Addendum to the Statement of Investment Principles

For the Mitie Group plc Pension Scheme

Effective from: 2 March 2022

This addendum to the Statement of Investment Principles ("SIP") for the Mitie Group plc Pension Scheme (the "Scheme") has been produced by the Directors of Mitie Group Pension Trustee Company Limited (the "Trustee" or "We"). It sets out a description of various matters which are not required to be included in the SIP, but which the Trustee believes, are relevant to the Scheme's investment arrangements.

Part 1:
Investment governance, responsibilities, decision-making and fees

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

1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employer;
- developing a mutual understanding of investment and risk issues with the employer;
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing) our fiduciary manager, strategic investment adviser, actuary and other service providers;
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended);
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the SIP and modifying it as necessary; and
- publishing this SIP on an appropriate website.

2. Fiduciary manager

We have delegated certain investment decisions and the implementation of these decisions to Schroders IS Limited ("Schroders"), previously River and Mercantile Investments Limited, the Scheme's appointed fiduciary manager. As with all governance models, under fiduciary management we remain responsible for the stewardship of the Scheme, including setting the overall investment objectives and monitoring the fiduciary manager. However, certain responsibilities are delegated to the fiduciary manager such as:

- implementing the de-risking of our investment strategy based on the proposed framework and within the objectives, guidelines and restrictions set out in the Scheme's Fiduciary Management Agreement ("FMA");
- choosing the allocation to the underlying asset classes, investment managers and funds under the terms of the FMA;
- choosing how to design and implement the liability hedging assets (subject to the guidelines and restrictions set out in the FMA);
- carrying out asset transfers and provide the Trustee and the strategic investment adviser with details of any changes to the asset allocation and costs incurred periodically;
- providing the Trustee and strategic investment adviser with quarterly reporting covering the management and performance of the portfolio and the underlying managers;
- informing the Trustee and strategic investment adviser immediately if there is any breach of the SIP or the FMA;
- attending Trustee meetings from time to time to report on the performance of the assets and any other matter relevant to the fiduciary manager's duties under the FMA;
- determining the allocation to different asset classes to meet the

Trustee's objectives (subject to the guidelines and restrictions in the FMA);

- making tactical asset class decisions and benchmark deviations based on market conditions (subject to the guidelines and restrictions in the FMA); and
- appointing and removing underlying investment managers.

When appointing the fiduciary manager, we considered the following:

- the range of fiduciary options available and the benefits, risks, costs and value that different approaches offer;
- the manager's experience and track record in managing similar mandates;
- the manager's consideration of ESG issues when selecting and monitoring investment managers;
- the manager's consideration of ESG issues, exercise of voting rights (where applicable) and engagement activities when selecting and monitoring investment managers;
- the potential conflicts of interest and how to manage them;
- the need for suitable oversight to monitor effectively the performance of the fiduciary manager and the underlying mandates;
- the cost implications for the Scheme; and
- the ease with which the mandate could be terminated.

3. Strategic investment adviser

In broad terms, the strategic investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

Investment strategy

- designing and reviewing the investment strategy, including any de-risking framework, to be interpreted by the fiduciary manager. This will include advising the Trustee on the strategic split of assets to matching, credit and growth assets, target interest rate and inflation hedge ratios, permitted asset classes, asset allocation restrictions and rebalancing ranges;
- drafting and reviewing the Scheme's Statement of Investment Principles. Reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years; and
- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;

Monitoring the fiduciary manager

- producing an annual monitoring report detailing the performance of the fiduciary manager against the prescribed performance benchmarks agreed with the Trustee with regards to risk and return tolerances;
- attending Trustee meetings from time to time to review the fiduciary manager;
- reviewing any changes to the fiduciary manager's documentation from an investment perspective and providing written advice to the Trustee when required;
- monitoring the fees and other terms imposed by the fiduciary manager; and
- providing light touch asset transfer oversight where required.

4. Fee structures

The provision of fiduciary management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

We have agreed terms with the Scheme's strategic investment adviser, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The fiduciary manager receives fees calculated by reference to the market value of assets under management and in some cases a performance related fee. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment

responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the sponsoring employer

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

Part 2:
Policy towards risk

1. Risk capacity and appetite

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

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

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

2. Approach to managing and monitoring risks

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

Risk of inadequate returns

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

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (eg equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements.

Fiduciary manager risk

This is the risk that the Scheme's fiduciary manager fails to meet its investment objectives. Prior to appointing a fiduciary manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake a fiduciary manager selection exercise. The Trustee monitors the fiduciary manager on a regular basis to ensure it remains appropriate for its mandate.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The Scheme is subject to direct credit risk in relation to solvency of the investment manager and custodian of the pooled funds it is invested in. Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment managers, the regulatory environment in which the pooled managers operate and diversification of the

Scheme's investments amongst a number of pooled arrangements. The fiduciary manager carries out due diligence checks on the appointment of new pooled investment managers, and on an ongoing basis monitors any changes to the operating environment of the pooled funds.

The Scheme is subject to indirect credit risk because it invests in bonds via pooled funds. The managers of the pooled funds typically manage credit risk by having a diversified exposure to bond issuers, by considering the probability of default on bonds held, and/or by having a relatively low exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

Within the liability hedging portfolio, there is exposure to credit risk as the fiduciary manager uses derivative instruments to match the Scheme's liabilities efficiently. The liability hedging portfolio has limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy, and believe that it diversifies the strategy and is appropriate.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and swaps. However, the interest rate and inflation exposure of the Scheme's assets provides protection (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint a fiduciary manager who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint a fiduciary manager who will manage these risks appropriately, and from time to time reviews how these risks are being managed in practice.

Illiquidity/marketability risk

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

Counterparty risk

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

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

Collateral adequacy risk

The Scheme's matching portfolio may require additional cash in order to support a given level of leverage. Collateral adequacy risk is the risk that the fiduciary manager is not able to post additional cash to the matching portfolio within the required timeframe when required. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, our objective is that the Scheme has a sufficient allocation to cash and other highly liquid assets that could be used to meet any cash required from the matching portfolio.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as property and infrastructure), prices may only be estimated relatively infrequently using one or

more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

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

Other non-investment risks

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

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

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

Part 3:
Investment arrangements

Fiduciary management arrangements

The Scheme has appointed Schroders as the Scheme's fiduciary manager. The Scheme invests in a range of asset classes as managed and selected by Schroders.

The Schroders mandate is expected to comprise of internally managed funds, external funds run by other investment management organisations, and a segregated liability driven investment portfolio managed by Schroders.

The overall investment objective of the Schroders mandate is to invest in a combination of growth, credit and matching assets. We have agreed with Schroders that it will rebalance the allocations to the growth, credit and matching portfolios if the allocations are more that 5% away from the target allocations in line with the linear de-risking investment strategy.

We have also agreed with Schroders asset allocation limits for the growth assets as outlined in the table below.

Asset class	Minimum allocation	Maximum allocation
Equities	20	65
Property	0	20
Return seeking credit	0	45
Commodities	0	15
Alternatives	0	40
Cash and sovereign bonds	0	40
Equities plus Commodities	20	70
Sub Investment Grade Debt	0	30
Equities and sub investment grade debt	20	80
Illiquid investments	0	30

Additional Voluntary Contributions (AVCs)

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the investments bought by the contributions.

We have made unit-linked and with-profits funds available through Aegon. A policy document has been issued to the Trustee from Aegon covering the AVC investment contract. From time to time we review the choice of investments available to members to ensure that they remain appropriate to the members' needs.