Hiscox Pension Scheme

Statement of Investment Principles

August 2020

1. Background

This statement sets down the principles governing investment decisions for the Hiscox Pension Scheme (hereinafter referred to as "the Scheme") in order to meet the requirements of the Pensions Act 1995, the Pensions Act 2004 and subsequent relevant legislation. Before preparing the statement, Hiscox Pension Trustees Limited ("the Trustee") has consulted Hiscox plc ("the Company") and obtained and considered written professional advice from its investment consultants, Mercer Limited.

2. Investment Policy

2.1 Investment Strategy

The Trustee seeks to maximise the likelihood of meeting the Scheme liabilities as they fall due, over the expected lifetime of the Scheme. The choice of asset classes is designed to ensure the Scheme's investments are adequately diversified and liquid. Due care is taken as regards investing in speculative and high risk assets in order to minimise the risk of the funding level falling.

Having considered the relative merits of different investment strategies for the Scheme, the Trustee has adopted an asset allocation which is set out below. The asset allocation will be reviewed in line with the implementation of the de-risking strategy detailed in Section 2.6.

Asset Class	Target Weighting %
Equities (UK, US, Global, Emerging Markets)	50 - 85
Alternatives (Multi Asset Credit, Convertibles & Absolute Return)	10 - 50
Bonds	0 - 20
Cash	0 - 20
Total	**100**

In addition to agreeing an investment strategy, the Trustee has taken into account the expected return on each of the investments in absolute terms and relative to the liabilities.

The Trustee recognises that the allocation of assets has been taken with a view to meeting the long-term liabilities of the Scheme and that the asset allocation is a major determinant of the overall return on the Scheme's assets and the level of investment risk taken.

Over the long term the Trustee believes that equities will outperform all other asset classes, but recognises that over the short term equity returns can be more volatile. The Trustee feels it is appropriate to take the Company's views into account given the Company's role as sponsor of the Scheme and the fact that the Company ultimately bears the investment risk associated with the Scheme's investment strategy.

The Trustee regularly reviews the ongoing suitability of the investment strategy, and in doing so takes account of the key objectives and risks identified.

2.2 Long-Term De-Risking

The Trustee has agreed a de-risking journey plan with the Company that seeks to reduce investment risk over time. De-risking is dependent on improvements in the Scheme's funding level, for example as a result of better than expected investment returns and / or deficit contributions from the Company.

The approach to de-risking will see the Scheme gradually reducing the allocation to growth assets whilst commensurately increasing the allocation to defensive assets such as corporate bonds, gilts and index-linked gilts in order to immunise the Scheme's investment portfolio from fluctuations in interest rates and inflation. Further details on the de-risking plan are set out in Section 2.6.

2.3 Day to Day Management of the Assets

The Trustee is responsible for the investment of the Scheme's assets but has delegated the day-to-day management to professional investment managers. The Trustee has received advice from the investment consultant on the appropriateness of each manager's target, benchmark and risk tolerance.

Effective 30 June 2020, the Scheme's assets are invested as follows:

Asset Class	**Target Range (%)** ***Actual (%)***	**Manager(s)**
Equities	**50 – 85**	
UK Equities	*24*	*Lindsell Train* *Majedie Asset Management*
US Equities	*27*	*Ruane, Cunniff & Goldfarb Inc.* *Findlay Park*
Global Equities	*7*	*Kiltearn Partners LLP*
Emerging Market Equities	*5*	*Genesis Fund Management Limited*
Alternatives	**10 - 50**	
*Absolute Return Fund**	*20*	*Standard Life Assurance Company* *Aviva Investors* *Ruffer LLP*
Multi Asset Credit	*5*	*CQS (UK) LLP*
Convertibles	*6*	*CQS (UK) LLP*
Bonds#	**0 - 20**	
Global Buy & Maintain Credit	*0*	*Wellington Management*
LDI (Gilts, Swaps)	*1*	*Legal & General Investment Management*
Cash	**0 – 20**	
Cash	*5*	*Royal London Cash Management (Cash)*
Total (with rounding)	**100**	

*The alternative allocation includes Standard Life GARS, Ruffer and Aviva AIMS as although the funds invest in a range of assets, they are low volatility and should act more like bonds than equity.
#The Wellington buy and maintain credit and LGIM LDI funds will be funded over time as part of the de-risking journey plan.

Further details on the holdings with each manager are given below.

Lindsell Train UK Equity

Asset Class	Benchmark	Performance Objective
UK Equity	FTSE All-Share	To achieve capital and income growth and provide a total return in excess of the benchmark.

The Fund is an open ended investment company (OEIC) domiciled in the UK and authorised by the Financial Conduct Authority as a non UCITS retail scheme. Bank of New York Mellon act as custodian for the Fund.

Majedie UK Focus Fund

Asset Class	Benchmark	Performance Objective
UK Equity	FTSE All-Share	To produce a total return in excess of the FTSE All-Share over the long term

The Fund is an open ended investment company domiciled in the UK and authorised by the Financial Conduct Authority.

Ruane, Cunniff & Goldfarb Inc

Asset Class	Benchmark	Performance Objective
US Equity (Segregated)	S&P 500	Long term growth of capital

The Trustee invests in a privately managed account through a segregated mandate and the custodian for the assets is United Missouri Bank. The account is domiciled in the USA and is regulated by the Securities and Exchange Commission. United Missouri Bank act as custodian to the Fund.

Findlay Park American Fund

Asset Class	Benchmark	Performance Objective
US Equity	Russell 1000 Net 30% Total Return Index (Hedged)	To outperform the composite benchmark

Findlay Park Funds plc is established in Ireland as an open-ended investment company. The Fund is UCITS compliant. Brown Brothers Harriman Trustee Services (Ireland) Limited act as custodian for the Fund.

Kiltearn Global Equity (Ireland) Fund

Asset Class	Benchmark	Performance Objective
Global Equity	MSCI All Country World Index	To achieve growth over the long term

The Fund is resident in Ireland and the Northern Trust Company act as global sub-custodian.

Genesis Emerging Markets

Asset Class	Benchmark	Performance Objective
Emerging Markets Equity	MSCI Emerging Markets	To achieve long term capital growth

The Fund is an open-end Luxembourg registered SICAV. The investment advisor to the Fund is Genesis Investment Management and responsibility for investment management of the Fund has been delegated to Genesis Asset Managers, LLP, which is authorised and regulated by the Financial Conduct Authority. Brown Brothers Harriman Luxembourg act as custodian to the Fund.

Standard Life Global Absolute Return Strategies

Asset Class	Benchmark	Performance Objective
Global Absolute Return Strategies (“GARS”)	LIBOR	Outperform the benchmark by 5.0% p.a. gross of fees over rolling 3 yr periods

The Trustee invests in The Trustee Investment Plan, which is an insurance policy issued by Standard Life Assurance Limited. Administration and fund management for the pooled funds covered by the policy has been delegated to Standard Life Investments Limited. Citibank International act as custodian for the Funds.

Aviva Multi-Strategy Target Income Fund

Asset Class	Benchmark	Performance Objective
Multi-Strategy Target Income Fund (“AIMS”)	LIBOR	Outperform the benchmark by 4.0% p.a. net of fees

The Aviva Investors Multi-Strategy Target Income Fund is an open-ended investment company and is a sub-fund of the Aviva Investors Funds ICVC umbrella. Citibank act as custodian for the Funds.

Ruffer Absolute Return Fund

Asset Class	Benchmark	Performance Objective
Ruffer Absolute Return Fund (Segregated)	LIBOR	Capital preservation on rolling 12 months and cash+ returns

The Trustee invests in a privately managed account through a segregated mandate.

CQS Convertible Opportunities Fund

Asset Class	Benchmark	Performance Objective
Convertible Bonds	n/a	Absolute return in excess of 7% p.a. net of fees

The Fund is a sub-fund of CQS Global Funds (Ireland) plc and it is an Irish Qualifying Investor Fund with segregated liability between sub-funds. J.P. Morgan act as custodian for the Fund.

CQS Credit Multi Asset Fund

Asset Class	Benchmark	Performance Objective
Multi Asset Credit	n/a	LIBOR plus 4-5% net p.a.

The Fund invests predominantly across senior secured loans, high yield and investment grade corporate credit, asset backed securities and convertible bonds. The Fund is a sub-fund of CQS Global Funds (Ireland) plc and it is an Irish Qualifying Investor Fund with segregated liability between sub-funds. J.P. Morgan act as custodian for the Fund.

Wellington Global Credit Buy and Maintain Fund

Asset Class	Benchmark	Performance Objective
Buy and Maintain Credit Fund	n/a	To capture the credit risk premium whilst minimising defaults and portfolio turnover

This Fund predominantly invests in investment grade corporate credit in order to achieve a broad-based exposure to this market. It seeks to preserve capital and generally limit turnover to securities that are at risk of experiencing material credit deterioration.

LGIM Matching Core Fixed Long Fund

Asset Class	Benchmark	Performance Objective
LDI	n/a*	n/a*

* The Fund tracks a "best-of-swaps-and-gilts" index provided by a third party, the aim is to reduce the cost of hedging by investing in the highest yielding underlying instruments (net of funding costs).

The Fund aims to provide leveraged exposure to gilts and swaps in order hedge against changes in the value of the liabilities of Scheme that result from movements in gilt yields.

2.4 General comment

The performance of the investment managers is reviewed by the investment sub-committee of the Trustee, who report back to the full Trustee board. The sub-committee consisting of Trustee Directors David Astor, Jeremy Pinchin, and Ian Martin plus Rod Price from the Company, meet quarterly with the investment consultant. It is the sub-committee's intention to meet each fund manager annually.

With the exception of Ruane, Cunniff & Goldfarb, the activities of the other managers are regulated by the Financial Conduct Authority. As required by the Financial Services & Markets Act 2000, the Trustee has entered into investment management agreements with all the managers, the terms of which are consistent with the principles contained in this statement. The agreements provide important protection for the Scheme and for the Trustee. They also set out the terms on which the assets are to be managed, which include the investment briefs, guidelines and restrictions under which the managers act on behalf of the Scheme.

Copies of the aforementioned agreements are available for inspection.

2.5 Rebalancing Policy

It is the intention that the Scheme's assets remain broadly in line with their overall investment strategy and that the split between the managers (set out in 2.3) be broadly maintained. The strategic split between the investment managers will be maintained through a combination of future cash flows to and from the Scheme and actual asset transfers.

2.6 De-risking Journey Plan

The journey plan is designed to de-risk to a funding strategy that targets a prudent return of gilts +1.0% p.a. over the next 15 years. De-risking is dependent on improvements in the funding position, as measured on a Gilts + 1.0% p.a. discount basis).

The table below sets out the broad de-risking steps expected over time, with triggers for de-risking set at pre-determined funding levels:

Asset class	**Trigger 1**	**Trigger 2**	**Trigger 3**	**Trigger 4**	**Trigger 5 Long term target strategy**
Equities	60	50	40	30	20
Alternatives	24	21	13	5	-
Corporate Bonds	5	9	17	25	30
LDI/Cash	11	20	30	40	50
Total	**100**	**100**	**100**	**100**	**100**
Interest Rate/ Inflation Hedging (% of total assets)	c. 20%	c. 40%	c. 60%	c. 80%	c. 100%
Funding Level % Trigger	**79% - 81%**	**84% - 86%**	**89% - 91%**	**94% - 96%**	**104% - 106%**

The funding level is monitored through an online asset and liability monitoring tool. De-risking is not automatic; rather the investment sub-committee will meet to discuss the position and agree if de-risking should proceed. Whilst the Company has agreed the broad de-risking steps above, it will be consulted prior to any de-risking action taking place.

2.7 Statutory Funding Requirement

The Trustee will consider with the Scheme Actuary whether the results of any actuarial valuations suggest a change to investment strategy is necessary in order to ensure continued compliance with any statutory funding requirements.

2.8 Risks

The Trustee recognises that a mismatch between assets and liabilities is the most significant risk to the Scheme. The Trustee monitors relative change in the asset and liability values on a monthly basis. The Trustee also recognises the risk of changes to the actuarial assumptions and actual Scheme experience variation. This is managed by aiming for a higher overall investment return than implied by the liabilities.

While recognising that there are degrees of risk affecting all investments, the Trustee seeks to spread these widely across a range of different sources. The aim is to take only those risks for which the Scheme can expect to be rewarded over time in the form of excess returns. The Trustee selects a combination of assets and investment management approaches to be consistent with the Scheme's investment objective.

The Trustee takes into account the following risks, which are considered to be financially material over the expected lifetime of the Scheme:

- *Interest rate risk*: the present value of the projected liabilities will vary as interest rates rise and fall. The Trustee currently chooses not to directly hedge interest rates within the asset portfolio, instead allocating to assets which are expected to deliver returns over time in excess of the liabilities. The Trustee monitors this risk on a quarterly basis.
- *Inflation risk*: the value of the liabilities will rise if inflation rises (pensions are linked to inflation as are salaries). The Trustee has sought to invest in a portfolio which is diversified and is expected to keep up with inflation over the longer term. The Trustee monitors this risk on a quarterly basis.
- *Credit risk* reflects the possibility that a corporate bond issuer might fail to make interest and/or capital repayments, and similarly that the dividends expected from an equity investment might not be paid. The assets of the Scheme include a degree of credit risk in order to increase potential returns over the medium to long-term.
- *Volatility risk* reflects the stability of the market value of assets such as equities, where the price achievable may be particularly affected by short term sentiment and not certain until the point of sale. The Trustee monitors the value of the assets and liabilities at least every quarter.
- *Currency risk* can arise through investment in non-Sterling assets, given that the Scheme's liabilities are denominated in Sterling. The Trustee hedges a proportion of the currency exposure arising from the Scheme's investments in US equities (US dollar is the dominant non-Sterling exposure within the equity allocation). Currency exposure within the alternatives portfolios may be hedged by the managers in line with their portfolio guidelines; managers may also take active currency positions within their alternatives portfolios as a means of generating additional return.
- *Regulatory risk and political risk:* can arise from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Trustee will consider any such regulatory or political change and its potential impact on the Scheme, taking action where required.
- *Liquidity risk* arises from holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Trustee believes that a degree of liquidity risk is acceptable where there is potential for return. The vast majority of the Scheme's assets are realisable at short notice.
- *Concentration risk* arises for example when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers. The Trustee considers the assets of the Scheme to be suitably diverse by manager, asset class and issuer.
- *Sponsor risk* reflects the possibility that the sponsor's relationship with the Trustee may weaken and that the sponsor might or cannot honour its obligations to the Scheme. The Trustee reviews the strength of the sponsor covenant as part of the triennial valuation.
- *Active Manager risk* arises where performance of the assets held by an active manager differs from the benchmark and may give rise to underperformance relative to passive management. The Trustee monitors the relative performance of the active managers at least quarterly and aims to meet with the managers annually.
- *Manager selection risk* arises due to the potential for selecting (or failing to de-select in a timely manner) an active manager that fails to generate sufficient return in excess of the benchmark to justify the active risk taken and the higher fees charged than for passive management.
- *Environmental, Social and Governance (ESG) risk* is the risk that ESG concerns have a financially material impact on the return of the Scheme's assets. The management of ESG-related risks is delegated to the investment managers. Section 2.11 of this Statement sets out the Trustee's responsible investment and corporate governance statement.
- *Climate risk* is the risk that the returns of certain asset classes and sectors may be significantly affected by climate change. The Trustee may take climate risk into account in

the selection, retention and realisation of the Scheme's investment managers, where deemed appropriate to do so.

2.9 Self-investment

The Trustee has in place adequate controls to ensure that the 5% limit on assets directly invested in securities of the Company are not breached.

2.10 Buying and Selling Investments

The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The day to day activities which the investment managers carry out are governed by the arrangements between both parties (which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate).

2.11 Responsible Investment and Corporate Governance

The Trustee's primary concern, in setting investment policy, is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return which is consistent with taking a prudent and appropriate level of risk.

The Trustee believes that good stewardship, ethical and environmental social governance ("ESG") issues may have a material impact on investment returns, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee will take into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustee has given the Investment Manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights attached to the Scheme's investments.

Similarly, the Scheme's voting policy is exercised by its Investment Managers in accordance with its own corporate governance policies taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee keeps the topic of corporate governance and responsible investment under periodic review. The Trustee has not set any investment restrictions on the current investment managers in relation to particular products or activities, but may consider this in the future.

The Trustee requires the investment manager to report on their voting on shares held in respect of the Scheme.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Members' views on 'non-financial matters' (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially materials ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments.

2.12 Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

The investment managers are appointed by the Trustee based on their capabilities and their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustee utilises Mercer's manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Where mandates are actively managed, the managers are incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds as part of the wider monitoring of the Scheme's managers.

The majority of the Scheme's investments are made through pooled investment vehicles, and as such the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it will look to replace the manager.

Evaluating investment manager performance

The Trustee receives a report on investment manager performance on a quarterly basis. The Trustee reviews absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period), on a net of fees basis. The Trustee's focus is primarily on long-term performance but short term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees or consider terminating the appointment.

Portfolio turnover costs

The Trustee receives MiFID II reporting from their investment managers (where applicable).

The Trustee does not currently monitor portfolio turnover costs across the asset base but this is considered by Mercer at a manager/strategy level and forms part of their research views.

Manager turnover

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or
- The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate;

2.13 Reviewing the Statement of Investment Principles

The statement is reviewed at least every three years and without delay after any significant change in investment policy. Any amendments will be discussed and agreed with the Company.

2.14 Responsibilities

The Trustee of the Scheme is responsible for, amongst other things:

- Reviewing from time to time the content of this statement and for modifying it if deemed appropriate in consultation with the investment consultant and after consultation with the Company.
- Reviewing the suitability of the investment strategy following the results of each actuarial valuation.
- Assessing the quality of the performance of the investment managers.
- Appointing and dismissing investment managers in consultation with the investment consultant.
- Assessing the ongoing effectiveness of the investment consultant.

The investment managers will be responsible for, amongst other things:

- Providing monthly performance figures and a valuation report.
- Informing the Trustee of any breach of this statement.

The investment consultant will be responsible for, amongst other things:

- Assisting the Trustee in reviews of this statement.
- Advising the Trustee of any changes in the investment managers that could affect the interests of the Scheme.
- Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Scheme.
- Undertaking reviews of the investment arrangements.

Signed

Jeremy Pinchin

17 August 2020

Chair
Hiscox Pension Trustees Limited

Bronek Masojada

24 August 2020

Chief Executive Officer
Hiscox plc