

Statement of Investment Principles

S G Magnets Limited Retirement Benefits Scheme

August 2020

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1. Introduction

1.1 What is the purpose of this Statement of Investment Principles (“SIP”)?

This SIP sets out the policy of the Trustee on matters governing decisions over the investments of the S G Magnets Limited Retirement Benefits Scheme (the “Scheme”).

The Scheme is made up of a defined benefit (“DB”) section, a defined contribution (“DC”) section, and an Additional Voluntary Contribution (“AVC”) section. The DC members’ benefits have been transferred to an alternate arrangement and no assets remain within the Scheme.

All statements contained within this SIP relate to all sections unless explicitly stated. The Scheme was established under Trust and is registered with HM Revenue and Customs under the Finance Act 2004.

1.2 What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 & 2004 (the “Acts”) and the Occupational Pension Schemes (Investment) Regulations 2005 (the “Regulations”). The SIP also reflects the Trustee’s response to the voluntary code of investment principles set out in Paul Myners’ publication “Institutional Investment: a review”.

The Pension Regulator’s Code of Practice 13, which was published in July 2016, has also been considered by the Trustee when drafting this SIP.

The SIP also takes into account the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018 for policy on financially material considerations, including Environmental, Social and Corporate Governance (“ESG”) factors (including climate change), their stewardship policy (voting and engagement) and their approach to member views (if any).

1.3 Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory (“Quantum”), the Trustee’s investment adviser, and consulting S G Technologies Limited (the “Sponsoring Employer”) as required by the Acts and the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme’s investments.

2. Investment objectives and strategy

2.1 Investment policy

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Trust Deed.

The Trustee is aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustee recognises that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2 Investment objective

DB section

The Trustee, with the assistance of their advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of its objectives and other related matters in 2015.

The Trustee noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long term funding of the Scheme, which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

AVC section

The Trustee's key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' potential circumstances, in particular members' attitudes to risk and how this might vary with the term to retirement.

2.3 What risks were considered and how are they managed?

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

DB section

In order to achieve the objectives, the Trustee recognised the need to invest in both "liability matching" and "return seeking" assets. The Trustee identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;

- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Scheme's income and outgoings;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme's assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives; and
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets.

The Trustee recognises these risks and seek to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme's objectives.

AVC section

The major component of risk is strategic risk which arises from the asset allocation of each individual member's portfolio.

There is also the risk (across all sections of the Scheme) that ESG factors, including climate change, could adversely impact the value of the Scheme's assets if this is not given due consideration and/or misunderstood.

2.4 What is the investment strategy?

DB section

Following the asset liability modelling exercise and investment strategy review in 2015, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, which support the Scheme's investment objectives. Details of this are set out in Appendices 1 and 2.

The DB section was closed to new entrants from April 2002 and the Scheme ceased future accrual in April 2004.

AVCs

For members who joined the Scheme prior to April 2004, the Trustee holds AVC assets separately from the main fund in the form of individually earmarked policies with Scottish Widows. Members can now elect to pay AVCs through increasing their DC contributions to their policies held with Aegon.

The Trustee has taken into account members' potential circumstances, members' potential attitudes to risk and the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns, in deciding on the range of funds to make available to members.

Each member is responsible for specifying one or more of the available funds for investment of their account, having regard to their attitude to the risks involved.

2.5 Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustee believes are appropriate given the size and nature of each section of the Scheme. Details of the funds, managers, benchmarks and target returns used by the DB section can be found in the Appendices.

2.6 Re-balancing (DB)

The benchmark allocation for the DB Scheme, outlined in Appendix 2, is monitored on an ad-hoc basis by the Trustee.

LDI assets (including collateral) and money residing within the Trustee's bank account is excluded from this rebalancing process.

3. Implementation solution

3.1 What is an implementation solution and why use it?

An implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place, rather than directly with a number of different fund managers. This allows greater flexibility and efficiency when switching investments as the investment strategy changes or fund managers have to be replaced.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, ensuring an investment strategy can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

3.2 How is an implementation solution accessed?

Each pension scheme enters into a unit linked life policy through a Trustee Investment Policy (TIP). The TIP's value is linked to the underlying investments, which the implementation solution provider, in this case Mobius Life Limited ("Mobius"), has been directed to purchase. Mobius is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that a pension scheme has with fund managers where it invests directly with these managers and maintains a number of these individual relationships.

3.3. Safeguarding and protection of Mobius assets

There are a number of regulatory layers of protection in relation to the Scheme's assets with Mobius. The key points to note are set out below.

- The Scheme's assets are held in a Pooled Life Fund, which is held separately to Mobius' shareholder and other Company assets.
- Submissions are made to the Prudential Regulation Authority and Financial Conduct Authority on a regular basis, which require the Mobius Board and an independent qualified actuary, the Actuarial Function Holder, to monitor the solvency of the Mobius business in relation to regulatory capital requirements. Mobius have appointed an independent qualified actuary to carry out this function, and any regulatory capital calculations are audited by the independent auditors.
- Mobius undertakes an annual Own Risk and Solvency Assessment together with the Actuarial Function Holder, as part of regulatory requirements of running an insurance company.

In Mobius' Security of Assets document, they state that Mobius is a regulated life insurance company, the Scheme has access to the Financial Services Compensation Scheme ("FSCS") in the event of Mobius becoming either insolvent or liquidated. The level of cover provided by the FSCS is currently 100% of the policy value when investing in insurance policies, with no upper limit, if Mobius defaults.

4. Appointment of investment managers

4.1 How many investment managers are there?

The DB section invests through Mobius, an implementation solution provider. Details of the underlying investment managers are outlined in Appendix 1. The AVC section holds assets through Scottish Widows.

4.2 What formal agreements are there with the investment managers?

The Trustee has signed policy documents and application forms as appropriate, with Mobius for the DB section.

The Trustee holds policy documents with Scottish Widows for the AVC section.

4.3 What is the duration of the arrangement with the investment managers?

The Trustee plans to hold each of its investments for the long term but keeps this under review. Changes in investment strategy or changes in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

4.4 What are the investment managers responsibilities?

The investment managers are responsible for the day-to-day management of the investments and are responsible for appointing custodians, if required.

The investment managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the investment managers are detailed in the Appendices for the DB section.

4.5 What incentivises the investment managers to align their investment strategies and decisions with the Trustee's policies?

The Scheme invests in pooled funds and so the Trustee acknowledges each fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

4.6 What incentivises the investment 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 Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying investments.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the fund managers incentivise them to do this.

If the Trustee feels that the fund managers are not assessing financial and non-financial performance adequately, or engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

4.7 Custodians and administrators

The Scheme's investments are through pooled investment vehicles. Therefore, there is no need for the Trustee to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares.

However, the underlying managers have appointed custodians for the safe custody of assets and these are detailed in the Appendices.

4.8 What is the Trustee's policy on investment in the Sponsoring Employer?

The Scheme does not directly hold any shares in the Sponsoring Employer. The Trustee's policy is to keep any holding below 5% of the Scheme's overall assets, in line with the Regulations.

5. Other matters

5.1 What is the Trustee's policy on the realisation of investments?

The Scheme's assets are held in pooled funds, most of which can be realised easily if the Trustee so requires.

5.2 What is the Trustee's policy on financially material considerations, non-financial matters and stewardship policies?

5.2.1. Financially material considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant. This will be reported on in the annual implementation statement (the first such statement will be included in the Trustee Report and Accounts for the year ending 31 March 2021).

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed periodically for existing managers. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments; and
- Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account when deciding whether to select or retain an investment.

5.2.2. Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

5.2.3. Non-financial matters

The Trustee does not consider non-financially material matters in the selection, retention and realisation of investments.

5.3 How are various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated on a fixed fee basis, with budgets agreed for any additional projects where possible.

The investment managers and Mobius are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management. This structure has been chosen to align the fund managers' interests with those of the Scheme. In addition, the fund managers pay commissions to third parties on any trades they undertake in the management of the assets. The Trustee can obtain an annual statement from the investment managers setting out all the costs of the investment of the Scheme.

5.4 Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract (e.g. units in pooled vehicle) and those where a product is purchased directly (e.g. the purchase of an insurance policy). The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustee will obtain written advice from the Scheme's investment adviser. If the Trustee believes that an investment is no longer suitable for the Scheme, they will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.5 Does the Trustee take any investment decisions on their own?

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions on their own and delegate others.

When deciding which decisions to take, and which to delegate, the Trustee takes into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustee has established the following decision making structure:

Trustee:

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisers and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the Statement of Investment Principles.

Investment adviser:

- Advise on all aspects of the investment of the Scheme's assets, including implementation.
- Advise on this Statement.
- Provide required training.

Investment (or fund) managers:

- Operate within the terms the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

6. Review

6.1 How often are investments reviewed?

Strategy reviews are undertaken periodically. The DB section review typically occurs alongside triennial actuarial valuations of the Scheme; but more frequent reviews can occur in light of a material change of circumstances or if required by the Pensions Regulator.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum, as required.

6.2 What is the method (and time horizon) to evaluate whether the investment managers performance and remuneration for investment management services are in line with the Trustee's policies?

The Trustee reviews the performance of each fund annually on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The investment managers' remuneration is considered as part of the manager selection process and is also monitored periodically with the help of its investment consultant to ensure it is in line with the Trustee's policies. This is reported on in the Scheme's annual implementation statement.

6.3 How does the Trustee monitor portfolio turnover costs and define and monitor targeted portfolio turnover, or turnover range?

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This is monitored on an annual basis.

The Trustee reports on the portfolio turnover costs and target portfolio turnover in the Scheme's annual implementation statement.

6.4 How often is this SIP reviewed?

The Trustee will review this SIP at least every three years and following any significant change in investment policy.

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Signature

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Name

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Date

For and on behalf of the Trustee of the S G Magnets Limited Retirement Benefits Scheme

Appendix 1 – Investment managers

| Investment Manager | Asset class | Fund name | Benchmark | Objective/Outperformance target | Annual Management Charge | Custodian |
|--------------------|------------------|--------------------------------------|---|---|--------------------------|--|
| LGIM | Equity (passive) | World Equity Index Fund (GBP Hedged) | FTSE AW-World Index (GBP Hedged, with the exception of advanced emerging markets) | The Fund has an investment objective to track the total return of the benchmark to within +/- 0.5% pa for two years out of every three. | 0.17% | City Group & HSBC Global Investor Services |
| LGIM | Property | Managed Property | AREF/IPD UK Quarterly All Balanced Property Funds Index | The objective of the Fund is to outperform the benchmark over three and five year periods. | 0.64% | City Group & HSBC Global Investor Services |
| LGIM | Cash | Cash Fund | 7 Day LIBID | To match the median returns of similar funds as measured by the CAPS Pooled Pension Fund Update, without incurring excessive risk. | 0.10% | HSBC |
| BMO | LDI | Nominal Dynamic LDI | N/A | The Fund aims to provide liability hedging by offering interest rate protection, which replicates the liability profile of a typical UK DB scheme. | 0.35% | State Street Bank Luxembourg SA |
| BMO | LDI | Real Dynamic LDI | N/A | The Fund aims to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK DB pension scheme. | 0.35% | State Street Bank Luxembourg SA |

Appendix 2 – Investment strategy

Managers and asset allocation

The following table shows the strategic asset allocation for the DB section of the Scheme.

| Asset class | Manager | Fund | Asset allocation (%) | Tolerance range (%) |
|------------------------------|---------|---------------------------------|----------------------|---------------------|
| Return seeking assets | | | | |
| Equity | LGIM | World Equity Index (GBP Hedged) | 90.0 | +/-5.0 |
| Property | LGIM | Managed Property | 10.0 | +/-5.0 |
| Total | -- | -- | 100.0 | -- |
| Matching assets | | | | |
| LDI/Cash | BMO | Dynamic LDI Funds | Hedge c75% of assets | n/a |
| | LGIM | Cash | | |