

**Drake & Scull Retirement Benefits Plan**  
**Statement of Investment Principles (“SIP”)**

**Purpose of this Statement**

This SIP has been prepared by the Trustees of the Drake & Scull Benefits Plan (the “Plan”). This statement sets out the principles governing the Trustees’ decisions to invest the assets of the Plan.

The Plan’s investment strategy is derived from the Trustees’ investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

**Governance**

The Trustees of the Plan make all major strategic decisions including, but not limited to, the Plan’s asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees’ investment advisers, Isio Group Limited (“Isio”), are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers’ remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Plan.

**Investment objectives**

The Trustees’ main aims are:

- To make sure that obligations to the beneficiaries of the Plan can be met.
- To achieve a reasonable balance between risk, likely return and administration and management costs.

The Plan’s funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Plan’s circumstances. The Plan’s funding target is specified in the Statement of Funding Principles.

The Plan’s current target return is around 2.7% per annum above the return on a liability matching portfolio of UK Government bonds. The strategy’s expected total return is shown as the weighted sum of the asset-class expected returns and does not include any additional benefit from diversification.

| <b>Asset Class</b>  | <b>Benchmark Physical Allocation</b> | <b>Long Term Return Assumption (relative to gilts, p.a.)</b> |
|---|--------------------------------------|--|
| Diversified Credit  | 17%                                  | 2.5%   |
| Long Lease Property   | 7.5%                                 | 2.5%   |
| Semi-Liquid Credit  | 17%                                  | 3.5%   |
| Diversified Private Credit                                      | 20%                                  | 4.2%   |
| Collateral (for Liability Driven Investment & Synthetic Equity) | 38.5%                                | 1.9%   |
| <b>Total</b>  | <b>100%</b>                          |  |
| <b>Target Return</b>  |                                      | <b>2.7%</b>  |

*Based on Isio's 10-year asset class returns assumptions as at 30 June 2022 relative to the Bank of England 10 Year Gilts and net of all management fees.*

| <b>Exposure</b>       | <b>Benchmark Synthetic Exposure</b>     |
|-----------------------|---|
| Global Equities       | 15% of total Plan assets                |
| Interest Rate Hedging | c.90% of exposures in Plan liabilities* |
| Inflation Hedging     | c.90% of exposures in Plan liabilities* |

\*As calculated on the 2021 Technical Provisions basis, as defined in the Plan's Statement of Funding Principles.

### **Investment strategy**

The Trustees take a holistic approach to considering and managing risks when formulating the Plan's investment strategy.

The Plan's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Plan's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Plan, and also the strength of EMCOR (UK) Limited ("the Company"). The Trustees considered the merits of a range of asset classes.

The Trustees recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified

portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Plan consist solely of investments which are traded on regulated markets.

### **Investment Management Arrangements**

The Trustees have appointed several investment managers to manage the assets of the Plan as listed in the SIP. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

For pooled funds, the safe custody of the underlying assets is the responsibility of the managers, who in turn delegate this responsibility to professional custodians.

The Trustees have appointed Bank of New York Mellon (International) Limited ("BNY Mellon") to act as custodian for the units and shares the Plan holds in BlackRock pooled funds (excluding the BlackRock Diversified Private Debt Fund), as well as for the cash balances and equity derivatives the Plan holds directly as part of the Synthetic Equity Portfolio managed by BlackRock.

## Investment Mandates

The Trustees have appointed the following managers to manage the assets of the Plan.

| Manager   | Fund   | Objective   |
|---|--|---|
| <p>BlackRock Investment Management (UK) Limited (“BlackRock”)</p> | <p>BlackRock manage two portfolios under a combined mandate – a Synthetic Equity Portfolio and an LDI Portfolio. The invested funds are:</p> <ul style="list-style-type: none"> <li>• Institutional Sterling Liquidity Fund (ICS)</li> <li>• Liability Matching Funds (LMF) Gilt Funds</li> <li>• LMF Index Linked Gilt Funds</li> </ul> | <ul style="list-style-type: none"> <li>• The Synthetic Equity Portfolio aims to replicate exposure to global equity markets through use of exchange traded derivatives documented in the Investment Management Agreement with BlackRock and utilising the ICS Fund for cash management.               <ul style="list-style-type: none"> <li>○ Target equity exposure: 15% of total Plan assets.</li> <li>○ Target allocation: Market capitalisation weight within MSCI World Developed Index.</li> </ul> </li> <li>• The LDI Portfolio is designed to mirror (or “hedge”) movements in the value of the Plan’s liabilities due to movements in interest rates and inflation expectations.               <ul style="list-style-type: none"> <li>○ BlackRock are mandated to hedge a target of c.90% of the interest rate and c.90% of inflation exposure of the Plan’s liabilities (as measured on the Plan’s 2021 Technical Provisions basis as expressed in the Statement of Funding Principles).</li> </ul> </li> </ul> <p>Alongside the permitted derivatives, BlackRock will utilise the ICS fund for cash management. BlackRock has discretion in the management of cash between the Synthetic Equity Portfolio and the LDI Portfolio and will seek to use available cash in an efficient manner.</p> |

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|  | <p>Long Lease Property Fund</p>            | <p>The Long Lease Property Fund aims to provide income to investors through exposure to a diversified portfolio of real estate investments with long lease lengths.</p> <p>Benchmark: MSCI AREF Long Income Property Funds Index<br/>Performance objective: Income distribution of 5% p.a. net of fees and expenses.</p>   |
|  | <p>Diversified Private Credit Fund</p>     | <p>The Diversified Private Credit Fund aims to generate a total return primarily through income and, to a lesser extent, capital growth, by investing in a diversified global portfolio of private debt investments.</p> <p>Benchmark: N/A<br/>Performance objective: net internal rate of return (IRR) 6-7% p.a. in GBP terms.</p>  |
| <p>M&amp;G Investment Management Limited (“M&amp;G”)</p> | <p>Total Return Credit Investment Fund</p> | <p>The Total Return Credit Investment Fund aims to provide a higher total return (the combination of income and capital growth net of fees) than its stated benchmark over any 5-year period.</p> <p>Benchmark: 1-month SONIA<br/>Performance objective: 1-month SONIA +3%-5% p.a. (gross of fees) over a 3-year rolling period.</p>   |
| <p>Apollo Capital Management, L.P. (“Apollo”)</p>        | <p>Total Return Fund</p>                   | <p>The Total Return Fund invests in various sub-asset classes such as US and Global high yield bonds and loans, middle market loans, real estate debt, opportunistic credit, securitised credit, insurance related securities and emerging markets corporate debt.</p> <p>The fund is designed to achieve returns typically associated with below investment grade credit but with lower volatility, by taking positions in more illiquid and structured credit assets, as opposed to lower rated corporate credit.</p> <p>Benchmark: 3-month LIBOR.<br/>Performance objective: LIBOR + 6%-8% p.a., gross of fees.</p> |

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| Partners Group (UK) Ltd. (“Partners Group”)* | Private Markets Credit Strategies 2 S.A. 2016 (VIII) GBP | <p>The Private Markets Credit Strategies Fund invests in private loans made primarily to companies across the US and Europe. The fund has a fixed life of 6 years (which Partners Group can extend by an additional year if necessary, in order to fully dispose of the assets held).</p> <p>Benchmark: N/A<br/>Performance objective: SONIA +4%-6% p.a. net of fees.</p> |
|--|--|---|

\*Note: The Plan’s investment in the Partners Group will be gradually wound down over time.

The Trustees have entered into a signed Investment Management Agreement with BlackRock and have agreed to the terms of the prospectus governing the other pooled funds held. These documents provide important protection for the Plan itself and for the Trustees. They also set out the terms on which the assets are managed and the investment briefs, guidelines and restrictions under which the investment managers work.

The Trustees have appointed BlackRock to monitor and rebalance the allocation within the Plan's LDI and Synthetic Equity Portfolios only. The Plan's target control ranges are set out in the Investment Management Agreement with BlackRock.

Copies of the Agreement between the Trustees and BlackRock or fund prospectuses are available on request for inspection.

## Investment Manager Monitoring and Engagement

The Trustees monitor and engage with the Plan’s investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

| Areas for engagement   | Method for monitoring and engagement   | Circumstances for additional monitoring and engagement  |
|--|--|---|
| Performance, Strategy and Risk   | <ul style="list-style-type: none"> <li>• The Trustees receive a quarterly performance report which details information on the underlying investments’ performance, strategy and overall risks, which are considered at the relevant Trustee meeting.</li> <li>• The Plan’s investment managers may, from time to time, be invited to present to the Trustees on their performance, strategy and risk exposures, as appropriate.</li> </ul> | <ul style="list-style-type: none"> <li>• There are significant changes made to the investment strategy.</li> <li>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees’ expectations.</li> <li>• Underperformance vs the performance objective over the period that this objective applies.</li> </ul> |
| Environmental, Social, Corporate Governance factors and the exercising of rights | <ul style="list-style-type: none"> <li>• The Trustees’ investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>• The Trustees receive information from their investment advisers on the investment managers’ approaches to engagement.</li> </ul>   | <ul style="list-style-type: none"> <li>• The manager has not acted in accordance with their policies and frameworks.</li> <li>• The manager’s policies are not in line with the Trustees’ policies in this area.</li> </ul>   |

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager’s appointment and will consider terminating the arrangement.

### Additional Voluntary Contributions (“AVCs”)

The Trustees invest members’ additional contributions with the following providers: the Prudential Assurance Company Limited, Utmost Life and Pensions Limited and Aviva plc. A range of unitised funds and deposit accounts are offered by the providers, with members given the option to switch assets between the funds at any time.

These arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustees and the needs of the members.

### **Employer-related investments**

The policy of the Trustees is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Plan invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Plan's total asset value. The Trustees will monitor this on an ongoing basis to ensure compliance.

### **Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

### **Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

**For and on behalf of the Trustees of the Drake & Scull Retirement Benefits Plan**



## Appendix A – Fee Structures

The Plan pays investment management fees to the investment managers amounting to a percentage of the assets under management. These fee structures are shown in the following table:

| Investment Manager   | Fee Structure   |
|--|---|
| BlackRock<br><br><i>Combined BlackRock assets subject to a minimum fee of £50,000 p.a.</i> | Liability Matching Funds:<br>- 0.10% p.a.<br><br>Institutional Sterling Liquidity (Cash) Fund (ICS):<br>- 0.10% p.a.<br><br>Synthetic Equity:<br>- 0.05% p.a. on notional equity exposure<br><br>Long Lease Property:<br>- 0.40% p.a.<br><br>Diversified Private Credit:<br>- 0.75% p.a.<br><br>Administration fee: Capped at 0.35% p.a.<br><br>Performance fee: 12.5% on returns above 5% p.a.                             |
| M&G  | Management fee: 0.45% p.a.  |
| Apollo   | Management fee: 0.50% p.a.<br><br>Administration fee: Capped at 0.25% p.a. for the first four years invested and capped at 0.40% p.a. thereafter.   |
| Partners Group   | Management fee: 0.80% p.a. on invested capital.<br><br>Administration fee: Capped at 0.1% p.a. on committed capital.<br><br>Performance fee: Agreed rebate mechanism fixing performance fees to 8% p.a. net of costs after a 4% preferred return for investors. Once the preferred return hurdle is met, 100% of profits above the hurdle will be returned to Partners Group up to the point the 8% performance fee is met. |

The Plan also pays consultancy fees to Isio for the provision of a range of actuarial, investment advisory and administration services. Unless otherwise agreed in respect of any service, Isio is remunerated by fees that are normally based on the time spent and cost incurred.

## Appendix B – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

| Risks      | Definition  | Policy  |
|------------|---|---|
| Investment | The risk that the Plan's position deteriorates due to the assets underperforming.                                     | <ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>   |
| Funding    | The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.    | <ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> </ul> |
| Covenant   | The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan. | <ul style="list-style-type: none"> <li>When developing the Plan's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.</li> </ul>   |

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, these are summarised below:

| Risk                         | Definition  | Policy   |
|------------------------------|---|--|
| Interest rates and inflation | The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations. | To hedge c.90% of interest rate and c.90% of inflation risk on the 2021 Technical Provisions basis   |
| Liquidity                    | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.                            | To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI and Synthetic Equity mandates. |

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|                                      |  | The Trustees use the Plan's Diversified Credit allocation (the daily trading M&G Total Return Credit Investment Fund) for liquidity management purposes, and receive regular, ongoing advice from their investment advisers on whether the level of liquidity in the Plan's portfolio remains appropriate.   |
| Market                               | Experiencing losses due to factors that affect the overall performance of the financial markets.   | To remain appropriately diversified and hedge away any unrewarded risks, where practicable.  |
| Credit                               | Default on payments due as part of a financial security contract.  | To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.   |
| Environmental, Social and Governance | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments. | To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion:<br>1. Responsible Investment ('RI') Policy / Framework<br>2. Implemented via Investment Process<br>3. A track record of using engagement and any voting rights to manage ESG factors<br>4. ESG specific reporting<br>5. UN PRI Signatory<br>The Trustees monitor the managers on an ongoing basis.          |
| Currency                             | The potential for adverse currency movements to have an impact on the Plan's investments.  | Currency risk is mitigated for the Plan's pooled fund holdings by investing via Sterling-hedged share classes, with any underlying exposure to non-Sterling currencies being active positions taken by the investment managers for the purpose of return generation.<br><br>Exposure to global equity markets in the Synthetic Equity Portfolio is achieved via exchanged traded futures, which by their nature are implicitly hedged to Sterling. |
| Non-financial                        | Any factor that is not expected to have a financial impact on the Plan's investments.  | Non-financial matters are not taken into account in the selection, retention or realisation of investments.  |

## Appendix C

The Trustees have the following policies in relation to the investment management arrangements for the Plan:

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| <p><b>How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.</b></p>   | <ul style="list-style-type: none"> <li>• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.</li> <li>• The Plan's mandates for Diversified Private Credit and Direct Lending are subject to a performance related fee.</li> </ul>  |
| <p><b>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</b></p> | <ul style="list-style-type: none"> <li>• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>• The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.</li> <li>• The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>   |
| <p><b>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.</b></p>   | <ul style="list-style-type: none"> <li>• The Trustees review the performance of all of the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>• The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</li> <li>• Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.</li> </ul> |
| <p><b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</b></p>  | <ul style="list-style-type: none"> <li>• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>  |
| <p><b>The duration of the Plan's arrangements with the investment managers</b></p>   | <ul style="list-style-type: none"> <li>• The duration of the arrangements is considered in the context of the type of fund the Plan invests in. <ul style="list-style-type: none"> <li>○ For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees</li> </ul> </li> </ul>  |

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|  | <p>objectives and Plan's liquidity requirements.</p> <ul style="list-style-type: none"><li>○ For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</li></ul> |
|--|--|