believe it to be suitably qualified and has the appropriate knowledge and experience of the management of the investments of such schemes.

Broadstone Corporate Benefits Limited is authorised and regulated by the Financial Conduct Authority.

The Employer

The Trustee will consult with the Employer as part of the process for deciding on the investment strategy.

Delegation

The Trustee has a policy of delegating all day-to-day powers of investment to the Investment Managers who are authorised and regulated under the Financial Conduct Authority.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

3. Investment Objectives

Investment Objectives

The Trustee's objectives with regard to investing Scheme assets are to adopt a relatively risk-averse approach but recognise the need to balance aversion to risk with the achievement of a satisfactory investment return.

The Trustee has taken into consideration that:

- Members' benefits are maximised by achieving maximum investment returns
- Individual Member's financial profiles and attitudes to risk may vary

4. Investment Strategy

The Scheme's Investment Strategy is kept under regular review.

The Trustee, with advice from the Investment Consultant, selected a number of managers who offer a wide range of funds. The Trustee has made available a variety of actively managed and index tracking funds.

Default Investment Fund

The Trustee decided that there is no default fund as they offer a core set of funds from which members may select their investments.

Kinds of investments held and attitude to risk

The Trustee's approach has been to allow members freedom to choose from a relatively small but diverse panel of funds. The Trustee's view is that on the one hand, the panel should not be too large in order to avoid complicating members' decisions. However, the panel needs to be sufficiently varied to allow members the opportunity of matching their particular individual risk profiles.

It is up to the individual member to judge the appropriate balance between different funds for their particular circumstances. Information is provided about each particular fund. Members are free to take advice from parties authorised to do so regarding the appropriate selection of funds. The funds offered and the relevant annual management charges (including platform fees) are set out in the table below:

Asset Class	**Fund**	**AMC (p.a.)**
UK Equities	LGIM UK Equity Index	0.08%
Overseas Equities	LGIM World (ex-UK) Equity Index	0.13%
Multi-Asset (Passive)	LGIM Multi-Asset Fund	0.20%
Cash	BlackRock DC Cash	0.10%
Long-dated bonds	LGIM Pre-Retirement Fund	0.11%
Multi-Asset (Active)	Invesco Global Targeted Returns Fund	0.75%
UK Property	LGIM Managed Property	0.65%
UK Equity (Ethical Investment)	LGIM Ethical UK Equity Index Fund	0.25%
Global Equities (Emerging Markets)	LGIM World Emerging Market Equity Index	0.35%
Global Equities (Sharia)	HSBC Islamic Global Equity Index	0.35%
Global Bonds (Active	BNY Mellon Global Dynamic Bond	0.45%
Corporate Bonds	BlackRock Aquila Connect Corporate Bond All Stocks	0.11%
UK Gilts	LGIM All Stocks Gilts Fund	0.09%
UK Index-Linked Gilts	LGIM All Stocks Index-Linked Gilts Fund	0.09%

The funds offered include index tracking funds which invest monies on a passive rather than active basis, in such a way that they should aim to return the same performance, before annual management charges (AMCs), as the appropriate index for the asset class. Differences between tracking funds and the indices they track can sometimes be apparent and are known as tracking errors.

A passive approach should result in a broadly average performance when compared to other investors in the same type of assets (before AMCs). The investment AMCs for index tracking funds are generally much lower than actively managed fund charges.

Included within the actively managed fund choices are the Invesco Global Targeted Returns Fund, the LGIM Managed Property Fund, the LGIM Multi-Asset Fund and the BNY Mellon Global Dynamic Bond Fund.

The Trustee strongly recommends Members to take advice from an Independent Financial Advisor when selecting their funds.

Best interests of members

The Trustee considers the approach to be suitable for a Keep Your Options Open strategy allowing for the various ways that members may ultimately decide to take their pension, ranging from cash, annuity, drawdown, delayed retirement, or combinations of these.

At the same time the Trustee monitors and reviews the levels of fees paid by members of the funds offered to ensure these remain competitive. The Investment Managers are paid a management fee on the basis of assets under management. The Platform Provider is paid a fee on the basis of assets held on platform.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives both financial and non-financial.

Realisation of assets

The assets are held in a combination of pooled funds and are fully and readily realisable. Investments are to be realised as and when required in accordance with a member's request.

5. Investment Manager Structure

Platform provider

The Trustee has appointed Mobius Life Limited ("the Platform Provider") to provide an investment platform for the Scheme's assets. The Platform Provider is regulated under the Financial Conduct Authority and the Prudential Regulation Authority, and has been selected in order to effect cost and operational efficiencies in the management of the assets. The Trustee utilises Mobius Life to access the fund investments in BNY Mellon, BlackRock Investment Management, HSBC Global Asset Management, Invesco Asset Management and Legal & General Investment Management ('LGIM').

The Trustee entered into a contract with Mobius in July 2017.

Investment Managers

The Trustee utilises a number of Investment Managers (access is acquired through the platform provider above) to manage the assets of the Scheme. The Investment Managers are regulated under the Financial Conduct Authority.

The Trustee has decided to invest in pooled funds, other collective investment vehicles, and cash. The Scheme does not invest directly in stocks, shares, bonds, derivatives etc.

The Trustee has decided to invest in pooled funds because:

- the Scheme is not large enough to justify direct investment in equities or bonds on a cost-effective basis;
- pooled funds allow the Scheme to invest in a wider range of assets which serves to reduce risk; and
- pooled funds provide a more liquid form of investment than certain types of direct investment.

The Investment Managers appoint individual custodians to hold the securities owned by the Scheme.

The Investment Managers will supply the Investment Consultant with sufficient information when requested in order to enable them to monitor financial and non-financial performance.

6. Risks

The Trustee recognises that a number of risks are involved in the investment of the assets of the Scheme with regards to the core set of fund choices members have available to them. It has identified the following risks which have the potential to reduce the return achieved on the assets below their benchmarks. These are as follows:

- Manager Risk: The failure by the Investment Managers to achieve the rates of investment return required.
- Custodian Risk: The risk of a failed or inadequate performance by the custodian.
- Political Risk: The financial risk that a country's government will suddenly change its policies.
- Counterparty risk: The risk that other parties in any trade or position will default, i.e. will renege on their contractual obligations, resulting in a financial loss to the Scheme.

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.

The policy of the Trustee is to monitor, where possible, these risks on a regular basis. The Trustee therefore considers:

- Investment Manager performance against their respective benchmarks and targets
- Level of total charges for the selected funds
- The range and number of funds available to the Members
- Any significant issues with the Investment Managers that may impact their ability to achieve returns at the same level as their respective benchmarks

7. Environmental, Social and Governance (ESG)

The Trustee believes that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee (delegating to the Investment Consultant where appropriate) assesses the ESG integration capability of its Investment Managers.

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a material reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG, quality of life considerations and ethical views) in relation to the selection, retention and realisation of investments.

The Trustee believes that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, it must act as a responsible asset owner. The Trustee cannot exercise its responsibilities directly as it does not hold investments in its name. The Trustee expects its Investment Managers to exercise ownership rights attracted to investments as well as voting and engagement rights at annual and extraordinary general meetings of companies. The Trustee has seen the voting and engagement policies of each of the Investment Managers and believes that they are compatible with its own policy. The Trustee expects the Investment Manager to report to it on the implementation of, and any changes to, their policies on voting and engagement.

On an ongoing basis the Trustee will assess the stewardship and engagement activity of its Investment Managers (delegating to the Investment Consultant where appropriate). This will be done by reviewing the Investment Managers' voting and engagement policies, summary reports detailing the engagement and voting activity undertaken by the Investment Managers, and asking questions directly to the Investment Managers.

The Trustee has also made available to members in the DC Section a self-select option, where members can choose to invest in a fund with an ethical focus. The Trustee has selected to use the LGIM Ethical UK Equity Index fund for this purpose.

Responsibility for monitoring the make-up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.

8. Conflicts of Interest

The Trustee maintains a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

9. Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustee does not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustee's policies and objectives.

Neither does the Trustee directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustee expects such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

10. Portfolio Turnover Costs

The Trustee expects the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustee therefore does not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

Richard Faulkner

For and on behalf of BDO Pension Trustees No2 Limited

28 July 2020

Date

Stuart Collins

For and on behalf of the Employer

21 July 2020

Date