# HERAEUS ELECTRO-NITE (UK) LIMITED RETIREMENT BENEFIT SCHEME

# STATEMENT OF INVESTMENT PRINCIPLES

SEPTEMBER 2022 (REPLACES NOVEMBER 2021)

# TABLE OF CONTENTS

# 1. INTRODUCTION

This Statement of Investment Principles (“this Statement”) has been prepared by the Trustee of the Heraeus Electro-Nite (UK) Limited Retirement Benefit Scheme (“the Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

This document outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee to ensure the effective implementation of these principles.

In preparing this Statement, the Trustee has obtained and considered written advice from a suitably qualified individual and consulted with the Sponsoring Employer. The advice and consultation process considered the suitability of the Trustee’s investment policy for the Scheme.

The Trustee will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the Statutory Funding Requirements; and will do so following any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

This edition of the Statement of Investment Principles replaces all previous editions.

# 2. INVESTMENT OBJECTIVES

The investment objectives of the Scheme are to achieve an overall rate of return that will:

- ensure sufficient resources are available to meet all liabilities as they fall due;
- take full regard of the nature and structure of the Scheme's liabilities;
- reduce to an appropriate level the level of volatility resulting from changes in the investment assumptions within the actuarial valuation;
- achieve a level of return consistent with the actuarial assumptions as set out in the Statement of Funding Principles.

The Trustee, together with its investment advisers, has discussed investment objectives and believe the resultant investment strategy is consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

Specifically, to achieve the above, the Trustee aims to invest in a bulk annuity that will match the Scheme's liability commitments. This means that the Scheme's investment time horizon may be short (less than one year). However, as the underlying liabilities are long term (extending several decades into the future), this will determine the investment policy of annuity providers, and hence the price of purchasing an annuity. The Trustee will reflect this in their investment strategy by holding low risk assets that reflect the long term nature of the Scheme's liabilities, in order to minimise the risk that annuity prices move out of step with the Scheme's assets.

# 3. TRUSTEE

## 3.1 Trustees Duties and Responsibilities

The Trustee of the Scheme takes investment decisions as a complete body, rather than by appointing a sub-committee, although sub-committees may be formed from time to time to examine specific issues. This more straightforward approach recognises the input that each of the Trustee Directors can and wish to make in the formulation of the Scheme's investment policy. The duties of the Trustee include, but are not limited to the following tasks:

- the ongoing approval of the content of this Statement;
- the appointment and review of theinvestment adviser;
- the appointment and review of the investment platform provider
- the choice of appropriate funds to implement the agreed investment strategy
- the assessment and review of the performance of each investment managers;
- the assessment of the risks assumed by the Scheme at a global level as well as on a manager by manager basis;
- the approval and review of the asset allocation of the Scheme;
- the compliance of the investment arrangements with those principles set out within this Statement, with checks conducted not less than annually.

## 3.2 The Trustee Board

The Trustee Board comprises of an appropriate number of company and member nominated trustee directors in accordance with the prevailing legislation.

# 4. INVESTMENT ADVISER

The Trustee has appointed Mercer as investment adviser to the Scheme. Mercer provides advice as and when the Trustee requires it, as well as highlighting any investment related issues of which the Trustee should be aware. Matters on which Mercer expects to provide advice to the Trustee include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Monitoring the investment managers to ensure their continuing appropriateness to the mandates given
- Monitoring the Platform provider to ensure its continuing appropriateness for the Scheme
- Monitoring the investment managers to ensure their continuing appropriateness to the mandates given
- Setting cashflow management (investment and withdrawal) and rebalancing policies (see Appendix A)

The Trustee may seek advice from Mercer with regard to both strategic and tactical investment decisions; however, it recognises that it retains responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 3). Mercer may be proactive in advising the Trustee regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Mercer monitors the performance of the Scheme's investment managers against their benchmarks.

Mercer makes a fund based charge for the services it provides. This charge is specified in the contractual agreement between the Trustee and Mercer. Any additional services provided by Mercer will be remunerated primarily on a time-cost basis.

Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of its advice.

The Trustee is satisfied that this is an appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

# 5. INVESTMENT MANAGER

The Trustee is a long term investor and does not look to change the investment arrangements on a frequent basis.

The Trustee, after considering appropriate investment advice, has invested the assets of the Scheme 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 Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA.

The Mobius TIP facilitates investment into a range of funds managed by third party investment managers and the value of the Mobius TIP is directly linked to the change in value in the funds. All of the investment managers used by the Scheme are authorised and regulated by the FCA.

The investment managers used by the Trustee through the Mobius platform are chosen based on advice from the investment adviser. This is based on the investment advisor's view of their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. If a manager is significantly downgraded by Mercer's Manager Research Team, Mercer will advise on the replacement of that manager with a suitable alternative.

The Trustee will only invest in pooled investment vehicles through the Mobius platform. The Trustee therefore accepts that it cannot specify the risk profile and return targets of the manager, but pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

The investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage.

In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

Both Mobius and the investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Where possible, discounts have been negotiated by Mercer and Mobius with the managers on their standard charges and the Scheme benefits directly from these discounts.

None of the managers in which the Scheme's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustee therefore considers that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustee accepts that it cannot influence the charging structure of the pooled funds in which the Scheme is invested, but is satisfied that the ad-valorem charges for the different funds are clear and are consistent with each fund's stated characteristics. The Trustee is therefore satisfied that this is an appropriate basis for remunerating the investment managers and is consistent with the Trustee's policies as set out in this SIP.

# 6. INVESTMENTS

## 6.1 Types of Investments to be Held

The Trustee may utilise a wide range of asset classes in order to enable them to meet the investment objectives of the Scheme including:

- UK equities
- Overseas equities;
- Government bonds, including index-linked;
- Corporate bonds;
- Property;
- Diversified growth;
- Absolute return
- High yield bonds
- Commodities
- Derivatives including leveraged swaps
- Cash.

The Trustee has considered alternative asset classes when deciding upon the different types of investment that are suitable to meet the objectives of the Scheme, as reflected in the list above.

## 6.2 Risk Measurement and Risk Management Processes

The long term aim of the Scheme is to match the assets to the liability profile of the membership. The Trustee has considered the structure and development of the Scheme’s assets and liabilities over the coming years and aims to take a level of risk that is appropriate to the liability profile of the Scheme.

The Trustee monitors the impact of the movements in investment markets on the valuation of the Scheme’s liabilities.

The Scheme holds a diversified portfolio of assets to reduce the stock specific risk faced by the Scheme. Investment in Government gilts is an exception where the Trustee will tolerate significant exposure and is comfortable with this given the the security associated with holding gilts.

## 6.3 Balance Between Different Types Of Investment

The Trustee has determined the investment strategy after considering the liability profile and the Trustee’s/employer's appetite for risk.

The Trustee aims to maintain overall Scheme asset allocation invested across the different asset classes in proportions that the Trustee feels is appropriate with regard to the Scheme's liabilities. Asset Allocation, Cashflow and Rebalancing policies are set out at Appendices 2 and 3.

### 6.4 Expected Returns

The investment return expected from the Scheme assets will be determined principally by the choice of investment strategy (i.e. the percentage allocation to different asset classes). Within individual asset classes, the Trustee expects the appointed managers to earn a return comparable to a benchmark that is suitable for the asset class. Assets may be managed actively or passively. Assets managed on an active basis are expected to outperform their respective benchmarks over the longer term. In targeting a level of outperformance the investment managers are also expected to limit the potential for underperformance. Assets managed on a passive basis are expected to produce a return as close as possible to the respective benchmark index return. Details of the funds' individual benchmarks and the targets for each investment manager are detailed in Appendix 1.

Overall, the absolute returns achieved by the assets are expected to match or exceed the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the actuarial valuation (and taking into account post valuation changes where appropriate), with variation in the short term controlled to a level that is acceptable taking into account overall risk and return objectives.

In the short term, given the objective of securing a bulk annuity purchase, the Trustee aim to achieve a return that reflects likely movements in insurer pricing to the extent this is driven by investment markets.

### 6.5 Realisation of Investments

The Scheme's assets are invested in pooled unitised funds and are as readily realisable. The Trustee feels this is appropriate given the cashflow position of the Scheme and the expected development of the Scheme's liabilities, both of which are monitored by the Trustee as appropriate. This level of liquidity will be important in order to be able to purchase a bulk annuity.

### 6.6 Social, Environmental and Ethical considerations

The Trustee understands that it must consider all financially relevant factors in making investment decisions on behalf of the Scheme. However, it may also consider any non-financial factors, to the extent that they have the ability to impact the financial results of the Scheme's investments over the duration of the Scheme, if it believes that such factors reflect the views of members.

The Trustee recognises that Environmental, Social and Governance (ESG) factors, including climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process and that ESG risks are identified and avoided or mitigated as best as possible.

The Trustee recognises that some asset classes offer greater scope for ESG integration than others. Subject to this, the Trustee believes that investing with a manager who approaches investments in a responsible way and takes account of ESG-related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken.

Therefore, the Trustee will, where relevant, work with the Investment Consultant to help select the investment managers that have passed the initial ESG screening. ESG screening will involve some of the following activities, but is not limited to: ensuring the managers are signatories to UNPRI, reviewing the managers' own ESG policies, investigating the extent to which these policies are integrated into their standard procedures of investment research and analysis etc. As part of the Mercer manager research team appraisal process, investment managers are rated on a number of quantitative and qualitative factors, ESG considerations are taken into account in this process.

The Trustee will take into account the ESG policies of prospective insurers in the event of a bulk annuity purchase.

### 6.7 Corporate Governance and Voting policy

Where voting rights exist, the Trustee has concluded that the decision on how to exercise voting rights should be left with their investment managers who will exercise this right in accordance with their respective published corporate governance policies.  Significant voting activity is reported annually to the Trustee. Where the Trustee is specifically invited to vote on a matter relating to a policy or contract held with any of the Scheme's investment managers, the Trustee will exercise their right in accordance with what they believe to be in the best interests of the majority of the Scheme's membership.

### 6.8 Stewardship

The Trustee notes that the investment managers' corporate governance policies are available on request and on their respective websites.  Should ESG monitoring identify low scores the Trustee will consider whether further action is appropriate.

# 7. RISK

Under the Pensions Act 2004, the Trustee is required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

### Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a low-risk scheme-specific strategic asset allocation,

### Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process., and by appointing Mercer to monitor and advise on the replacement of any managers where concerns exist over their continued ability to deliver the investment mandate
- It is managed through the diversification of the Scheme's assets across a range of funds with different investment styles, where appropriate, by monitoring and advice from the investment adviser where there have been significant changes to the managers' capabilities, and by using the Mobius platform, which enables quick and efficient replacement of managers if appropriate.

### Liquidity Risk

- This is monitored according to the level of cashflows required by the Scheme over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.
- Full liquidity will be important in the event of a bulk annuity purchase.

### Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through investing in funds which give an appropriate degree of diversification.
- The Trustee recognises that holding a significant allocation to UK Government gilts represents a political risk but one that the Trustee is willing to accept given the positive benefits of holding gilts as a hedge against the the value of the Scheme's liabilities.

### Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are available to the Trustee and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

### Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative

to the sponsor. Regular updates on employer covenant are provided to the Trustee by senior staff of the sponsor.

### Legislative Risk

- This is the risk that legislative changes will require action from the Trustee so as to comply with any such changes in legislation.
- The Trustee acknowledges that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

### Credit Risk

- This is the risk that is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.
- The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.
- Indirect credit risk arises in relation to underlying bond investments held in the pooled funds. This risk is mitigated by investing in funds with diversified portfolios and in respect of any LDI funds is managed by the investment manager's counterparty management and collateralisation procedures.

### Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, it may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Trustees will seek to mitigate any currency risk through its overall investment strategy including (where appropriate) currency hedging in relation to a proportion of any non-Sterling holdings

### Interest Rate Risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustee recognises that the Scheme's liabilities are exposed to a significant level of interest rate risk movement and for this reason it is desirable for the Scheme's assets to be exposed to interest rate risk and the Trustee has agreed to invest in LDI funds to manage this risk.

### Inflation Risk

- Inflation risk exists if the Scheme invests in assets whose performance is affected by current and future (expected) levels of inflation.
- The Trustee recognises that the Scheme's liabilities are also exposed to this risk and the Trustee has agreed to invest in LDI funds with inflation protection to manage this risk.

### Bulk Annuity price risk

- This is the risk that annuity prices from insurers move out of line with the Scheme's assets. This risk is managed primarily by ensuring that the interest rate and inflation risks described above are minimised. Exposure to credit risk may also reduce bulk annuity price risk to the extent that insurers invest in credit and reflect this in their pricing.
- Bulk Annuity prices are dependent on other factors (such as supply and demand and longevity assumptions) which cannot be readily reduced through investment strategy.

### Other price risk

- This is the risk of volatility that principally arises in relation to return seeking assets, where held.
- The Trustee will limit exposure to return seeking assets to the level that is needed in order to generate a level of the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the actuarial valuation return. If growth assets are held the Trustees will ensure diversified exposure to different investment markets to manage this risk. This will also limit risk relative to bulk annuity prices.

### Recapitalisation risk

- This is a risk specific to LDI investments which invest in liability hedging instruments on a geared basis. These funds may require capital at short notice in order for them to maintain target levels of interest rate and inflation exposure. If this capital is not made available hedging levels would need to be reduced.
- The Trustee manages this risk by putting in place a suitable process with mobius and ensuring sufficient availability (including rebalancing processes) of suitable assets that can be liquidated in order to meet recapitalisation requirements.

### ESG Risk

- This is the risk that Environmental, Social or Corporate Governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.
- The Trustee manages this risk by investing in well-respected investment managers where ESG principles are an established part of the investment decision making process and by regularly reviewing the investment consultant's ESG scoring of the Scheme's managers.

# 8. MONITORING OF INVESTMENT ADVISER AND MANAGER

## 8.1 Investment Adviser

The Trustee measures the performance of their adviser on an on-going basis in a qualitative way. In do so, the Trustee will consider the objectives it set for its investment adviser in the document entitled “Strategic Objectives for Investment Consultancy Services” which was signed by the Trustee in November 2019 and is updated from time to time.

## 8.2 Investment Managers

The Trustee receives quarterly monitoring reports on the performance of the investment managers from Mercer, which present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance, performance against the manager’s stated target performance (over the relevant time period) on a net of fees basis. It also provides returns of market indices so that these can also be used to help inform the assessment of the managers’ performance.

The reporting also reviews the performance of the Scheme’s assets in aggregate against the Scheme’s strategic benchmark.

In conjunction with considering advice and information from their investment adviser, the Trustee has the role of replacing the investment managers where appropriate. It takes a long-term view when assessing whether to replace the investment managers and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer’s Manager Research Team. This in turn would be due to a significant reduction in Mercer’s confidence that the investment manager will be able to perform in line with their fund’s mandate over the long term.

Changes will also be made to the managers if there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

## 8.3 Portfolio Turnover Costs

The Trustee does not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that the performance monitoring which it receives is net of all charges, including such costs. Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustee is also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustee does not have an overall portfolio turnover target for the Scheme.

# 9. CODE OF BEST PRACTICE

The Trustee notes that in March 2017, the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustee is satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme’s circumstances.

The Trustee meets with its investment adviser on a regular basis, monitoring developments both in relation to the Scheme’s circumstances and in relation to evolving guidance, and will revise the Scheme’s investment approach if considered appropriate.

# 10. COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others.

**Signed on behalf of the Trustee by..........................................**

**On ..............................................**

**Full name ..............................................**

**Position ..............................................**

# APPENDIX 1: INVESTMENT STRATEGY

## ASSET ALLOCATION

The Scheme's overall investment strategy is determined taking into account the Objectives set out in this Statement and set out in Appendix 2.

## INVESTMENT FUNDS

The Scheme invests in a combination of pooled funds.

The table below shows the details of the investment managers and funds intended to be utilised by the Scheme to meet this strategy are as follows:

The Scheme's assets are invested through the Mobius Life platform.

The objectives for the funds held are listed in the table on the next page.

| Investment Manager / Fund | Benchmark | Objective |
|---|---|---|
| LGIM Active Corporate Bond - Over 10 Year | iBoxx £ Non-Gilts 10 Year + Index | To outperform benchmark by 0.75% p.a. over a three year rolling period (gross of fees) |
| CT Dynamic LDI Funds | The real and nominal liability Cashflow profile of a typical UK DB pension scheme | To provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension plan |
| CT Sterling Liquidity Fund | GBP SONIA (Sterling Overnight Index Average) | The investment objective is to maintain high levels of liquidity and generate a return in line with money market rates. |

# APPENDIX 2: SCHEME ASSET ALLOCATION BENCHMARKING

The Trustee have chosen a benchmark, shown in the table, that specifies the approximate balance between the different types of funds that are held and target ranges for the holding in each fund.

| | Indicative Weighting (%) |
|---|---|
| LGIM Active Corporate Bond Over 10 Yrs | 20.0 |
| CT Nominal Dynamic DLDI Fund | 25.0 |
| CT Real Dynamic LDI Fund | 5.0 |
| CT Sterling Liquidity Fund | 50.0 |

The above mix has been set so as to hedge approximately 100% of the Scheme's liability on a solvency basis in terms of interest rate and inflation exposure, recognising that solvency estimates are only an estimate of the actual cost of insuring liabilities with an insurance company..

The precise allocations will vary due to relative performance and cashflows and it is NOT expected that the Trustee will automatically rebalance these allocations. Instead the Trustee will check periodically that the combined allocation continues to represent a suitable hedge for the Scheme's liabilities.

Investment strategy is reviewed on a regular basis.

# APPENDIX 3: CASHFLOW AND REBALANCING POLICY

The Trustee expects to realise invested assets in order to meet net Cashflow requirements.

Monies will be raised through the sale of assets in a pragmatic way consistent with the Scheme's overall objectives and strategy, subject to consideration of trade size, liquidity issues, transaction costs, market conditions and the speed with which monies are required.

Similarly, if cash inflows are received, monies will be invested in a pragmatic way.

The Trustee will refer to the Scheme's investment adviser with regard to the investment and disinvestment of significant amounts but may follow a pre-set approach for smaller amounts, for efficiency.