Timet UK Limited Pension Plan

Statement of Investment Principles

September 2020

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1 Introduction

Plan background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Timet UK Limited Pension Plan (the “Plan”).
- The Plan:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on both a defined benefit (DB) and a defined contribution (DC) basis.
- The DB Section is closed to new entrants. However, the DC Section remains open.
- Buck Consultants (Administration & Investment) Limited (“Buck”) and Vantage Consulting Group (“Vantage”) are the appointed investment consultants to the Plan.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Plan’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Plans (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of “Institutional Investing in the UK”, the results of which were first published in 2001 (referred to as the “Myners Principles”).
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustees are complying with this requirement. In respect of the DC Section (and additional voluntary contributions provided on a money-purchase basis within the DB Section), the Trustees have taken into account the requirements and recommendations within the Pension Regulator’s DC code and regulatory guidance. Information on the Trustees’ approach to investment matters within the DC section, and in particular in setting the default arrangement, are included within this document.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. It is divided into three sub-sections:
  - General Section
  - DB Section
  - DC Section
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from Buck, one of the Plan's investment consultants, prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The Trustees will review this Statement, in consultation with the investment consultants and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Plan's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.
- All of the Plan's investment decisions are under the control of the Trustees, with no constraint by the Sponsoring Employer.
- The Trustees have appointed an Investment Sub-Committee ("ISC") which consists of Trustee and Employer representatives. The ISC makes recommendations to the Trustees on various aspects of investment strategy and investment manager selection and can act within constraints set by the Trustees. The relationship between the Trustees and the ISC is governed by the Terms of Reference of the ISC. Any changes to these Terms of Reference are agreed by the Trustees. The Trustees believe that this is an appropriate structure given the size of the Trustee board and the Plan.

General Section

- This section of the Statement contains information relating to both the DB and the DC Sections.

Kind of investments to be held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property,

private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension plans. The Trustees have considered the attributes of the various asset classes (including derivative instruments), these attributes being:

- security (or quality) of the investment,
- yield (expected long-term return),
- spread (or volatility) of returns,
- term (or duration) of the investment,
- exchange rate risk,
- marketability/liquidity (i.e., the tradability on regulated markets),
- taxation.

- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Plan.

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers to be able to realise the Plan's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Plan. The majority of the assets are not expected to take an undue time to liquidate.

The Trustees' policy in relation to financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

- The Trustees review the policies of their investment managers in respect of financially material considerations.

The Trustees' policy in relation to the extent to which non-financial matters are taken into account

- The Trustees' objective is that the financial interests of the Plan members is their first priority when choosing investments. They have decided not to take members' preferences into account when considering these objectives.

The Trustees' policy in relation to engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

The Trustees' policy in relation to voting rights

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. An investment sub-committee has been set up as the focal point for investment projects. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.

- All investment decisions relating to the Plan are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.

- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension plan portfolios. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Plan, and appropriately diversified.

Investment Manager and Performance Monitoring

- Each of the funds in which the Plan invests has a stated performance objective against which the performance is measured.

- The investment managers are expected to provide written reports to the investment consultants on a quarterly basis.

- The Trustees receive an independent investment performance monitoring report from their investment consultants on a quarterly basis.

- The Trustees will assess the performance, processes and cost effectiveness of the investment managers by means of quarterly reviews of the results and other information, in consultation with the investment consultants.

- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustees with the assistance of the investment consultants.

- The investment consultants will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment consultants will also report orally on request to the Trustees.

- The investment consultants will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Plan as and when they occur.

- Appropriate written advice will be taken from the investment consultants before the review, appointment or removal of the investment managers.

The Trustees' policy in relation to their investment managers

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment managers to align their investment strategy and decisions with the Trustees' policies

- The Trustees have delegated the day-to-day management of the Plan's assets to investment managers. The majority of the Plan's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultants, appoint their investment managers and choose the specific pooled funds to use in order to meet specific Plan policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Plan's performance) over an appropriate time horizon.

- The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

How the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for asset management services are in line with the Trustees' investment policies

- The Trustees expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their documentation. The Trustees review the investment managers periodically. Investment manager reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustees determine that an investment manager is no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment manager and may ultimately disinvest.

- The Trustees pay their investment managers a management fee which is a fixed percentage of assets under management. Some investment managers also receive a performance incentive fee.

- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultants, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultants, have processes in place to review investment turnover costs incurred by the Plan on an annual basis. The Trustees receive reports which include the turnover costs incurred by the investment managers used by the Plan.

- The Trustees expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with their investment managers and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Employer-related investments

The Trustees will not make direct investments in the Sponsoring Employer's own securities. The amount of the Sponsoring Employer's securities, owned by pooled investment vehicles invested in, are monitored. The Trustees have delegated the responsibility for the exercising of any voting rights attached to any Sponsoring Employer investment held to the investment managers.

DB Section

- This section of the Statement contains information relating only to the DB Section of the Plan.

Investment Objectives and Suitability of Investments

- The Plan's investment strategy has been agreed by the Trustees having taken advice from the investment consultants and takes due account of the Plan's liability profile along with the level of disclosed surplus or deficit, as well as the Sponsoring Employer covenant.

- The Trustees' agreed investment strategy is based on an analysis of the Plan's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustees are prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Trustees' primary objectives are:
  - to provide appropriate security for all beneficiaries,
  - to achieve long-term growth sufficient to provide the benefits from the Plan, and
  - to achieve an appropriate balance between risk and return with regards to the cost of the Plan and the security of the benefits.
- The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Plan.
- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act and/or supervised by United Sates or other relevant financial market supervisory authorities.
- The Trustees are responsible for reviewing both the Plan's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Plan's investment consultants. The Trustees may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.
- The Trustees consider the Plan's current strategic asset allocation to be consistent with the current financial position of the Plan. This assessment will be updated with reference to the Technical Provisions set out in the Plan's Statement of Funding Principles. "Technical provisions" is the value of the Plan's liabilities for funding purposes as at the latest available Plan-specific actuarial valuation date.
- The present investment strategy of the Plan is 50% equities, 25% alternatives and 25% fixed income. The ISC monitors the asset allocation which is allowed to move within +/- 10% of the target allocations. Over the next two years, the Trustees intend to move gradually towards a new investment strategy of 30% equities, 20% alternatives and 10% fixed income allocation, while introducing new investments of 15% illiquid credit and 25% Liability-Driven Investment (LDI).

Diversification

- The Trustees, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark for the Plan's DB Section including control ranges for each asset class.
- Subject to their respective benchmarks and guidelines, the investment managers are given full discretion over the choice of specific securities and are expected to maintain a diversified portfolio.
- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Plan, the Trustees have decided to invest the majority of the Plan's assets on a pooled fund basis. All such investments are effected through a direct agreement with an investment manager and/or through an insurance contract.

- The Trustees are satisfied that the range of vehicles in which the Plan's assets are invested provides adequate diversification.

Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market (where applicable) each manager will maintain a diversified portfolio of securities.

Risk

- The Trustees consider the main risk to be that of the assets being insufficient to meet the Plan's liabilities as they fall due. The Trustees have assessed the likelihood of undesirable financial outcomes arising in the future.

- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Plan's Technical Provisions, and with the need to avoid undue contribution rate volatility.

- In determining their investment strategy, the Trustees received advice from the investment consultants as to the investment risk relative to the Plan's liability profile. The Plan's investment strategy also takes into account the expected returns underlying the most recent actuarial valuation.

- Although the Trustees acknowledge that the main risk is that the Plan will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following. Namely the risk:

  – associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,

  – of the Plan having insufficient liquid assets to meet its immediate liabilities,

  – of the investment managers failing to achieve the required rate of return,

  – of volatility in asset value due to the lack of diversification of investments,

  – of failure of the Plan's Sponsoring Employer to meet its obligations.

- The Trustees manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Trustees undertake monitoring of the investment managers' performance against their targets and objectives on a regular basis.

- Each fund in which the Plan invests has a stated performance objective by which investment performance will be measured. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Plan's investment consultants. Any deviation from the target asset allocation will be discussed quarterly with the investment consultants.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach a fully funded status under the agreed assumptions.

Additional Voluntary Contributions (AVCs)

- The Plan provides a facility for members to pay AVCs into the Plan to enhance their benefits at retirement. Members are offered a range of funds in which to invest their AVC payments. The Trustees' objective is to provide a range of funds which provide members with competitive returns relative to comparable funds from other AVC managers.

DC Section

- This section of the Statement contains information relating only to the DC Section of the Plan.

Investment Objectives and Suitability of Investments

- The Trustees believe that fund selection is an important decision for all members since it is likely to have an important influence on the risk taken and return achieved on members' pension savings. The Trustees regularly communicate with members to enable them to understand the importance of this area and to provide them with education to help them to make informed choices about their selection of funds.

- However, the Trustees also recognise that in practice many members do not actively make an investment choice and are instead invested in the default option. The Trustees therefore recognise the importance of designing an appropriate default strategy for the Plan's membership.

- Whilst the Trustees believe the chosen default option is a reasonable choice for a lot of the membership, ultimately each member should take into account their own personal circumstances when determining whether the default option or an alternative strategy would best meet their needs.

- The default option and the range for alternative investment options has been designed having taken due regard to the membership profile of the Plan.

- The objective of the default strategy is to provide a balanced investment strategy for members who do not make an active investment choice. The strategy aims to increase the return (net of fees) that a member could expect to receive from the Plan over the course of their working lifetime, while reducing the risk of them having income provision in retirement significantly below what may reasonably be expected.

- The objective of the alternative investment options available is to allow members to tailor their investments based on their individual investment requirements, while avoiding complexity. The range should assist members in achieving the following:

  – increasing the value of retirement benefits, to ensure a reasonable standard of living in retirement,

- protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs, and

- tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.

- The Trustees recognise that members using the default strategy are likely to be less financially aware than those using self-select options and have taken this into account in the strategy design.

- The Trustees' investment consultants provide advice regarding the suitability of both the default option and the self-select options available.

- The Trustees make available a property fund which members can choose to invest in. If dealing in this fund is suspended for any reason, the Trustees will temporarily divert member contributions from the property fund to a cash fund. The objective of the cash fund is to provide capital stability and this fund would not generally be expected to be used for long-term investment.

- Members are advised to take independent financial advice before choosing between these funds.

- The Trustees are satisfied that the funds offered to members and the appointed investment managers are consistent with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.

Balance between different types of investments

- The investment manager will maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Plan (both within the default and self-select options).

- In addition, the design of the default strategy provides further diversification through the use of multiple funds throughout a member's working lifetime.

Risk

- The Trustees have considered risk from a number of perspectives. These are the risk that:

  - the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,

  - investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,

  - investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit,

  - members' investment selections are not suitable for them, considering their own personal circumstances, and

  - fees and transaction costs reduce the return achieved by members by an inappropriate extent.

- The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves.

- To help address these risks, the Trustees also review the default option used and the fund range offered when necessary, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

Expected Return on investments

The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Plan's membership and having taken into account the risk considerations set out above. Assumptions around expected returns for each asset class are derived in a similar way as within the DB Section.

3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Plan.

Trustees

The Trustees' primary responsibilities include:

- Preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultants, when deemed necessary. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers,

- Appointing investment consultants and investment managers as necessary for the good stewardship of the Plan's assets,

- Reviewing the DB investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Plan's liabilities, taking advice from the investment consultants,

- Reviewing the DC investment strategy at least every three years, and without delay following any significant change impacting the Plan's membership,

- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),

- Monitoring compliance of the investment arrangements with this Statement on a regular basis, and

- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Plan's equity holdings.

Investment consultants

The main responsibilities of the investment consultants include:

- Assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,

- Undertaking project work in relation to DB Section, including reviews of investment strategy, investment performance and manager structure as required by the Trustees,

- In relation to the DC Section, the investment consultants will advise upon any lifestyle strategies offered by the Trustees,

- Advising the Trustees on the selection and review of the investment managers,

- Providing training or education on any investment related matter as and when the Trustees see fit, and

- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Investment Managers

The investment managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set,

- Ensuring that investment of the Plan's assets is compliant with prevailing legislation and the constraints detailed in this Statement,

- Providing the Trustees with quarterly reports including any changes to their investment process and a review of the investment performance,

- Attending meetings with the Trustees as and when required,

- Informing the Trustees of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Plan as and when they occur, and

- Exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Plan's assets.

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

Administrators

- The administrator's primary responsibilities are the day-to-day administration of the Plan and the submission of specified statutory documentation, as delegated by the Trustees, and

- The Plan's administrator is Buck for the DB Section and Aegon (formerly BlackRock), for the DC section.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Plan's investment strategy given the financial characteristics of the Plan, and

- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Plan's funding level and therefore the appropriate level of contributions in order to aid the Trustees in balancing short-term and long-term investment objectives.

- The Scheme Actuary is Mike Bartlet of Buck Consultants Limited.

Agreed and implemented by the Trustees September 2020