Mersen UK Portslade Limited Pension and Assurance Scheme

Statement of Investment Principles

February 2021

Contents

1. Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustees of the Mersen UK Portslade Limited Pension and Assurance Scheme (the Scheme). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Investment and Disclosure)(Amendment) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement the Trustees have consulted Mersen UK Portslade Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustees are set out in Rule 50 of the Definitive Trust Deed & Rules, dated 9 October 1997. This statement is consistent with those powers.

2. Choosing investments

2.1 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in Appendix 1 to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3 The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1 The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Scheme provides;

- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.

5.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflows requirements or any other unexpected items.

5.4 The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1 The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

6.2 **Risk versus the liabilities:** The Trustees will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Fund manager risk:** The Trustees monitor each of the Scheme's fund managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.4 **Asset allocation risk:** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.

6.5 **Concentration risk:** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.6 **Loss of investment:** The risk of loss of investment by each fund manager and custodian is assessed by the Trustees.

6.7 **Governance risk:** Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.

6.8 **ESG/Climate risk:** The Trustees have considered long-term financial risks to the Scheme, and ESG factors as well as climate risk are potentially financially material, and will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

6.9 **Liquidity risk:** The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.10 **Covenant risk:** The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

6.11 **Solvency and mismatching:** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.12 **Currency risk:** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

7. Expected return on investments

7.1 The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1 The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, the exercise of rights and engagement activities and non-financial matters

Policy on financially material considerations

9.1 The Trustees have received training from their investment advisors to consider the financial materiality of environmental, social and governance issues, including climate change (referred to together as "ESG issues") within their investment strategy. The Trustees considered the research findings presented at this training to form their views on the financial materiality of ESG factors as they apply to the Scheme's current investments. The Trustees are comfortable that the Scheme's current investments are managed in accordance with their views on financially material factors, as set out below.

9.2 The Trustees believe that ESG factors are financially material – that is, they have the potential to impact the value of the Scheme's investments over the long term. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Passive equities

9.3 The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's passive equities. The Trustees accept that fund managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive corporate bonds

9.4 The Trustees believe ESG issues should be considered in a fund manager's investment process as they have the ability to materially impact risk-adjusted returns. The Trustees recognize that fixed income assets do not include voting rights; however, the Trustees support engagement from their managers to identify ESG risks and opportunities.

Active corporate bonds

9.5 The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's active corporate bonds manager. The investment process for each active corporate bonds manager should take ESG into account when selecting holdings. The Trustees also support engagement activities, although they appreciate that fixed income assets do not typically provide voting rights.

Passive gilts and cash

9.6 The Trustee believes there is limited scope for the consideration of ESG issues to improve risk-adjusted returns within the Scheme's passive gilt and money markets holdings because of the nature of the instruments used.

Property

9.7 The Trustees believe that ESG issues can be financially material to the risk-adjusted returns achieved by the Scheme's property manager. Environmental issues are particularly important when selecting appropriate properties for the property portfolio, and so the Trustees look to the manager to incorporate environmental issues into their investment process.

9.8 The process for incorporating ESG issues for the above asset classes should be consistent with, and proportionate to, the rest of the investment process.

9.9 The Trustees will take into account whether the Scheme's investment managers are signatories to the UN backed PRI and UK Stewardship Code.

Policy on the exercise of voting rights and engagement activities

9.10 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund manager.

9.11 In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

9.12 The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

9.13 Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Further details on how the Trustees assess this are set out in Appendix 2.

9.14 The Trustees acknowledge the importance of ESG and climate risk within their investment making framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

9.15 The Trustees are firmly of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

9.16 The Trustees consider it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustees use pooled funds the Trustees expect the investment manager to employ the same degree of scrutiny.

9.17 Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

9.18 The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustees have made the Sponsoring Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

9.19 The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

9.20 The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

Policy for taking into account non-financial matters

9.21 The Trustees do not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers.

10. Agreement

10.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Scheme auditor upon request.

Signed:.. Date: ....

On behalf of the Mersen UK Portslade Limited Pension and Assurance Scheme

Appendix 1 Note on investment policy of the Scheme as at September 2019 in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have appointed the following fund manager to carry out the day-to-day investment of the fund:

- Legal & General Investment Management (LGIM)

The fund manager is authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to guidance received from the fund managers on suitability of investments.

The fee arrangements with the fund manager is summarised in the Trustees' Investment Manager Arrangement Summary document.

The Trustees have an AVC contract with Prudential Assurance Company Limited for the receipt of members' Additional Voluntary Contributions. The arrangement is reviewed from time to time.

Kinds of investments to be held

The Trustees have considered all asset classes and has gained exposure to the following asset classes:

- UK Equities;
- Overseas Equities;
- Fixed Interest Gilts;
- Index Linked Gilts;
- Corporate bonds;
- Property;
- Cash.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. While no explicit control ranges for the asset allocation are in place, the Trustees monitor the appropriateness of the asset allocation every quarter by receiving quarterly monitoring reports.

The Trustees will monitor and review the asset allocation following the results of each triennial valuation and following any significant changes to the liabilities of the Scheme. The investment benchmarks and objectives for each fund are given below:

Fund	Benchmark	Objective
UK Equity Index	FTSE All Share	To track the performance of the benchmark to within +/-0.25% p.a. for two years out of three
World (Ex UK) Equity Index	FTSE AW – World (ex UK)	To track the performance of the benchmark (less withholding tax if applicable) to within +/-0.50% p.a. for two years out of three
World (Ex UK) Equity Index – GBP Currency Hedged	FTSE AW World (ex UK) Index – Currency Hedged*	To track the performance of the benchmark (less withholding tax if applicable) - GBP to within +/-0.50% p.a. for two years out of three
AAA-AA-A Over 15 Years Bonds	iBoxx £ Non-Gilts (ex BBB) Over 15 Year Index	To track the performance of the benchmark to within +/-0.50% p.a. for two years out of three
Passive gilt funds, including single stock treasury and/or indexed funds	Relevant FTSE Actuaries single stock/index benchmark	To track the performance of the benchmark
Managed Property	AREF/IPD UK Quarterly All Balanced Property Funds Index	To outperform the benchmark over three and five year periods.
Buy and Maintain Credit Fund	No benchmark	To capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.
Cash	Libid 7-Day	To match the median return of similar funds as measured by the CAPS Pooled Pension Fund Update, without incurring excessive risk.

* With the exception of Advanced Emerging Markets

The performance of the fund manager will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance. The Trustees obtain quarterly investment monitoring reports from Barnett Waddingham LLP.

Asset allocation

Following an investment strategy review, the Trustees agreed to make some changes to the investment strategy, which has resulted in a benchmark allocation as shown in the table below.

Fund	Benchmark allocation
Growth Portfolio	**15.0%**
UK Equity Index	3.2%
World (Ex UK) Equity Index	4.4%
World (Ex UK) Equity Index – GBP Currency Hedged	4.4%
Managed Property	3.0%
Protection Portfolio	**85.0%**
AAA-AA-A Over 15 Years Bonds	14.0%
Passive gilt funds, including single stock treasury and/or indexed funds	47.5%
Buy and Maintain Credit Fund (distribution)	23.0%
Cash*	0.5%
Total	**100.0%**

*This assumes a cash allocation in the bank account of £200,000.

Investment of new money

New money is used to pay benefit payments and other Scheme expenses. Any additional monies are usually invested into the managed funds on a pro rata basis but the Trustees can use new money to rebalance the portfolio as they see fit.

Realisation of investments

The Scheme's cash flow requirements are expected to be met by the principal employer's contributions, however where this is insufficient the Trustees may disinvest some of its investments. Disinvestments are generally used to move the Scheme's assets closer towards the benchmark allocation.

Appendix 2 Policy on arrangements with asset managers

Aligning the investment strategy and decisions of the asset manager with the Trustees' investment policies

Prior to appointing the investment manager, the Trustees discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

The Trustees carry out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustees.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager.

Incentivising asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustees are mindful that the impact of ESG and climate change may have a long-term nature. The Trustees recognise that the potential for change in value as a result of ESG and climate risk, may occur over a much shorter term than climate change itself.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over an agreed predetermined rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target.

The Trustees expect investment managers to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

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

The Trustees monitor the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied. Details of the fee structures for the Scheme's investment managers are contained in the Trustees' Investment Manager Arrangement Summary document.

The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustees ask the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

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

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustees consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The duration of the arrangement with the asset manager

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.