Statement of Investment Principles

Altro Pension Scheme (the “Scheme”)

November 2021

1. Introduction

1.1 Under the Pensions Act 1995 (as updated by the Pensions Act 2004), trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustee in regard to the Altro Pension Scheme (“the Scheme”). The Trustee in preparing this Statement has also consulted the Sponsoring Company, Altro Limited, in particular on the Trustee’s objectives.

1.2 The Trustee will review this document:

- at least once a year
- sooner following an unscheduled actuarial valuation in accordance with the Scheme Specific Funding Requirement under the Pensions Act 2004
- without delay after any significant change in investment policy in accordance with the provisions of the Pensions Act 2004, and
- where the Trustee considers a review is needed for other reasons.

The Trustee has had regard to the requirements of the Pensions Act concerning diversification and suitability of investments and will consider those requirements on any review of this document. The Trustee will provide the investment managers with a copy of the Statement, and will inform them of any updates or changes to the Statement.

1.3 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed Investment Managers.

1.4 This Statement was revised and adopted in June 2019.

2. Governance

2.1 The Trustee is responsible for the investment strategy of the Scheme.

2.2 The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes.

2.3 The Trustee believes that, given the small size of the Trustee board, a separate investment committee would not be appropriate. Therefore all decisions are discussed by the whole Trustee board with advice from the Scheme's investment consultants, Redington Limited, before they are taken.

2.4 The Company is consulted on investment strategy decisions and a representative of the company regularly attends the Trustee meetings.

3. Objectives

3.1 The principal objective of the Trustee is to invest the assets of the Scheme to meet its liabilities when they fall due. The Trustee wishes to protect members' accrued benefits, whilst maintaining a reasonable prospect of achieving a 100% funding level on a prudent basis.

3.2 The Trustee maintains a diversified portfolio of assets which seeks to maintain a balance between expected investment return and volatility of returns.

3.3 In setting the investment policy the Trustee has had regard to the influence this will have on the development of assets and liabilities under the self-sufficiency funding objective. The self-sufficiency funding objective is for the Scheme to achieve full funding using a liability discount rate of gilts flat ('self-sufficiency basis').

3.4 In addition to the self-sufficiency funding objective, the Trustee also regularly monitors the Scheme on a technical provisions basis as set by the Scheme Actuary; currently this is based on the split discount rate of gilts + 2.0% p.a. until 2024 and gilts + 0.5% p.a. thereafter.

4. Risk Measurements and Controls

The Trustee acknowledges that it is not possible to monitor all the risks the Scheme is exposed to at all times. However, it seeks to take on those risks which it expects to be rewarded for over time, in the form of excess returns, in a diversified manner. The Trustee recognises a number of risks involved in the investment of the assets of the Scheme**:**

	Risk	Description
4.1	Market risk	• Arises from the exposure of the Scheme's portfolio to market risk factors (for example equities, credit spreads, interest rates and inflation). • Measured at least semi-annually by means of an Asset Liability Matching ("ALM") modelling exercise. • Currently managed by investing in liability-matching assets and diversification within the growth portfolio of the Scheme. • In addition to the risks mentioned above, the Scheme is also exposed to currency risks via its exposure to overseas assets within its diversified growth fund, absolute return bonds, structured credit, diversified risk premia and liquid multi-class credit allocations. • Currency risks arising from exposures in the diversified growth funds, absolute return bonds, structured credit, diversified risk premia and liquid multi-class credit mandates are managed by the respective investment managers through diversification across different regions and areas and by hedging foreign currency exposure back to sterling.
4.2	Solvency risk and mismatching risk	• Measured through monitoring of the funding level on the self-sufficiency basis and through consideration of the Scheme's Funding Ratio at Risk[1]. • Addressed through the choice of the strategic asset allocation benchmark and implementation of a dynamic risk management approach.

[1] A quantitative assessment of the level of risk being taken in relation to how the funding level might deteriorate as a result of the strategy being pursued.

4.3	Liquidity risk	• Measured by the level of cash flow required by the Scheme over a specified period in order to pay benefits and transfer values. • Managed by investing a proportion of the assets in liquid assets, which allows the Scheme to easily divest cash as and when required. The Scheme also receives cash recovery contributions from the sponsor, which provide liquidity.
4.4	Sponsor risk	• Measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme. Sponsor risk is measured by a number of factors, including the creditworthiness of the sponsor, the size of the pension liability relative to the sponsor's earnings and other commitments/debts, the size of the deficit in the Scheme and Value at Risk. • Managed by monitoring the impact the Scheme has on the sponsor's business.
4.5	Manager risk	• Measured and managed by quarterly monitoring and reviewing the performance of the manager relative to the risk and return objectives set out in the Investment Manager's mandate.
4.6	Counterparty risk	• Arises from the Scheme's derivative exposure in its liability-matching asset portfolio. The Scheme only invests in derivatives via pooled fund vehicles and it has therefore no direct exposure to derivatives counterparties. • The pooled fund manager manages the counterparty risk via diversification, as well as via daily collateralisation of positions.
4.7	Collateral risk	• The Scheme is exposed to collateral calls from its leveraged liability-matching asset portfolio, depending on market movements in the underlying derivatives. • The Scheme manages this risk by retaining a level of cash and liquid assets that can be turned into

		cash for collateral purposes. The Trustee monitors the liquidity position on a quarterly basis.
4.8	Environmental, Social, and Governance Risks	• Arise from environmental, social, and governance factors where these are financially material. • The Trustee has delegated the mitigation of these risks to the Scheme's investment managers; the Trustee engages with their managers to ensure that they are comfortable with the managers' approaches to mitigating these risks.

5. Risk Management Policy

The Trustee has set a risk budget for the Scheme of tolerating no more than a 7.0% fall in the funding ratio in a given year with 95% confidence. Within this risk budget, the Trustee seeks to diversify risks across a range of exposures and to focus on risks that they view as well rewarded in terms of outperforming the liabilities.

As part of the risk management policy, the Trustee has adopted a target of hedging inflation and interest rate risk up to the level of the funding ratio at all times. This is in order to reduce exposure to these two risk sources, and to be able to spend the majority of the risk budget on return-seeking assets.

6. Strategic Asset Allocation

The Trustee has adopted a strategic target asset allocation as outlined below. The purpose of this allocation is to achieve a sufficient asset return to reach full funding for the Scheme over time while staying within the agreed risk budget. This is achieved via combining a leveraged liability-matching portfolio with a range of diversified return-seeking asset mandates.

Liability Matching Assets	**Implementation**	**Target allocation**
LDI portfolio using leveraged gilts funds	Pooled funds	44%
Return-seeking Assets		
Absolute return bonds	Pooled funds	12%

Structured credit	Pooled funds	12%
Liquid multi-class credit	Pooled funds	8%
Unconstrained asset allocation DGF	Pooled funds	12%
Diversified risk premia	Pooled funds	12%
Total		**100%**

Note that the figures may not sum to 100%; this is due to rounding.

Note that the target allocation is used for guidance only, and the Trustee will allow some deviation from the stated allocation from time to time depending on market conditions.

7. Investment Manager Arrangements

7.1 Due to the benefits of cost and ease of implementation, it is the Trustee's preference to invest in pooled investment vehicles. The Trustee recognises that, due to the collective nature of these investments, there is less scope to directly influence how the asset managers invest. However, the Trustee's investment advisers ensure the investment objectives and guidelines of the managers are consistent with that of the Trustee.

7.2 When relevant, the Trustee requires its investment managers to invest with a medium- to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

7.3 When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium- to longer-term timeframe, subject to a minimum of three years. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team. Managers' performance targets have been agreed with all managers and are set out in the Investment Management Agreements. The performance targets, benchmark indices and restrictions placed on each manager have been discussed with them, and the managers are satisfied that no restrictions have been placed on them which limit their ability to meet the Trustee's requirements.

7.4 None of the Scheme's investment managers enters into soft commission arrangements in respect of the assets they manage for the Scheme.

7.5 Managers are paid an ad valorem fee for a defined set of services. The Trustee reviews the fees annually to confirm they are in line with market practices. The Scheme does not currently employ any managers that charge performance fees. Fees are regularly reviewed by the Trustee.

7.6 The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

8. Environmental Social and Governance ('ESG') Considerations

8.1 The Trustee believes the Scheme is a long-term investor and seeks to achieve sustainable returns at an appropriate level of risk over its lifetime, and that environmental, social and governance risks are financially material risks that should be considered as part of the investment strategy and implementation decisions.

8.2 The Trustee's investment advisor incorporates environmental, social and governance considerations into their manager research process, which informs advice provided to the Trustee on selecting, reviewing and changing individual managers.

8.3 Having delegated responsibility for the selection, retention and realisation of investments to the investment managers, the Trustee encourages the Scheme's investment managers to take account of environmental, social and governance considerations insofar as they believe such considerations will benefit performance and/or reduce risk. The Trustee has agreed to engage with their managers on this topic when meeting with them, and to review the Trustee's policy towards ESG once every two years.

8.4 For those assets of the Scheme invested in pooled vehicles, the Trustee accepts that the assets are subject to the investment managers' own policies on environmental, social, and governance considerations.

8.5 The Trustee does not ordinarily take into account non-financial (i.e. ethical) considerations in selection, retention and realisation of investments.

9. Engagement, and the Exercise of the Rights Attaching to Investments

9.1 Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

9.2 The Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term.

9.3 The Trustee expects its investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

9.4 The Trustee’s policy is to delegate responsibility for the engagement with relevant persons, which includes the exercising of rights (including voting rights) attaching to investments to the investment managers. Each investment manager is expected to exercise voting rights in accordance with their guidelines. The Trustee encourages its managers to engage with investee companies and promote adherence to best practice in corporate governance. The Trustee monitors and discloses the voting records of its managers on an annual basis.

9.5 The Trustee's investment advisers assess the ability of the Scheme’s investment manager in engaging with underlying companies in order to promote the long-term success of the investments, and report to the Trustee on an annual basis covering how the investment managers have acted in line with this policy. When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision making process to the appropriate level for the specific asset class in question.

10. Monitoring

The Trustee reviews the performance of the managers on a quarterly basis. The Scheme’s appointed investment advisor will furthermore meet with the asset managers on a regular basis to perform in-depth reviews and advise the Trustee on the continued appropriateness of these managers. If deemed necessary, the Trustee will meet with a given manager as well.

11. Compliance with this Statement

The Trustee will monitor compliance with this Statement. The investment managers have been supplied with a copy of this Statement and the Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

Ratified by the Trustee of Altro Pension Scheme.