

Heraeus Electro-Nite (UK) Limited Retirement Benefit Scheme

Statement of Investment Principles – June 2023 (replaces September 2022)

1. Introduction

The Trustee Directors (“Trustees”) of the Heraeus Electro-Nite (UK) Limited Retirement Benefit Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation and regulation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.

In preparing this Statement the Trustees have consulted Heraeus Electro-Nite (UK) Limited as Scheme Sponsor.

2. Process for Choosing Investments

The Trustees have considered their objectives for investing the Scheme assets. They have considered their Investment and Funding objectives together to ensure that the two are compatible. They have then constructed a portfolio of investments consistent with these objectives.

In doing so the Trustees take into account what they believe to be financially material considerations, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where there are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme over the Trustees’ investment time horizon. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The investment objectives set out here are those that the Trustees determine to be financially material considerations in relation to the Scheme.

The Trustees’ objective is to secure all benefits through transferring responsibility for meeting all the Scheme’s pension obligations to a regulated insurance company. To this end the Trustees have purchased a bulk annuity policy with Just Group plc (“Just”) with the intention of converting this to a “buy-out” and subsequently winding up the Scheme.

Prior to wind-up additional payments or expenses will be met from cash balances and/or payments from the Sponsor. This includes a final payment to Just in addition to the Initial Premium that has been paid.

Given the Trustees' objectives, while members will continue to receive payments in the long term (from Just, once buy-out has been achieved), the Trustees' investment horizon is short.

4. **Risk Management and Measurement and Financially Material Considerations**

There are various risks to which any pension Scheme is exposed which are considered to be financially material to the Scheme over its anticipated lifetime. The Trustees' policy on risk management and measurement is as follows:

- The primary investment risk arises from a mismatch between the Scheme's assets and liabilities. This is minimised by matching Scheme liabilities with an annuity held with a regulated insurance company.
- The Sponsor may be unable or unwilling to finance a shortfall between assets and liabilities. This risk is also minimised by holding an annuity to meet all benefits, combined with a cash holding expected to be sufficient to meet any outstanding commitments and expenses.
- The annuity represent a concentration of risk that the provider does not make the required payments. As the policy is governed by insurance market solvency regulations, the Trustees believe this risk is low and have mitigated it by taking appropriate advice over the provider and their contract terms.
- Although bulk annuities are illiquid investments and cannot be traded on regulated markets, the Trustees are satisfied this is appropriate given the security they provide by paying members' benefits as they fall due.
- Considerations specific to Environment, Social and Governance ("ESG") issues are addressed in Section 8.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether the current risk profile remains appropriate. Given the arrangements that are in place the likelihood of material change is considered very low.

5. **Portfolio Construction & Day to Day Management of the Assets**

After a careful suitability review, the Trustees have invested the majority of Scheme assets in a bulk annuity with Just. Just is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Trustees have taken steps to satisfy themselves that Just has the appropriate knowledge and experience.

Remaining assets are held in the Trustee bank account and in a pooled cash fund (the Columbia Threadneedle ("CT") Sterling Liquidity Fund) through a Trustee Investment Policy (TIP) from Mobius Life Limited ("Mobius"), whose appointment foregoes the need for a directly appointed Custodian. Mobius Life Limited is authorised by the PRA and regulated by the FCA and the PRA.

6. **Expected Return**

An expected return on the bulk annuity has not been determined but is implicit in the price of the contract.

The CT Sterling Liquidity Cash fund is expected to generate a return in line with or above its benchmark, GBP SONIA.

7. **Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with the overall principles set out in this Statement.

Regular payments to the Scheme in respect of the insured members and their benefit entitlements are made under the annuity contract. These payments are available to meet the Scheme's cash outflows.

Any additional cash flow requirements, such as expenses, are expected to be met from residual cash or - if there is a shortfall, which is not expected - additional payments from the Sponsor.

8. **ESG, Stewardship (including Engagement Activities) and Climate Change**

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a financially material impact on investment returns, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have implicitly delegated consideration of ESG issues, engagement and stewardship obligations to Just in relation to the majority of Scheme assets via a bulk annuity contract, and to Mobius in relation to remaining invested assets. The annuity contract makes contractual payment to the Scheme dependent only on the benefits payable under the contract. As a result, the Trustees have minimal direct exposure to risks arising from long-term sustainability issues, including climate change. They are however satisfied that Just apply due consideration to ESG issues in the investment of assets underlying the contract.

9. **Non Financial Matters**

Non-financial matters (as defined in the relevant regulations) are not taken into account when determining investment policy. Member views are not actively sought.

10. **Investment Management Arrangements**

Alignment of Insurer Objectives and Incentivisation:

Just have been appointed with the aim of insuring the Scheme's liabilities and reducing the Scheme's funding volatility. The Trustees seek expert advice in relation to this appointment. This includes an assessment of Just's capabilities, knowledge and experience. The annuity policy is managed in line with the Scheme's specific liabilities

and investment requirements. Therefore, the policies are aligned with the Trustees' objectives and the terms of the policy incentivises Just to meet the Trustees' objectives. The Trustees understand that they have no ability to determine or influence the assets in which Just invests. The Trustees recognise that the annuity investment is illiquid and cannot be traded.

CT's Sterling Liquidity Fund is invested with the aim of achieving a cash return while minimising risk. This is aligned with the Trustees' objectives. The Trustees can terminate CT's appointment with minimal notice if they become concerned over CT's ability to deliver against these objectives.

Performance Assessment & Fees

The insurer does not receive on-going remuneration from the Scheme. The premium paid for the annuity policy covers the insurer's implicit fees with the Trustees' choice of insurer taking the size of the premium into account. The Trustees are satisfied that this is the most appropriate basis for remunerating the insurer.

CT receive income on the Sterling Liquidity Fund as a percentage of the amount invested. Performance is assessed against a representative Cash index.

Portfolio Turnover Costs

The obligation of the insurer to make payments is not impacted by on-going turnover costs and is not considered by the Trustees.

Cash fund holdings are low and trading costs are minimal. As such the Trustees do not intend to monitor turnover costs explicitly in relation to these holdings.

11. Other appointments

Actuary

Ian Wade is the Scheme's appointed Actuary.

Investment Adviser

Mercer has been appointed to provide advice to the Trustees on investment related matters.

Scheme Actuary and Investment Adviser fees are charged through a combination of fixed fee and budgeted time cost.

Custodian

The assets are held in a bulk annuity insurance policy or in pooled funds. Custodianship of underlying assets is the responsibility of Just and Mobius respectively.

12. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

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Name Signature

MARH LEE
Name Signature

For and on behalf of the Trustee Directors of the Heraeus Electro-Nite (UK) Limited Retirement Benefit Scheme