

Addendum to the Statement of Investment Principles

For the Grosvenor Pension Plan

Effective from: 6 July 2023

This addendum to the Statement of Investment Principles (“SIP”) for the Grosvenor Pension Plan (the “Plan”) has been produced by the Trustees of the Plan. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Plan’s investment arrangements.



GROSVENOR



Part 1:

Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Plan. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Plan overall. Our investment powers are set out within the Plan's governing documentation.

1. Trustees

Our responsibilities include:

- setting the investment strategy, in consultation with the employer;
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing, engaging with and replacing investment managers, investment advisers, actuary, and other service providers;
- reviewing the investment policies as part of any review of the investment strategy;
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended);
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged; and
- reviewing the SIP and modifying it as necessary, in consultation with the employer.

We have delegated consideration of certain investment matters to an investment sub-committee ("ISC"), although any decisions remain our responsibility.

2. Investment managers

The investment managers' responsibilities include:

- 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, net zero alignment and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken and progress on net zero alignment over time; 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 are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested;
- advising on and monitoring liability hedging and collateral management;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);
- supporting the Trustees in achieving the Plan's net zero ambition, including through manager selection, monitoring and engagement; and
- assisting us with reviews of the SIP and this SIP addendum.

4. Fee structures

The provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets. We have agreed terms with the Plan's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Plan, and we keep the fee structures under review.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively.

It is our policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the sponsoring employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:

Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time;
- the agreed journey plan and employer contributions;
- the Plan's long-term and shorter-term funding targets;
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Plan's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

The VaR of the Plan's investment strategy is monitored at each ISC meeting.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Strategic risk

This is the risk that the performance of the Plan's assets and liabilities diverge in certain financial and economic conditions. This risk has been taken into account in our most recent investment strategy review and is monitored on a regular basis.

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

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 (eg equities), could materially adversely affect the Plan's assets. We believe that the Plan's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Plan's investment arrangements.

Currency risk

Whilst the majority of the currency exposure of the Plan's assets is to Sterling, the Plan is subject to currency risk because some of the Plan's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate. Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge some or all of the overseas currency exposure.

Interest rate and inflation risk

The Plan's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Plan's assets provide protection (hedges) part of the corresponding risks associated with the Plan's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Custodian risk

This is the risk that the custodian fails in one or more of its duties in particular safeguarding the Plan's investments. We are aware that the investment managers review the selected custodians and the services provided from time to time.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice. We encourage our managers (where practical) to set credible net zero targets for the funds in which we invest and to align our investments with net zero greenhouse gas emissions by 2050 to help drive real world emissions reduction and reduce systemic risks relating to climate change. We monitor and engage with our managers on their progress towards net zero alignment.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to

appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice.

Illiquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due, or that the Plan will become a forced seller of assets in order to meet benefit payments. We are aware of the Plan's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments and by investing in income generating assets, where appropriate.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, the LDI manager makes use within its LDI funds of derivative and gilt repos contracts and this fund is used to match efficiently the Plan's liabilities. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The Plan is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe.

To mitigate this risk, we have a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Plan's LDI arrangements and the approach that is expected to be taken with regards to selling down these assets to support the LDI arrangements. As part of this leverage management plan, the Trustees periodically monitor the impact of movement in interest rates and inflation expectations and how that

compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

Valuation risk

Some of the Plan's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as private credit) prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents. At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice.

We consider exposure to valuation risk in the context of the Plan's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Plan. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected);
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Plan as anticipated); and
- political risk (the risk that political decisions adversely impact the Plan's assets and / or liabilities).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:

Investment manager arrangements

We have agreed a current strategic benchmark allocation for the Plan, as referenced in the SIP, and this is set out below.

Asset class	Current Strategic Allocation
Growth Assets	37.5%
Developed market climate-tilted equities	12.5%
Emerging market equities	2.5%
Diversified growth	7.5%
Infrastructure	7.5%
Opportunistic credit	7.5%
Matching Assets	62.5%
Multi-asset credit	10.0%
Liability Driven Investment (LDI) / Liquidity	35.0%
Short dated credit	17.5%
Total	100.0%

We aim to hedge broadly 100% of the interest rate and inflation exposure on a Technical Provisions liability basis.

Details of the investment managers and funds held by the Plan are set out below.

- The Plan invests in LDI via two pooled funds called the Matching Core Real Long Fund and Matching Core Real Short Fund.
- The objectives of the funds are to reduce DB pension scheme risk exposure to changes in interest rate and inflation rates.
- The Plan invests in short duration credit via a pooled fund called the Short Dated Corporate Bond Index Fund.
- The objective of this fund is to track the return of the Markit iBoxx

Sterling Corporates 1-5yr Index gross of fees.

Liquidity

- The Plan invests in a liquidity fund via a pooled fund called the Sterling Liquidity Fund.
- The objective of this fund is to provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average).
- The Plan invests in developed market climate-tilted equities via pooled funds called the ACS World Low Carbon Equity Tracker Funds (unhedged and GBP Hedged versions).
- The objective of the funds is to provide a return on investment by tracking closely the performance of the MSCI World Low Carbon Target Reduced Fossil Fuel Select Index gross of fees.
- The Plan invests in multi asset credit via a pooled fund called the Alpha Opportunities Fund.
- The objective of the fund is to seek a total return of SONIA +3 to 5% gross of fees pa over a cycle.

IFM – Infrastructure

- The Plan is invested in a listed infrastructure pooled fund called the Global Infrastructure Fund.
- The objective of the fund is to seek assets with strong market positions, stable regulatory environments, high barriers to entry, limited demand elasticity and long lives.
- The fund has a target return of 8-12% pa over a market cycle.

JP Morgan – Emerging Markets Equities

- The Plan is invested in emerging markets equities via a pooled fund called the Emerging Markets Fund.

- The objective of the fund is to provide capital growth over the long term (5 – 10 years) by investing at least 80% of the fund’s assets in equity securities of emerging markets companies.
- The fund has a target to outperform the MSCI Emerging Markets Index (Net) by 3% pa gross of fees over a cycle.

Abrdn – Diversified growth

- The Plan invests in diversified growth via a pooled fund called the Abrdn Life Diversified Growth Fund.
- The objective of the fund is to exceed the return on cash deposits (as currently measured by a benchmark of 1 month SONIA GBP) by 5% pa over rolling five year periods before charges.

Alcentra – opportunistic credit

- The Plan invests in a pooled, closed ended opportunistic credit fund, called the Alcentra Strategic Credit Fund II (GBP) SCSp
- The fund’s objective is to deliver an annualised IRR (internal rate of return) of 15% net of fees

Additional Voluntary Contributions

Prudential is the provider of AVC arrangements in the Plan. The options available to members are kept under review.