Lendlease UK Pension Scheme ("the Scheme")
Statement of Investment Principles 2020

Section 1 - Defined Benefits Section (Final Salary section and Index Linked section)

This section of the Statement of Investment Principles covers the Defined Benefit section of the Scheme. The Defined Contribution Statement of Investment Principles is in Section 2. It is set out in two parts, first the objectives and strategy of the Defined Benefit section, and the overall policy of Lendlease UK Trustee Limited ("the Trustee") on issues that apply to the Defined Benefit section.

Investment Objective

The Trustee aims to invest the assets of the Scheme prudently in order that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considers the lowest risk asset allocation and expected return that they could adopt in relation to meeting the Scheme's liabilities, as set out in the Recovery Plan. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy whilst maintaining a prudent approach to meeting the Scheme's liabilities.

STRATEGY

The current **planned asset allocation strategy** chosen to meet the objective shown previously is set out in the table below.

Asset Category	Target Weighting %	Weight Range %
'Return Seeking' Assets	67.5	57.5 – 77.5
'Matching' Assets	32.5	22.5 – 42.5

'Return Seeking' assets refers to those assets which have been chosen primarily to improve the expected return of the investment strategy, whilst 'Matching' assets refers to those assets chosen primarily to improve the liability matching characteristics of the assets. The Liability Driven Investments ('LDI') and cash collateral portfolio represent the Matching assets.

As part of the long-term strategy discussions, the investment strategy has been reviewed and target allocations and ranges have been agreed for different asset classes within the asset categories shown above. These are set out within the accompanying supporting information.

The Trustee will monitor the actual asset allocation versus the target weights and may act to rebalance the assets back towards the target weights should the actual allocation deviate significantly from the target.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile, the return requirements and the risk appetite of the Trustee and sponsor Company. Development of the strategy included modelling of the assets and liabilities.

The Trustee policy is to assume that equities will outperform gilts over the long term and to assume that active fund management can be expected to add some value. However, the Trustee recognises the potential variability in equity returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set.

When choosing the Scheme's planned asset allocation strategy, the Trustee considered written advice from their investment advisers and, in doing so, addressed the following:

- 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 in context of the required return and risk appetite of the Trustee and sponsor Company.
- The need for appropriate diversification.
- The need for appropriate liquidity, with an appropriate proportion of the assets held being readily realisable if required.

In addition, the Trustee consulted with the Employer when setting this strategy.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

IMPLEMENTATION

The fund manager structure and investment objectives for each fund manager selected to implement the investment strategy have been set out within the accompanying supporting information.

RISK MEASUREMENT AND MANAGEMENT

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to provide for 100% of its liabilities ("funding risk"). The Trustee has identified several risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and their advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Scheme's assets to include an allocation to matching assets to help reduce the financial element of the "mismatching risk".

- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee and their advisers manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter. The Trustee has appointed a range of managers with different styles to diversify the risk of using a single manager.

- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and their advisers considered this risk when setting the Scheme's investment strategy and have allocated investments across a broad range of assets and markets taking into account the expected performance of different markets.

- The possibility of failure of the Scheme's participating Employer ("covenant risk"). The Trustee and their advisers considered this risk when setting investment strategy and consulted with the Employer as to the suitability of the proposed strategy. The Trustee receives regular reports on the financial health of the Employer.

- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

- The risk of currency fluctuations significantly impacting on the Scheme. The Trustee recognises the Scheme's liabilities are in Sterling. Where assets are invested in non-sterling currencies consideration is given to hedging the currency risk where practical and appropriate. The Trustee currently hedges some of the US dollar, euro and Swiss franc currency exposure within the equity portfolio back to sterling to reduce risk.

The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance. Due to the complex and interrelated nature of these risks, the Trustee considers some of these risks in a qualitative rather than quantitative manner. Some of these risks are modelled explicitly as part of each formal investment strategy review (normally every three years).

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee policy is to monitor, where possible, these risks regularly. The Trustee receives regular reports showing:

- Actual funding level versus the Scheme specific funding objective.
- Performance versus the Scheme investment objective.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

GOVERNANCE AND IMPLEMENTATION

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions, having taken appropriate advice and also delegates to others where appropriate. When deciding which decisions to take themselves and which to delegate, the Trustee has considered whether they have the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision-making structure. The Trustee maintains the overall decision-making power however, an Investment Sub-Committee assists the Trustee with their investment decisions and provides suitable recommendations. An overview of the decision-making structure is given below:

Trustee • Monitor actual returns versus Scheme investment objective. • Set structures and processes for carrying out their role. • Select and monitor planned asset allocation strategy. • Select and appoint fund managers as well as investment advisers. • Appoint Trustee members of the Investment Sub-Committee • Select and review direct investments (see below). • Consider recommendations from the Investment Sub-Committee. • Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy	**Investment Sub-Committee** • Make recommendations to Trustee on: – Structure for implementing investment strategy. – Selection of investment advisers and fund managers. • Monitor fund managers. • Monitor direct investments. • Regularly review Cost Transparency policies for compliance with regulatory requirements. • Regularly review Responsible Investment policies for compliance with regulatory requirements.
Investment Adviser • Advise on all aspects of the investment of the Scheme's assets, including implementation. • Advise on this statement. • Provide required training.	**Fund Managers** • Operate within the terms of this statement and their written contracts. • Select individual investments with regard to their suitability and diversification. • Advise Trustee on suitability of the indices in their benchmarks. • Take into account socially responsible investment criteria, including ESG factors and climate change.

Aon has been selected as investment adviser to the Trustee and Investment Sub-Committee for the Defined Benefit Scheme. They operate under an agreement to provide a service such that the Trustee and the Investment Sub-Committee are fully briefed to take decisions themselves where appropriate and to monitor those they delegate. Aon are paid on a time cost basis for the work they undertake for the Scheme although fixed fees may be negotiated by the Trustee for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract.

Arrangements with Asset Managers

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

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

The Trustee is supported in this monitoring activity by their investment consultant.

The Trustee expects its managers to take account of financially material considerations (including but not limited to climate change and other ESG considerations) in the selection, retention and realisation of investments over the time needed to fund future benefits by the investments of the Scheme, in accordance with section 36(5) of the Pensions Act 1995.

The Trustee receive quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the performance of asset managers against the Trustee’s policies and objectives over rolling time periods designed to take account of longer term performance (e.g. 3-5 years).

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee’s policies. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express their expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

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

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

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

The Trustee does not regularly incentivise or monitor asset managers in relation to taking into account non-financial criteria of the investments selected, retained and realised on their behalf. This is because the Trustee’s policy is to not explicitly take into account non-financial factors in setting and implementing the Scheme’s investment strategy (see below).

Stewardship – Voting and Engagement

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately this creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to**:**

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

The Trustee annually reviews the suitability of the Scheme's appointed asset managers and takes advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will monitor and review their arrangements and seek to ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

Where voting is concerned, the Trustee expects their asset managers to recall stock lending as necessary, in order to carry out voting actions.

Cost Transparency

The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their asset managers that can increase the overall cost incurred by their investments.

The Trustee collects annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what they're paying their investment managers.

The Trustee will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme. All of the Scheme's asset managers are currently compliant and should any manager not comply, the Trustees will engage with the manager in the first instance.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme's investment consultant monitors targeted portfolio turnover and portfolio turnover costs on behalf of the Trustee as part of the manager monitoring, they provide to the Trustee and flags to the Trustee where there are concerns.

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

The Trustee evaluates the performance of their asset managers relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the asset managers. The Trustee also reviews the remuneration of the Scheme's asset managers on at least a triennial basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

The Trustee assesses value for money received from their asset managers on a regular basis by benchmarking their asset managers relative to the wider market. This enables the Trustee to have a detailed understanding of their overall costs irrelevant of net of fees performance and identify opportunities to challenge their asset managers where a particular manager is an outlier.

The Trustee reviews how their asset managers should be remunerated on a regular basis and in particular at the appointment of any new managers. When reviewing remuneration, the Trustee's focus is on longer term-outcomes that reflect the Trustee's policies.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as non-financial factors).

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

The Trustee policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4) as set out below:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Scheme's investment adviser has the knowledge and experience required under the Pensions Act 1995. The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on an ad valorem or performance related basis, with the performance basis structure being chosen to align more closely the fund managers' interests with those of the Scheme. The level of remuneration paid to fund managers is reviewed annually by the Trustee against market rates to ensure the fund managers' interests are aligned with those of the Scheme.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs. The Trustee receives statements from the fund managers setting out these costs and review them annually with advice from their investment adviser. This is to ensure that the costs incurred are commensurate with the goods and services received.

The Scheme's investment with Insight is held by Northern Trust, who acts as custodian/nominee. All of the Scheme's remaining assets are managed within pooled funds and as such there is no direct relationship with a custodian.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Employer over any changes to the SIP.

For on behalf of Lendlease UK Pension Trustee Limited as Trustee of the Lendlease UK Pension Scheme:

Melanie Cusack

Signed by Melanie Cusack Chair of the Trustee

Date: 30th September 2020

Supporting Information to the Statement of Investment Principles

INTRODUCTION

The investment strategy of the Lendlease UK Pension Scheme has been reviewed and the Statement of Investment Principles updated. This paper provides additional detail to the revised strategy and also of the fund managers employed to implement the strategy.

OVERALL STRATEGY

The following table shows the agreed allocation between 'return seeking' and 'matching' asset categories:

Asset Class	Target Weighting %	Weight Range %
'Return Seeking'		
Equities	28.0	18.0 – 38.0
Illiquid Growth	10.0	0.0 – 20.0
Diversified Liquid Credit	17.0	7.0 – 27.0
Absolute Return	12.5	2.5 – 22.5
'Matching'		
Liability Driven Investments and Cash Collateral	32.5	22.5 – 42.5

The Trustee recognises that the actual allocation could fall outside of the ranges set out above during periods of portfolio reorganisation or following market movements. The Trustee reviews the allocation and takes action as and when they consider it appropriate.

In addition to the above a cash balance will be held to facilitate the short-term liquidity requirements of the Scheme. From time to time monies may be held in cash to facilitate cashflow management and changes to the investment strategy and manager structure.

The Scheme's LDI portfolio has been developed such that it reduces the sensitivity of the Scheme's funding level to changes in both interest rates and inflation via investment in a portfolio of bonds and derivatives that are determined to be appropriate to match the duration, nature and the cashflow profile of the Scheme's liabilities.

IMPLEMENTATION

Defined Benefits Section:

The investment objectives ("mandates") for each fund manager chosen to implement the investment strategy for the defined benefit section are shown below:

Baillie Gifford

Active Global Equities

Benchmark: MSCI AC World
Objective: To outperform the benchmark by 3.0% p.a. over 5-10 years.

Dodge & Cox

Active Global Equities

Benchmark: MSCI World
Objective: To outperform the benchmark over a full market cycle.

GQG

Active Global Equities

Benchmark: MSCI All Country World Index-ND
Objective: 3% p.a over a full market cycle.

Blackstone

Absolute Return

Benchmark: 3 Month UK LIBOR Total Return
Objective: No Formal Objective, but informally to outperform cash by 3% - 6% p.a. over a market cycle.

GIP

Infrastructure

Target: To achieve an internal rate of return of 15-20% gross of fees.

RARE

Infrastructure

Benchmark: G7 Inflation Total Return
Objective: To outperform the benchmark by 5.5% p.a.

Aon Investment Limited

Diversified Liquid Credit

Benchmark: SONIA
Objective: To outperform the benchmark by 1.5% p.a. net of fees over a rolling 3 year period.

Insight

Liability Driven Investment

Objective: To broadly match the sensitivities of the Scheme's liabilities to changes in interest rates and inflation.

Equity Currency Hedging

Objective: To partially hedge against US dollar, euro and Swiss franc exposure within the equity portfolio.

Cash and 'cash-plus' funds	
Benchmark:	Varies depending on fund, typically a short-dated money market.
Objective:	Cash funds aim to achieve the benchmark return whereas 'cash-plus' funds aim to outperform the benchmark.

Section 2: Statement of Investment Principles - Defined Contribution (Personal Investment) Section

1. Introduction

This section of the Statement of Investment Principles ("SIP") sets out the policy of Lendlease UK Pension Trustee Limited as Trustee of the Lendlease UK Pension Scheme (the "Trustee"; and the "Scheme") on various matters governing decisions about the investments of the Personal Investment Section of the Scheme. In preparing this Statement the Trustee has consulted Lendlease Construction (Europe) Holdings Limited (the "Company") on the Trustee investment principles.

It is set out in several parts, covering firstly the objectives and strategy of the Defined Contribution Section, then the overall policy of the Trustee on issues that apply to the Defined Contribution Section.

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the "Act"), the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment consultant, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments and the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The Trustee will review this SIP from time to time and, with the help of their advisers, and amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

Appendix 1 contains brief details of the respective responsibilities of the Trustee, investment advisers, investment managers and platform provider. It also contains a description of the basis of remuneration for these service providers.

2. Investment objectives

The Trustee's primary investment objective is to provide members with access to:

- an appropriate choice of investments, reflecting the membership profile and the range of ways that members can draw their benefits in retirement; and
- a default investment approach that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions.

3. Investment Strategy

The Trustee, with the help of its advisers and in consultation with the employer, last undertook a review of the investment strategy in 2019, taking into account the investment objectives described in Section 2 above. In particular, the Trustee carried out a review of the strategy for the Default Arrangement in a number of phases, including a review of the composition of the Balanced Growth and Diversified Growth Funds. In October 2019, the Trustee reviewed the membership profile and trends, and concluded that a default arrangement targeting drawdown at retirement remained appropriate for the membership.

The Trustee offers members an investment range including Self-Select funds and lifestyle strategies. Each member is responsible for specifying one or more Self-Select funds or a single lifestyle strategy for the investment of their account, having regard to their attitude to the risks involved and how they wish to draw their benefits in retirement. If a member does not choose an investment option, their account will be invested into the default option, which is managed as a lifestyle strategy (ie it automatically combines investments in pre-defined proportions according to the proximity to retirement age).

The default is the Drawdown Lifestyle Fund and was designed in the best interests of the majority of the members based on the demographics of the Scheme's membership and invests assets to provide benefits to the individuals on whose behalf the contributions were paid. The default targets income drawdown at retirement, since the Trustee believes that most members will wish to take their benefits in this form. Therefore, it is initially invested in assets that have a relatively high expected return aiming for growth, and then as the member approaches retirement, it gradually switches into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking an income drawdown option.

The objective for the default option is to provide a long-term return in excess of inflation while displaying less volatility than a pure equity approach in the middle growth phase and reducing volatility for members approaching retirement age.

The Active UK Equity Fund was closed on 19 May 2020. This required members to be transferred without consent to the Passive UK Equity Fund. As members did not make a choice to invest in this Fund, the Passive UK Equity Fund is considered to be a default by the Trustee for the purpose of fulfilling legislative requirements. The aim of the Passive UK Equity Fund is to achieve a return that is consistent with a benchmark consisting of UK equities.

The Trustee will review the default and investment options at least every three years and as soon as practicable after any significant change in legislation, investment policy, or the demographic profile of relevant members. The Trustee will also monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In determining the investment arrangements, the Trustee also considered:

- the best interests of members and beneficiaries;
- the profile of the membership and what this implies for the choices members might make upon reaching retirement;
- the risks and rewards of a number of different lifestyle strategies; and

- the need for appropriate diversification within the default strategy and between the other investment options offered to members.

5. Governance and Implementation - arrangements with asset managers

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment consultant on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers and their objectives are set out in the separate Investment Policy Document.

There is no direct relationship between the Scheme and the underlying investment managers. The Trustee has signed agreements with a platform provider, who makes available a range of investment options to members. These agreements set out in detail the terms on which the investments are managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices in line with the Trustee's policies where appropriate.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer-term financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers from those available on the platform.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to (a) align their investment strategy and decisions with the Trustee's policies, (b) make decisions based on assessments of medium- to long-term financial performance of debt/equity issuers, (c) engage with issuers to improve their performance in the medium to long term, and (d) provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

The Trustee receives quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the asset managers' performance against the Trustee's policies and objectives over rolling time periods designed to take account of longer-term performance (e.g. 3-5 years).

The Scheme's investment consultant also monitors targeted portfolio turnover and portfolio turnover costs on behalf of the Trustee and flags to the Trustee where there are concerns. Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

Before appointment of a new investment manager, the Trustee reviews the governing investment approach associated with the investment and will consider the extent to which it aligns with the Trustee's policies.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years. The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term investment objectives, taking account of the Trustee's policies (including in relation to risk, the need for diversification and liquidity). Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage and in considerations relating to the liquidity of investments. The Trustee's policy is generally to invest in funds that offer daily dealing to enable members to readily realise and change their investments. In the rare instances where liquidity is more variable the Trustee ensures that members are aware of this feature.

7. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) in the selection, retention and realisation of investments over the time needed to fund future benefits by the investments of the Scheme, in accordance with section 36(5) of the Pensions Act 1995. The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. It has chosen to invest part of its equity allocation in a multi-factor fund that tracks a climate tilted index that has reduced exposure to climate-related risks and increased exposure to climate-related opportunities.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds but encourage its managers to improve their practices where appropriate.

The Trustee does not regularly monitor asset managers against non-financial criteria of the investments made on their behalf, nor does it expect or incentivise its investment managers to take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. Within the Personal Investment Section, the Trustee recognises that some members may wish for ethical matters to be taken into account in their investments and therefore has made available the Ethical Equity Fund as an investment option to members.

8. Stewardship - voting and engagement

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately this creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

The Trustee annually reviews the suitability of the Scheme's appointed investment managers and takes advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed investment managers. If an incumbent investment manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will monitor and review their arrangements and seek to ensure their investment managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

9. Cost Transparency

The Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost incurred by their investments.

The Trustee will only appoint investment managers who offer full cost transparency to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

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

The Trustee assesses value for money received from their investment managers on a regular basis by benchmarking their investment managers relative to the wider market. This enables the Trustee to have a detailed understanding of their overall costs irrelevant of net of fees performance and identify opportunities to challenge their investment managers where a particular manager is an outlier.

10. Employer-Related Investments

The Trustee's policy is not to hold any employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

11. Additional Voluntary Contributions ("AVCs")

The Scheme provides a facility for members to pay AVC's into the Scheme. Contributions are invested in the same way as the main scheme contributions.

For on behalf of Lendlease UK Pension Trustee Limited as Trustee of the Lendlease UK Pension Scheme:

Signed by Melanie Cusack, Chair of the Trustee

Date: 30th September 2020

Responsibilities, decision-making and fees

In broad terms the Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

The Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes in the lifestyle strategies and any blended funds;
- appointing (and, when necessary, dismissing) investment managers, platform providers, investment consultants and other advisors;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on socially responsible investment issues;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers;
- ensuring that funds are priced correctly;

- providing the Trustee with regular information concerning the management and performance of the assets; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

3. Investment managers and custodians

The investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Investment consultant

The investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on a suitable fund range and default strategy for the Scheme, and how material changes to legislation, custom or practice, or changes within the Scheme's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. The costs for the provision of advisory services to the Scheme are met by the Company.

The Trustee has agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis by the Company.

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The costs for the provision of administration services to the Scheme are met by the Company.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

Appendix 2

Policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Risk of inadequate returns

As members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has provided a default of a lifestyle strategy which automatically combines investments in pre-defined proportions that vary and aim to decrease the level of expected investment risk, towards a member's retirement age.

2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's default strategy is adequately diversified between different asset classes and within each asset class, and the Self-Select options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual. The Trustee monitors the investment managers on a regular basis.

4. Liquidity/marketability risk

This is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategy and diversifying the default strategy across different types of investment.

5. Environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice. Within the equity exposure, the Trustee seeks investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf. It regularly reviews how these risks are being managed in practice.

6. Risk from excessive charges

If the investment management charges together with other charges (for example, platform services, transition costs and additional expenses) are excessive then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the Scheme are in line with market practice and it regularly assesses whether these represent good value for members

7. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers. The Scheme invests in some funds which invest in bonds that are classified as both "investment grade" and "non-investment grade" – the latter carrying greater credit risk but having a higher yield to compensate investors.

8. Interest rate risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates. The Scheme offers funds that invest in bonds via pooled funds. These funds are included in the Annuity Lifestyle, which targets annuity purchase at retirement, since this reduces the volatility of the members' assets relative to annuity prices to give them more certainty. Bond funds are also offered as self-select options to members and may be used by members to diversify against other types of risk.

9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets.

The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believes that the unhedged currency exposure that remains acts to increase the diversification of the strategy.

10. Financial security

Fidelity, the Scheme's current platform provider, delivers their UK DC Investment Platform via FIL Life Insurance Limited (Fidelity), a UK Financial Conduct Authority ("FCA") authorised Life Insurance Company. Policies issued by Fidelity are covered by the provisions of the Financial Services Compensation Scheme ("FSCS") and the policy holder may be entitled to compensation should Fidelity be unable to meet its obligations.

Under the current FSCS rules, it is understood that any shortfalls from funds into which Fidelity funds are reinsured such as the external managers used by the Scheme, (this will also apply to any future external investment managers) are not covered by the FSCS. Fidelity's liability to its clients is restricted to what is received from underlying fund providers in this circumstance.

In the unlikely event of a default of an underlying investment manager occurring, Fidelity would enact a process to notify clients/consultants immediately, suspend trading on the fund and place a claim seeking 100% of the unit holdings.

11. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.