Hiscox Pension Scheme

Statement of Investment Principles

August 2021

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 consultant, Isio Group 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 %	Rebalancing Ranges %
Equities (Developed Markets)	28	23 - 33
Alternatives (Multi Asset Credit, Illiquid Credit, Diversified Growth Funds & Convertibles)	32	29 - 35
Bonds (Buy & Maintain Credit)	16	13 - 19
Liability Driven Investments (LDI)	24	19 - 29
Total	**100**	**100**

The above weighting splits represent the target weights which the Scheme aims to allocate to each asset class. In practice, weightings may deviate away from these targets and will be monitored on an ongoing basis within the quarterly monitoring report. The above strategic asset allocation does not allow for any allocation to cash. It is necessary for the Scheme to maintain a working balance of cash as part of the day-to-day management of the Scheme.

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. Therefore, the Trustee has included a diverse range of alternative assets to reduce the volatility of expected returns. 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, deficit contributions from the Company and other market movements such as rising government bond yields.

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.

The Scheme's assets are invested as follows:

Asset Class	Target (%)	Manager(s)
Equities		
Equities (Developed Markets)	*28*	*Findlay Park* *Kiltearn Partners LLP* *Lindsell Train* *Majedie Asset Management*
Alternatives		
Diversified Growth Fund	*7*	*Ruffer LLP*
*Illiquid Credit**	*7*	*BlackRock Investment Management*
Multi Asset Credit	*12*	*CQS (UK) LLP*
Convertibles	*6*	*CQS (UK) LLP*
Bonds		

Buy & Maintain Credit	*16*	*Legal & General Investment Management*
LDI & Cash		
LDI	*24*	*Legal & General Investment Management*
Cash	*0*	*Royal London Cash Management*
Total (with rounding)	**100**	
Target Interest Rates/ Inflation Hedging (% of total liabilities)	60%	

***The illiquid credit mandate with BlackRock is currently in its draw-down phase. Funds are temporarily being invested across the following ETFs until capital has been fully drawn down: iShares £ Ultrashort Bond ETF and iShares Global High Yield Corporate Bond EFT GBP HDG.**

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 a 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.

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.

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.

BlackRock Diversified Private Credit Fund ('DPC Fund')

Asset Class	Benchmark	Performance Objective
Private Debt	n/a	6-7% net IRR in GBP

The Fund invests across European direct lending, US direct lending, global opportunistic credit, US real estate debt and European real asset debt. The Fund is a closed-end fund and operates as a Scottish Limited Partnership. The Fund custodian and administrator is International Fund Services (Ireland) Limited.

The Trustee has decided to invest the entire allocation in a basket of Exchange Traded Funds (a mixture of short-dated corporate bonds and high yield) managed by BlackRock; BlackRock will then manage internally the process of drawing capital into the DPC Fund from the ETF basket. The composition of the ETF basket is as follows: iShares £ Ultrashort Bond ETF and iShares Global High Yield Corporate Bond EFT GBP HDG.

LGIM Buy and Maintain Credit 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 within a globally diversified portfolio 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 LDI Funds

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

The Fund aims to provide both leveraged and unleveraged exposure to gilts and index-linked gilts in order to hedge against changes in the value of the liabilities of the Scheme that result from movements in gilt yields. The use of swaps is also permitted within the investment solution.

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.

The activities of the 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 Scheme is currently in the process of undertaking a triennial actuarial valuation. Longer term strategic objectives and an established journey plan will be finalised following completion of this exercise.

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.

Further de-risking triggers will be added upon completion of the upcoming triennial funding valuation.

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

A non-exhaustive list of risks, financially material considerations and non-financial matters that the Trustee has considered and sought to manage is shown in Appendix 1.

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 Investment Manager Appointment, Engagement and Monitoring

The Trustee's policies in relation to the investment management arrangements for the Scheme can be found in Appendix 2.

2.12 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.

2.13 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

Chair
Hiscox Pension Trustees Limited
22 October 2021

Chief Financial Officer
Hiscox plc
17 December 2021

Appendix 1 – Risks, Financially Material Considerations and Non-Financial matters

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

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

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

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 60% of these risks (% of total liabilities).
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.

Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: • Responsible Investment ('RI') Policy / Framework • Implemented via Investment Process • A track record of using engagement and any voting rights to manage ESG factors • ESG specific reporting The Trustee has appointed an investment consultant to monitor their investment managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Trustee actively take into account currency exposure at the individual manager and total Scheme level in their decision making.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix 2 - Investment Manager Appointment, Engagement and Monitoring

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• The Trustee invests in a portfolio of pooled funds and segregated arrangements with the investment managers that are aligned to the strategic objective of the Scheme.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements. o For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.