

**INDUCTOTHERM EUROPE LIMITED RETIREMENT BENEFITS PLAN (1971)
DEFINED BENEFIT SECTION**

STATEMENT OF INVESTMENT PRINCIPLES

SEPTEMBER 2021

1. INTRODUCTION

The Trustees of the Inductotherm Europe Limited Retirement Benefits Plan (1971) (the ‘Plan’) have adopted this Statement of Investment Principles (the ‘Statement’) to comply with the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. This Statement replaces all previous Statements.

When making their investment decisions and reviewing this Statement, the Trustees obtained and considered the written advice of Cartwright Benefit Solutions Limited, whom the Trustees reasonably believe to be qualified by its ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. Cartwright Benefit Solutions Limited is also authorised under the Financial Services and Markets Act 2000 to provide investment advice to the Trustees.

Whilst the Trustees are solely responsible for the Plan’s investment strategy, the Trustees consulted Inductotherm Europe Limited (the “Employer”) on both the investment decisions taken by the Trustees and this Statement’s content.

The Plan has a Defined Benefit Section, a Defined Contribution Section, and legacy Additional Voluntary Contribution facilities. The Defined Benefit Section and the legacy Additional Voluntary Contribution arrangements are discussed in this Statement. The Defined Contribution Section is discussed in a separate Statement.

2. INVESTMENT OBJECTIVES

The primary investment objective of the Trustees is to ensure that the Plan will be able to pay all beneficiaries in full as and when their benefits fall due, taking into account the existing assets, the investment returns expected to be achieved, and the contributions from the Employer.

To increase the certainty of achieving the primary investment objective, the Trustees will aim to reduce the Plan’s investment risk where possible and practical to do so, subject to still targeting sufficient investment returns. The level of investment risk will also be considered in the context of the ability and willingness of the Employer to support the investment risk being taken and the impact changes in financial market conditions may have on the Employer’s future contribution requirements.

The Plan’s investment risk has been reduced relative to the gilts based funding target by using a range of gilt funds. The Trustees have chosen to reduce risk against this measure in the expectation that benefits will be paid as they fall due without the need for deficit recovery contributions from the Employer. The time horizon for which investments will be used to pay benefits for the Plan is therefore the period until the last member dies or exits the Plan. The Trustees note the duration of the liabilities was circa 13 years as at 30 June 2021.

The Trustees agreed in August 2021 that in addition to investing in a range of individual gilts and index-linked gilt funds, to adjust the gilt and index-linked gilt fund allocations to target interest rate and inflation hedge ratios of c. 100% relative to the Plan’s Technical Provisions. This also enables them to invest a proportion of assets in an unconstrained fixed income fund in order to increase the overall expected investment return of the Plan’s assets.

The Trustees recognise that all investment risk can only be eliminated by the purchase of a bulk annuity insurance policy, which would also eliminate longevity risk. This will be considered further by the Trustees when appropriate to do so.

3. INVESTMENT STRATEGY

The Trustees' investment strategy is described in the Appendix. The key considerations when designing it were as follows.

- (a) The Plan's assets are chosen such that they are expected to maintain the Plan's interest rate and inflation hedge ratios at c. 100% against the Technical Provisions. This helps to reduce the Plan's funding level volatility.
- (b) For the Plan's assets to be sufficiently liquid to enable all beneficiaries to be paid as and when their benefits fall due, whilst minimising the impact on the Plan's targeted hedge ratios.

4. RISK MEASUREMENT AND MANAGEMENT

The Trustees regularly review a wide range of risks to which the Plan is exposed and mitigate these risks where possible and practical to do so. The Trustees believe that the investment strategy adopted is consistent with the agreed risk management policy.

The Trustees' policies on the key investment-related risks are as follows:

- **Employer covenant:** the investment risk taken by the Plan is underwritten by the Employer because, should investment returns not be achieved as expected over the longer-term, the Employer will ultimately be required to increase its contributions to enable all beneficiaries to be paid in full. The Trustees regularly monitor the Employer's covenant and consider the level of the Plan's investment risk in light of the strength of the Employer's covenant.
- **Mismatch risk:** the inherent nature of the assets and the liabilities means that the assets and liabilities are not expected to move precisely in tandem under all financial market conditions and the surplus may rise or fall as a result. The Trustees explicitly take the Plan's liabilities into account when setting the investment strategy (including their nature and duration) and aim to reduce the impact of the different risk factors (eg interest rates and inflation) as much as practically possible. The Trustees will look to further reduce the level of mismatch risk when practical and possible to do so.
- **Active manager risk:** the Trustees recognise that actively managed funds can under- or out-perform their benchmark indices. Actively managed funds are therefore used for asset classes/mandates where the Trustees believe that the chosen investment managers are likely to consistently and sustainably either out-perform the benchmark index, reduce the volatility of investment returns, or both. The Trustees diversify active manager risk where practical to do so.
- **Diversification:** in addition to diversifying across different risk factors (see above), where appropriate, the Trustees also diversify across asset classes, investment managers, counterparties, and geographically. This helps to avoid excessive concentrations of risk. To achieve cost-effective diversification, the Plan's assets are all invested in pooled funds.
- **Liquidity:** to pay beneficiaries, the Trustees are increasingly expected to need to regularly liquidate some of the invested assets to supplement any cash held in the Trustees' bank account. Some asset

classes can be relatively illiquid and so there can sometimes be delays before the cash proceeds become available. The Trustees regularly review the Plan's income and outgo in the context of the overall liquidity of the invested assets. The Trustees also have an investment/disinvestment cash flow policy (see the Appendix) to help to ensure beneficiaries are paid as and when their benefits fall due. The realisation of investments within each investment fund is delegated to the relevant investment manager.

- Derivatives: derivatives may involve leverage to magnify the exposure to certain financial instruments. All the derivatives used by the Plan either contribute to the reduction of risk or are used for efficient portfolio management. The diversified derivative counter-party exposure is delegated to, and kept under regular review by, each investment manager.
- Regulatory: the Plan's assets are invested on regulated markets.

5. MONITORING THE INVESTMENT STRATEGY

The Trustees regularly review the performance of the investment strategy, including: the performance of the Plan's assets against the Plan's liabilities, the actual asset allocation against the benchmark asset allocation, each investment funds' performance against their benchmark index, and the investment/disinvestment cash flow policy. The performance of the manager is assessed over rolling 3 year periods, though quarterly and annual performance figures are also considered.

The Trustees require the investment managers to report on the turnover of securities within invested portfolios and on the associated transaction costs, in order to assess whether such activity, and changes in it, appears reasonable, taking account of the nature of the fund concerned.

The Trustees will formally review and obtain written investment advice on the suitability of the investment strategy at least every three years in line with the timing of each triennial actuarial valuation. These reviews will include the ongoing suitability of the investment funds used.

Certain parts of the investment strategy may be reviewed more frequently if required, for example the investment/disinvestment cash flow policy, or due to significant member movements.

6. FEE STRUCTURES

The investment managers are each paid a percentage of the market value of the assets within their fund(s). The investment platform provider is paid a percentage of the Plan's assets on its platform. No additional performance fees are payable. Some operational expenses are also incurred by each fund to cover administration, audit, legal and custodial costs, along with the transaction costs associated with the buying and selling of the underlying securities as the investment manager changes the constituents of the fund over time (particularly for actively managed funds).

The investment adviser is paid on a time-cost or fixed fee basis, as agreed from time-to-time between the Trustees and the investment adviser.

7. ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ('ESG')

The Trustees believe that their primary responsibility is to invest the Plan's assets for the longer-term financial best interests of the Plan's beneficiaries, as reflected by the Trustees' strategic investment objectives (including the Plan's investment time horizon, as set out in section 2). The Trustees believe

that ESG factors (including climate change risks) can potentially have a material positive or negative financial impact on the Plan. However, due to the Trustees' use of pooled, UK Government bond investment funds, there are no particular ESG factors to be considered other than ensuring the investments meet the Plan's strategic investment objectives over the Plan's investment time horizon when these fund choices are both made and reviewed from time-to-time. The Trustees are aware of and regularly monitor the Plan's investment time horizon.

The Plan's investment funds are deliberately and consciously chosen to align with the Plan's strategic investment policies and objectives, in particular the investment funds' asset class exposure(s), the balance between different asset classes (where appropriate) and expected return and risk. In addition, the fees applicable to the Plan's investment funds are taken into account to ensure that these are also consistent with the Plan's investment policies and objectives, as well as being compatible with the asset class(es) that the fund invests in and returns it is seeking to achieve.

A key element of the selection of the Plan's investment funds is the Trustees' assessment of the likelihood of each investment fund achieving its performance objective on a medium/long term and sustainable basis. As the Plan is entirely invested in UK government bond funds, which are managed in a passive or index-tracking manner, the performance objective in each case is to match the performance of the underlying gilt or index.

The Trustees measure and monitor the performance versus target of all their investment funds on an after fees basis where practical to do so. Part of this monitoring process includes the consideration of the portfolio turnover costs of each investment fund and whether (or not) the twelve-month turnover is consistent with the investment philosophy and process of the investment fund. Any inconsistencies will be considered. The portfolio turnover costs will be part of the after fees fund performance and are therefore reflected in that figure.

The Trustees' intention is to appoint investment managers for the long term and avoid switching between investment funds based solely on short term performance, thus incurring transaction costs which may or may not be offset by future returns. However, if the Trustees believe that an investment fund can no longer achieve its performance target and believe that it is in the Plan's best interests to make a change, then they will do so.

The Trustees have elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of any voting rights, of the funds in which the Plan invests. However, the Trustees consider these policies as part of fund selections and will seek to deepen their understanding of their existing managers' policies by reviewing these periodically. In cases where they are dissatisfied with a manager's approach they will take this into account when reviewing the manager. They are also keen that all the Plan's managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustees believe that stewardship is important, through engagement with investee companies and the exercising of rights (including voting rights) attaching to investments. The Trustees are also keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons (including the issuers of debt or equity held within their pooled funds, the investment managers of other funds held within their pooled funds and other stakeholders) about relevant matters such as their performance, strategy, risks, capital structure and management of any actual or potential conflicts of interest. They will liaise with their managers (including passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustee's behalf) where relevant.

The Trustees periodically obtain and review the relevant ESG, Stewardship and corporate governance policy documents for their appointed investment manager. When relevant, the Trustees will challenge

the investment manager on their policies. Should the Trustees be unsatisfied with the response, they will take the approach that is believed to be in the best interests of the Plan's beneficiaries, which could involve further engagement with the investment manager or disinvesting in favour of a more appropriate investment fund. This creates an incentive for the investment manager to ensure that they are aware of, and as far as possible, meet the Trustees' expectations with regard to ESG and Stewardship policy.

When making investment decisions, the Trustees do not explicitly take into account the views of the Plan's beneficiaries, including (but not limited to) ethical views and views in relation to social and environmental impact and present and future quality of life of the Plan's beneficiaries.

8. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Some members have obtained further benefits by paying Additional Voluntary Contributions ("AVCs") to the Scheme's AVC provider, Royal London Mutual Insurance Society Limited. The AVCs are money purchase in nature, ie the liabilities in respect of these AVCs are equal to the value of the investments bought with the contributions.

9. FUTURE REVIEW

The Trustees will review this Statement:-

- (a) At least every three years,
- (b) Without delay after any significant change in investment policy.

Any review of this Statement will be based on written investment advice from someone whom the Trustees reasonably believe to be qualified by his or her ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. The Employer will also be consulted.

Signed by: Louise Ingmire

Date: September 2021

For and on behalf of the Trustees of the Inductotherm Europe Limited Retirement Benefits Plan (1971)

Appendix – Overview of the Plan’s DB Investment Strategy

The Trustees have adopted the investment strategy described below, which consists of a strategic asset allocation and an investment/disinvestment cash flow policy. The strategic asset allocation determines how the Plan’s assets are split between different asset classes, and results in hedge ratios for interest rates and inflation expectations. The Trustees subsequently selected which investment manager and funds are used to implement each asset class – the investment managers, LGIM¹ and TwentyFour Asset Management, are regulated under the Financial Services and Markets Act 2000.

The Trustees have chosen Mobius Life Limited as the Plan’s execution only investment platform provider to hold the chosen funds and to help to streamline the Plan’s investment administration. Mobius Life Limited is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority.

Asset class		Asset allocation (subject to the hedge ratio targets)
Fixed interest gilts	2024 Gilt Fund	4.0%
	2034 Gilt Fund	10.7%
	2038 Gilt Fund	10.0%
	2042 Gilt Fund	7.8%
	2046 Gilt Fund	5.85%
	2055 Gilt Fund	3.0%
	2060 Gilt Fund	1.8%
	2068 Gilt Fund	1.45%
Index-linked gilts	2024 Index-Linked Gilt Fund	9.6%
	2030 Index-Linked Gilt Fund	8.0%
	2035 Index-Linked Gilt Fund	7.2%
	2040 Index-Linked Gilt Fund	5.0%
	2042 Index-Linked Gilt Fund	4.2%
	2047 Index-Linked Gilt Fund	3.0%
	2055 Index-Linked Gilt Fund	1.9%
	2058 Index-Linked Gilt Fund	1.0%
	2068 Index-Linked Gilt Fund	0.5%
Unconstrained fixed income	TwentyFour Absolute Return Credit	15.0%
Total		100.0%
Target interest rate hedge ratio relative to the Technical Provisions ²		100%
Target inflation hedge ratio relative to the Technical Provisions		100%

The above gilts and index-linked gilts allocations may be adjusted at the time of implementation and may be adjusted from time to time, in order to meet the 100% hedge ratio targets against the Technical Provisions. After the initial implementation, it is not expected that the funds will be rebalanced, but the overall strategy will be reviewed at each actuarial valuation, if not before.

The Trustees have agreed that the default cash flow policy is as follows:

- Any disinvestments should be made from the gilt, index-linked gilt and unconstrained bond (TwentyFour Absolute Return Credit) funds in proportion to the percentage of the assets initially invested in each fund in line with the table above.
- Investment, if any, should be directed towards and invested in the TwentyFour Absolute Return Credit Fund.

The Trustees may (in accordance with the Trust Deed and Rules) purchase an annuity or assurance contract to fund any benefits payable under the Plan.