Pendragon Group Pension Scheme

Defined Benefit Section

Statement of Investment Principles

Date prepared: 10 September 2019

Date signed: 30 September 2019

1 Introduction

1.1 This is the Statement of Investment Principles prepared by Pendragon Group Pension Trustees Limited ("the Trustee") as Trustee of the Pendragon Group Pension Scheme ("the Scheme"). This statement sets down the principles governing decisions about the Scheme's investments to meet the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.2 In preparing this statement, the Trustee has consulted with Pendragon plc ('the Employer'), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustee are set out in Rule 18 of the Trust Deed & Rules, dated 24 September 2012. This statement is consistent with those powers.

2 Choosing Investments

2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in the Appendix to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will consult the Employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to reduce the risk of the assets failing to meet the liabilities over the long term; and
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Scheme is permitted to invest in a wide range of assets including equities, diversified growth funds, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives), Liability Driven Investment ("LDI"), Special Purpose Investment Vehicles ("SPIV") and annuity policies.

4.2 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's Auditor.

4.3 The Trustee has, having received advice from all relevant professional sources, invested in a Special Purpose Investment Vehicle ("SPIV"). This takes the form of a Central Asset Reserve ("CAR"). The CAR holds and will hold as an asset, real estate in the form of properties previously owned by the Employer.

The CAR has agreed leases with the Employer allowing the Employer to operate the properties for a period of 21 years. Under the terms of the leases, the Employer will pay an agreed rent to the CAR.

The CAR has been established as a Scottish Limited Partnership (SLP). By investing in the SLP, the Trustee has become a limited partner in the SLP and acquires the right to a guaranteed income stream for a specified period of time, under the terms of the partnership agreement. The CAR will be valued by an appointed Actuary at least annually.

In the event of the insolvency of the Employer, the Trustee will have recourse to the capital value of the property subject to agreed maxima determined by the solvency of the Scheme as advised by the Scheme Actuary.

The Trustee has been advised by the appointed legal adviser that this is not an Employer Related Investment (ERI).

The Trustee recognises that the investment falls into the classification of not being traded on regulated markets under the terms of the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will take ongoing investment advice to ensure that the value of this investment by comparison to the whole Scheme asset value does not exceed what the Trustee would consider to be prudent.

The Trustee has recognised that the CAR is potentially illiquid, owing to there not being an active market for this investment. However, the Trustee accepts this risk given the guaranteed nature of the income stream and in the event of employer insolvency, the Trustee will have recourse to physical property, which may be sold on the open market.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

6.2 **Risk versus the liabilities:** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Covenant risk:** The creditworthiness of the Employer and the size of the pension liability relative to the Employer's receipts from donations are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer's covenant.

6.4 **Solvency and mismatching:** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.5 **Asset Allocation risk:** The asset allocation is detailed in the Appendix to this Statement and will be monitored on a regular basis by the Trustee.

6.6 **Fund manager risk:** The Trustee monitors each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.7 **Concentration risk:** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.8 **Liquidity risk**: The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.9 **Currency risk:** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

6.10 **Loss of investment:** The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

6.11 **Environmental, Social and Governance ("ESG") factors:** The Trustee believes that ESG factors could be financially material. The Trustee has a policy to consider these, alongside other factors when selecting or reviewing the Scheme's investments and more details on the Scheme's approach is set out in appendix 2.

7 Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's fund managers as frequently as is appropriate in order to review performance.

8 Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9 Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10 Agreement

10.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the fund managers, the Actuary and the Scheme Auditor upon request.

Signed: NiC Mn.

Date: 30 September 2019

On behalf of Pendragon Group Pension Trustees Limited, the Trustee to the Pendragon Group Pension Scheme

Appendix 1

Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below (this includes the Central Asset Reserve), which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Asset class	Manager		Target allocation
Equities	SVM UK Equity Portfolio		4.5%
	BlackRock Global Equity Portfolio	Market Cap	6.75%
		Factor Based	6.75%
Diversified Growth Funds	BlackRock Dynamic Diversified Growth Fund		6.75%
	Additional DGF Manager*		6.75%
Credit	M&G Alpha Opportunities Fund		9.0%
	TwentyFour Strategic Income Fund		9.0%
Illiquids	Illiquid Fund		9%
	To be confirmed		4.5%
LDI**	Schroders Pooled LDI Portfolio (including Cash Fund)		16.2%
	Schroders Securitised Credit Fund		8.1%
	Schroders Buy & Maintain Credit		2.7%
SPIV	Central Asset Reserve		9%
n/a	Trustee Bank Account		1%
Total			**100%**

*The Scheme is currently invested in the Invesco Global Targeted Returns Fund and the Aviva Multi-Strategy Target Return Fund
**Includes the allocations to the Securitised Credit and Buy & Maintain Credit Funds

Funds highlighted yellow are strategic allocations where the manager has not been selected yet.

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

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Choosing investments

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the Scheme's funds:

- Aviva Investors ("Aviva")
- BlackRock Investment Management (UK) Limited ("BlackRock");
- Invesco Perpetual ("Invesco")
- M&G Investments ("M&G")
- Legal and General Investment Management ("L&G")
- Schroder Investment Management Limited ("Schroders")
- SVM Asset Management Limited ("SVM")
- TwentyFour Asset Management ("TwentyFour")

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters.

Fee agreements

Fund	Annual management charge (% p.a.)
SVM UK Equity Portfolio	0.50%
BlackRock Aquila Life MSCI World Fund	0.04% AMC 0.0084% additional expenses
BlackRock Aquila Life Currency Hedged MSCI World Index Fund	0.04% 0.0384% additional expenses
BlackRock iShares Emerging Markets Index Fund	0.10% 0.06% additional expenses
BlackRock Aquila Life Global Developed Fundamental Weighted Index Fund	0.06% 0.0685% additional expenses
BlackRock Aquila Life Currency Hedged Global Developed Fundamental Weighted Index Fund	0.06% 0.0985% additional expenses
BlackRock iShares Edge EM Fundamental Weighted Index Fund	0.12% 0.09% additional expenses
BlackRock Dynamic Diversified Growth Fund	0.55% AMC 0.08% additional expenses
Aviva Multi-Strategy Target Return Fund	0.67% AMC 0.03% additional expenses
Invesco Global Targeted Returns Fund	0.70%
M&G Alpha Opportunities Fund	0.50%
TwentyFour Strategic Income Fund	0.45% AMC 0.14% additional expenses
Schroders Buy & Maintain Credit Fund	0.13%
Schroders Securitised Credit Fund	0.35%
Schroders Pooled LDI Portfolio*	0.07% for the first £50m 0.06% from £50m to £100m 0.05% over £100m
Schroders Sterling Liquidity Plus Fund	0.10%

* Fee is based on the value of the liabilities hedged rather than the value of the invested assets

Monitoring performance

The investment benchmarks and objectives for each fund manager (excluding the Central Asset Reserve) are given below:

Fund	Benchmark	Objective	Target allocation
SVM UK Equity Portfolio	FTSE All-Share Index	Benchmark + 3% p.a. (net of fees) over a rolling three year period	5%
BlackRock Aquila Life MSCI World Fund	MSCI World Index	Track the benchmark	3%
BlackRock Aquila Life Currency Hedged Global Equity Index Fund	Aquila Life Currency Hedge Global Equity Benchmark		3.75%
BlackRock iShares Emerging Market Index Fund	MSCI Emerging Markets Index		0.75%
BlackRock Aquila Life Global Developed Fundamental Weighted Index Fund	FTSE RAFI Developed 1000 Index		3%
BlackRock Aquila Life Currency Hedged Global Developed Fundamental Weighted Index Fund	FTSE RAFI Custom Developed 1000 95% GBP Hedged Net Tax Index		3.75%
BlackRock iShares Edge EM Fundamental Weighted Index Fund	FTSE RAFI Emerging Markets Index		0.75%
BlackRock Dynamic Diversified Growth Fund	3-month LIBOR	Benchmark + 3% p.a. (net of fees) over a rolling three year period	7.5%
Aviva Multi-Strategy Target Return Fund	Bank of England Base Rate	Benchmark + 5% p.a. (gross of fees) over a rolling three year period	7.5%*
Invesco Global Targeted Returns Fund	3-month LIBOR	Benchmark + 5% p.a. (gross of fees) over a rolling three year period	
M&G Alpha Opportunities Fund	1-month LIBOR	Benchmark + 3% to 5% p.a (gross of fees) over a cycle	10%
TwentyFour Strategic Income Fund	3-month LIBOR	Benchmark + 4 to 5% p.a. (gross of fees) over a cycle	10%

Schroders Buy & Maintain Credit Fund	Expected spread of gilts + 1.2% (gross of fees) over the life on the Fund		3%
Schroders Securitised Credit Fund	USD 3-month LIBOR	Benchmark + 2% p.a. (gross of fees) over a cycle	9%
Schroders LDI Portfolio	The Hedge benchmark is a subset of the Liability Proxy cashflows and represents that part of the Liability Proxy that the LDI portfolio is expected to hedge. The risks to be hedged are the interest rate and inflation sensitivities of the Present Value of the Hedge benchmark. The Liability Proxy is a set of two future cashflow streams (one fixed, one linked to inflation) which are a representation of the future payments expected to be made by the Scheme in respect of benefits accrued to a certain date.		14%
Schroders Sterling Liquidity Plus Fund	3-month LIBOR	Track the benchmark	4%

* The Scheme has a target allocation of 7.5% to an additional DGF manager but is currently invested in the Invesco Global Targeted Returns Fund and the Aviva Multi-Strategy Target Return Fund.

The total allocation in the table above sums to 85%, as the Trustee is still considering which Illiquid Funds to allocate the remaining 15% to.

Appendix 2

Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

Policy on financially material considerations

The Trustee believes that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustee's views for each asset class in which the Scheme invests is outlined below.

Multi-asset funds

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching the investments by the Scheme's multi-asset fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Active Equity

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the equity markets. The Trustee accepts that fund managers will be guided by the fund's underlying benchmark and, therefore, may not be entirely unconstrained in relation to concerns relating to ESG. The Trustee therefore requires that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive equities

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's exposure to passive equities. The Trustee accepts that the fund manager must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG.

Credit

The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings, across both private and public markets. The Trustee recognises that fixed income assets do not include voting rights, however, they support engagement with companies by their managers, particularly in private markets where the manager may be responsible for a larger share of any investment. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustee believes this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

General

The Trustee is comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out above. This position is monitored periodically, at least annually. In the future, the views set out above will be taken into account when appointing and reviewing managers.

The Trustee is comfortable that all of the investment managers are managing the respective funds with ESG taken into account as far as it is possible for that particular asset class and within applicable guidelines and restrictions.

Before considering any new mandate, the Trustee will require the manager to be a signatory to the United Nations supported Principles for Responsible Investment (PRI). At the time of writing, all of the Scheme's investment managers are PRI signatories.

The Trustee has instructed their investment advisors, Barnett Waddingham, to review how ESG issues are taken into account for each of the Scheme's mandates, and to report back on an annual basis against their beliefs for each asset class set out above. This reporting will be incorporated into the quarterly investment monitoring report that the Trustee receives.

Stewardship

Stewardship encompasses the exercise of rights (including voting rights) attaching to the Scheme's investments, and the engagement by and with investment managers.

The Trustee delegates responsibility for stewardship activities attaching to the Scheme's investments to its investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value. In addition to the exercise of voting rights, managers are expected to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.

The Trustee periodically reviews engagement activity undertaken by their investment managers to ensure that the policies outlined above are being met and may explore these issues with its investment managers as part of the ongoing monitoring of the ESG integration and stewardship activities of its investment managers.

The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council and expects the Scheme's investment managers to have corporate governance policies in place which comply with these principles. The Trustee will review the signatory status of all of its managers following anticipated revisions to the UK Stewardship Code in 2019.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers the Trustee does not prioritise non-financial matters. Based on the size and maturity of the Scheme, the Trustee utilises pooled investment vehicles. This approach means it is less practical and efficient (from a return and cost perspective) to take account of such non-financial matters.