

Statement of Investment Principles

Compass Group Pension Plan
AUGUST 2020

This document has been prepared for the Trustee of the Compass Group Pension Plan.

1.0 Introduction

The purpose of the Statement of Investment Principles ('the Statement') is to document the principles, policies and beliefs by which the Trustee of the Compass Group Pension Plan ('the Plan') manages the Plan's assets. This document takes account of:

- the requirements of the Pensions Act 2004;
- the requirements of the Occupational Pension Schemes (Investment) Regulations 2005; and
- the principles of the Myners Code.

The Plan's Trustee has consulted Compass Group PLC ('the Company'), which is acting on behalf of all the participating employers, on the Statement and received written advice from the Plan's investment consultant, Aon Solutions UK Limited.

The Trustee has delegated day to day investment decisions to M&G Investment Management Limited; Legal & General Investment Management Limited; Aviva Investors and to CBRE Global Investors (together the "Investment Managers"). The Trustee has signed and dated Investment Management Agreements with these Investment Managers which set out the terms and conditions by and under which the Plan's investments will be managed and reported, or other suitable documentation.

Aon Solutions UK Limited will collate and report to the Trustee on the performance of the Investment Managers and provide a range of advice in respect of the Plan's investments.

The Statement will be reviewed regularly and, in particular, when there is a significant change in the Plan's circumstances.

2.0 Governance of the Plan

The Plan is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee's investment powers. The investment powers do not conflict with this Statement.

The Trustee has set up a separate Investment Committee to monitor investment performance and to make recommendations on investment strategy and implementation to the full Trustee Board. The Investment Committee has certain limited decision making powers which are set out in its Terms of Reference but these must then be reported in full to, and ratified by, the Trustee Board. Both the Trustee and the Company are represented at Investment Committee meetings.

However, the ultimate responsibility for deciding the Plan's investment policy lies solely with the Trustee, although it consults with the employer on these issues either direct or via discussions at Investment Committee meetings. The main areas of investment responsibility include:

- determination of the strategic asset allocation;
- determination of portfolio structure;
- selection and appointment of external investment managers; and
- ongoing monitoring and evaluation of the investment arrangements.

The Trustee is satisfied that it has sufficient expertise, information and resources, or access thereto, to carry out its role effectively.

2.1 Liabilities

The value of the Plan's ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors which are relevant to the Plan's investment policy are:

- the rate of return on assets;
- salary escalation for active members;
- price inflation; and
- long-term interest rates.

The value of the Plan's liabilities for the purpose of testing solvency and satisfying the statutory funding tests is sensitive to each of these factors.

2.2 Maturity and Cash Flow

Following both the cessation of future service accrual from 6 April 2010 to all but those members who have TUPE transferred from the public sector and the merger of the Compass Pension Scheme into the Plan on 5 April 2011, the Plan can now be considered to be a mature scheme with around one third of the total membership being pensioners. The fund has moved into a position of a negative cash flow into the Plan whereby contribution income is less than benefit payments.

The majority of the Plan's assets can be realised at short notice (typically within one week in normal market conditions). The exception to this is the Plan's property investments with CBRE and Aviva Investors.

3.0 Objectives

The Trustee wishes to ensure that it can meet its obligations to the beneficiaries both in the short and long term.

In addition, the Trustee has the following specific objectives regarding the manner in which this primary objective is to be achieved, which are ranked in order of priority:

- To meet the liabilities as they fall due.
- To minimise the long term cost of providing the benefits.
- To minimise the likelihood of fluctuations in the contribution rate.
- To maintain a funding level on an ongoing basis of not less than 100%.

3.1 Low Dependency

The Trustees define Low Dependency as a funding basis and investment strategy that is expected to allow the Plan to meet its future liabilities and expenses with little or no monetary contributions from the Company. The Low Dependency funding basis assumes a discount rate of gilts +0.6% p.a. The Low Dependency investment strategy protects, as far as practical, 100% of changes in the Low Dependency funding basis liability value due to changes in interest rates and inflation, while targeting an overall best estimate expected return of gilts +0.8% p.a. (approximately equivalent to the funding basis plus an allowance for prudence).

3.2 2 Ongoing

The Trustee recognises that the Company has a legitimate interest in these objectives and has consulted the Company accordingly. It is also recognised that the objectives above may conflict and that prioritising is required if the primary objective is to be achieved in the desired manner.

The objectives will be reviewed from time to time as part of a formal wide-ranging review of the Plan's funding and investment strategy, as set out below. The Trustee also has an objective to manage risk in light of the Plan-specific funding level.

4.0 Risk

The Trustee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures which are set out in this Statement to minimise investment related risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Trustee has considered the following risks:

- asset-liability mismatch risk (asset allocation risk – see 5.0 below);
- the need to pay benefits when due (cash-flow risk – see Section 2.2 above);
- actions by the investment managers (investment risk – see Sections 6.2 and 6.3 below); and
- the failure of some investments (concentration risk – see Sections 6.1 and 6.4 below).

Further, the following risks have been considered:

- The possibility of failure of the Plan's sponsoring employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- 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.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

In terms of magnitude, the Trustee considers that asset-liability mismatch risk is one of the most important measures to control. Therefore, following an actuarial valuation, the Trustee conducts an asset/liability review which focuses on the impact of asset allocation on expected future funding levels. The Trustee considers the results using advanced modelling techniques, and, with the assistance of expert advisers, is able to measure and quantify these results in terms of their definitions of risk. This allows the Trustee to assess the probabilities of critical funding points associated with different investment strategies.

Consideration will also be given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions etc.), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. The decision as to whether to pursue active management is taken on an asset class by asset class basis, with regard to the potential reward within that asset class for taking on active risk. The Investment Managers are bound by the terms and conditions of Investment Management Agreements or pooled fund documentation. Restrictions and targets are clearly documented. Frequent monitoring of portfolio characteristics such as excess returns and tracking error also aids in the ongoing risk management for the Plan.

To ensure diversification, the Investment Managers are required to work within specified limits on concentration in individual asset class sub-sectors and in individual securities. Risks associated with investment manager performance are addressed through a regular review process.

5.0 Asset Allocation Strategy

Given that the Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that it will achieve its investment objectives, the Trustee has not delegated responsibility for this decision, which is made on the advice of its investment consultant and in consultation with the Company.

In line with best practice the Trustee has reviewed, and will keep under review, the advantages of a full range of investment opportunities including (but not limited to):

- quoted and private equity;
- government and non-government bonds;
- property, both traditional commercial and long lease;
- absolute return asset classes including hedge funds and active currency;
- opportunities to hedge the liabilities; and
- alternative liability matching assets.

The strategic asset allocation policy is normally set after conducting an asset liability study and further reviewed as circumstances dictate between actuarial reviews. The study examines the likelihood that different possible asset allocations would meet the Trustee's objectives. In addition to taking account of the Plan's benefits, the study makes important assumptions about the behaviour of various asset classes plus price and salary inflation in the future.

In particular, it is recognised that:

- Certain asset classes can be expected to outperform other asset classes and inflation over the long term but they tend to be more volatile than the lower returning asset classes.
- Asset classes do not perform in perfect synchronisation, and diversification which leads to lower overall volatility can be achieved from combining different asset classes.
- The performance of certain asset classes is more closely linked to the behaviour of inflation than others and so they represent a better match for liabilities linked to inflation.

The Trustee has determined the following target asset allocation:

Equities	4.25%
Commercial Property	4.30%
Long Lease Property	6.20%
Corporate Bonds	12.50%
Liability Driven Investment	72.75%

The actual asset allocation may differ from the target at a moment in time, predominantly due to two reasons:

- Lag between adopting a new target asset allocation and implementing this change.
- Market movements which cause deviations away from the benchmark.

In setting investment strategy, expected returns and other characteristics of each asset class are taken into account both on an absolute basis and relative to the liabilities. This includes, but is not limited to, the following:

- It is expected that the Plan's growth assets (equities and property) will outperform the matching assets (gilts and corporate bonds).
- The matching assets are lower risk relative to the liabilities than the growth assets.

The strategy will be reviewed after each actuarial valuation. In addition, if there is a significant change in the capital markets, the circumstances of the Plan or the Company, or governing legislation between valuations, then an earlier review will be conducted.

Further details on the investment arrangements are provided in the Investment Implementation Plan which is available to members upon request.

5.1 1 Investment of Additional Voluntary Contributions

The Trustee selects the choice of investment vehicles used by members for additional voluntary contributions (AVCs).

The Trustees undertook a consolidation exercise in 2016 and 2017, which saw the majority of the Plan's AVC holdings being moved to one of the existing AVC providers, Legal & General. When deciding on provider, the Trustees took into account past performance, charging structure, flexibility and the quality of administration.

Some members may continue to hold AVC benefits with providers under prior arrangements, principally with Friends Life, Aviva, Standard Life, the Scottish Widows Fund and Life Assurance Society, The Equitable Life Assurance Society and the Prudential Assurance Co. Ltd.

5.2 2 Investment of Defined Contribution funds

The DC benefits comprise historic transfers of DC arrangements into the Plan which are no longer receiving contributions and are provided as both 'pure' DC benefits and underpins.

Members continue to hold DC funds with Prudential, M&G and Scottish Widows.

6.0 Review and Control

The Trustee is satisfied that it has adequate resources to monitor the investment arrangements.

6.1 1 Performance Measurement

The Trustee monitors the strategy and its implementation as follows:

- The Trustee receives, on a quarterly basis, a written report on the returns of the fund and asset classes together with supporting analysis.
- The performance of the total fund is measured against the strategic benchmark, which is a proxy for the return on the Plan's liabilities ("the Liability Benchmark").
- The performance of each asset class is measured against the relevant benchmark. A comparison against a universe of portfolios with similar mandates will also be made from time to time.

6.2 2 Service Provider Monitoring

The Trustee reviews from time to time the services provided by the Investment Consultant and other service providers as necessary to ensure that the services provided remain appropriate for the Plan.

6.3 3 Delegation

Some areas of review and control are delegated to the Investment Committee. The areas in which this committee can act are set out in its Terms of Reference.

7.0 Liaison with the Company

The Company is invited to attend all Investment Committee Meetings and attendance satisfies the requirement, where it exists, to consult with the Company.

The Company may consult internally with executive directors and/or the Compass Group PLC main board before confirming its views.

8.0 Responsible Investment

In setting the Plan's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking return that is consistent with a prudent and appropriate level of risk. The Trustee believes that in order to fulfil this commitment and to protect and enhance the value of the Plan's investments, it must act as a responsible steward of the assets in which the Plan invests.

8.1 1 Environmental, Social, and Governance Considerations

The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance (“ESG”) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of its delegated responsibilities, the Trustee expects the Plan’s investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Plan’s assets and liabilities.
- As part of ongoing monitoring of the Plan’s investment managers, the Trustee will use ESG ratings information provided by Aon Solutions UK Limited, where relevant and available, to monitor the level of the Plan’s investment managers’ integration of ESG on a periodic basis.
- Regarding the risk that ESG 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 its investment adviser when selecting managers and when monitoring their performance.
- The Trustee will include ESG-related risks, including climate change, on the Plan’s risk register as part of ongoing risk assessment and monitoring.

8.2 2 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 Plan invests, as this ultimately this creates long-term financial value for the Plan and its beneficiaries.

The Trustee regularly reviews the suitability of the Plan’s appointed asset managers and take 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 review the alignment of the Trustee’s policies to those of the Plan’s asset managers and 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 Plan invests in pooled funds, which may result in indirect exposure to sectors or companies with higher Environmental, Social and Governance risks. The Trustee's expectation is that the Plan's appointed investment managers will actively engage with its invested companies to improve standards and influence behaviours.

The Trustee through its investment consultant will engage with the Plan's appointed investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The transparency for voting should include voting actions and rationale with relevance to the Plan, in particular, where: votes were cast against management; votes against management generally were significant and votes were abstained. Where voting is concerned the Trustee expects its asset managers to recall stock lending, as necessary, in order to carry out voting actions.

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

8.3 3 Arrangements with Investment Managers

The Trustee quarterly monitors the Plan'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 investment 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 receives at least quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, Aon's environmental, social and governance rating for each the investments 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 Plan objectives, and assess the investment managers over medium term periods.

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

The Trustee shares the policies, as set out in this SIP, with the Plan's investment managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new investment 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 possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustee will express its expectations to the investment managers in by other means (such as through a side letter, in writing, or verbally at meetings).

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

Where investment 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 investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

The Trustee believes it has a duty as institutional investors to invest in a responsible manner and where appropriate will query managers on the rationale for holding positions in companies who contribute significant negative externalities to society.

8.4 Members' Views and Non - Financial Factors

In setting and implementing the Plan's investment strategy the Trustee do not explicitly take into account the views of Plan 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").

9.0 Cost and Transparency

The Trustee recognises the importance of monitoring the level of investment costs incurred in the management of their assets and the impact these can have on the value of the assets. Although net of all costs performance assessments provide an incentive on investment managers to manage these costs the Trustee believes that regular and consistent monitoring of the costs will help to reduce any inefficiencies in the cost structure.

9.1 Cost Transparency

Investment management fees are determined as fixed percentages, which do not include performance elements. The Trustee believes that this is the most appropriate way in which to remunerate the investment managers.

The investment consulting fees payable to Aon Solutions UK Limited are invoiced separately.

The Trustee expects all of the Plan's investment managers to provide them with full cost transparency in line with industry standard templates. Prior to their appointment, the Trustee expects investment managers to confirm their adherence to providing this information.

The Trustee assesses the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on an annual basis. On an annual basis, all of the investment managers are asked to provide details of the costs incurred in managing the Plan assets, using industry disclosure templates. These costs include portfolio turnover costs (transaction costs). Where the disclosed costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with their investment strategy.

9.2 Portfolio Turnover

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 reasonable 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.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Plan's investment consultant monitors this 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.

9.3 Evaluation of Performance and Remuneration

The Trustee undertakes analysis of the Plan's costs and performance for their active managers on at least a triennial basis by receiving benchmarking analysis comparing the Plan's specific costs and performance of the underlying managers relative to those of the wider market. This is in line with the Trustee's policies on reviewing the kinds and balance of investments to be held.

10.0 Prohibitions

Financial derivatives (such as futures and options), may be used under certain circumstances which are specified in the agreements with the Investment Managers.

Regular monitoring of the Investment Managers' funds ensures that the Plan does not exceed the legally permitted limit on the holding of shares of Compass Group PLC or any other employer related investment.

This document has been prepared having obtained appropriate written advice from Aon Solutions UK Limited, and having consulted with the Company.

P N Whittome

11/09/2020

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Signed on behalf of the Trustee

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Date

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10/9/2020

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Signed on behalf of the Company

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Date