The Cronite Pension Scheme

Statement of Investment Principles

September 2021

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1. INTRODUCTION

1.1 This Statement of Investment Principles (SIP) outlines the investment principles adopted by the Trustees in relation to the Cronite Pension Scheme ("the Scheme"). The sponsoring employer is Cronite Castings Limited ("the Employer").

1.2 The SIP has been prepared in order to comply with the requirements of the legislation, in particular:

- Section 35 of the Pensions Act 1995
- Section 244 of the Pensions Act 2004
- The Occupational Pension Schemes (Investment) Regulations 2005
- The Occupational Pension Schemes (Investment) (Amendment) Regulations 2010
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

1.3 The Trustees have also considered:

- The 2001 Myners review of institutional investment (and subsequent updates)
- Guidance issued by the Pensions Regulator
- The UK Stewardship Code

1.4 In preparing the SIP the Trustees have taken written advice from Broadstone Pensions, their appointed investment adviser. The Trustees have also consulted with the Employer (Appendix A).

1.5 The advice and consultation process considered the suitability of the Trustees' investment policy for the Scheme, which the Trustees monitor regularly.

1.6 The Scheme provides final salary related benefits and is exempt approved. The employer intends to remit all relevant contributions to the Trustees within the relevant timescales.

1.7 The Trustees will review this document at least every three years, or sooner if the Trustees consider a review is necessary for other reasons.

1.8 A copy of the SIP is available for inspection by Scheme members.

1.9 The Trustees will set general investment policy but will delegate responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies.

1.10 The Trustees will ensure that any person to whom such responsibility is delegated is authorised under the Financial Services and Markets Act 2000. A copy of the SIP will be provided to the investment managers appointed.

2. GOVERNANCE STRUCTURE

2.1 The Trustees' responsibilities include, but are not limited to the following tasks:

- setting the overall investment objectives in light of the Scheme's circumstances
- making strategic investment decisions to achieve these objectives, eg the risk / return profile and proportion of the investments to hold in which asset classes
- reviewing the content of this document and amending if necessary, in consultation with the Employer and based on written advice from appropriately qualified advisers
- ensuring the investment policy remains appropriate for the nature of the Scheme's liabilities and given the strength of support from the Employer
- ensuring that benefits can be paid as and when they fall due
- appointing investment managers and investment advisers
- assessing the quality of performance of investment managers and investment advisers
- ensuring compliance of the investment arrangements with the principles outlined in this document

2.2 The investment managers' responsibilities include:

- using their discretion to invest the assets of the Scheme as they deem appropriate, within the guidelines contained in this document
- having regard to the need for diversification, and providing details to the Trustees of how they have achieved this
- providing the Trustees with regular statements describing the investment performance of funds under their management, as well as comparable figures from benchmark indices

2.3 The investment advisers' responsibilities include:

- advising on an appropriate investment strategy to meet the Trustees' investment objectives within an appropriate level of risk
- advising the Trustees on the choice of investment managers and alerting the Trustees to any significant changes at the investment managers

2.4 The Scheme's lawyer may be consulted to advise on:

- how the Trustees' investment strategy achieves and maintains compliance with legislation
- the contractual aspects of agreements with investment managers

2.5 The Scheme Actuary's responsibilities include:

- performing the statutory actuarial valuations and advising the Trustees of how the results might impact upon their investment decisions

2.6 The Scheme Administrator's responsibilities include:

- advising the Trustees of the cash required to meet benefit payments as and when they fall due
- payment of benefits and transfer values

3. BELIEFS

3.1 The Trustees' investment beliefs, which underpin their decision making, are as follows:

- Risk is necessary to achieve return, but not all risks are rewarded
- Risks that are not sufficiently rewarded should generally be avoided, hedged or diversified
- Well governed companies that manage their businesses in a responsible way will produce higher returns over the long-term
- Climate change could be a long-term risk for the scheme and has the potential to impact the Scheme's investment strategy
- Investing responsibly and engaging as long-term owners reduces risk over time and may positively impact returns
- Good stewardship and environmental, social and governance ("ESG") issues may have a material financial impact on investment returns

4. OBJECTIVES

4.1 The Trustees' investment objectives are as follows:

- to acquire suitable assets such that these, together with new contributions from the Employer, are expected to be sufficient to meet the cost of current and future benefits as they fall due
- to limit the risk of assets failing to meet the liabilities over the long-term

- to minimise the long-term costs of the Scheme by maximising the return on the assets, whilst having regard to the objectives above

- to manage the volatility of returns, in order to control the risk of volatility in the Employer's contributions

- to pay due regard to the Employer's preferred investment strategy

4.2 The Trustees set the investment objectives in the expectation that the Scheme is continuing as a closed scheme for the long-term. If the Trustees become aware of circumstances which lessen the certainty of this the Trustees will take steps to adjust the investment strategy as appropriate at the time.

5. CURRENT INVESTMENT STRATEGY

The kinds of investment to be held

5.1 Under rule 10 of the Scheme's Trust Deed and Rules dated 3 June 1996, the Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives, LDI, and annuity policies.

5.2 There is no employer-related investment, and none is intended.

Strategic asset allocation

5.3 The Trustees have agreed a strategic asset allocation and delegated the day to day management of their funds to the fund managers Legal and General Investment Management ("LGIM") and M&G Investments ("M&G") as shown below:

Fund	Allocation
LGIM Matching Core	30%
LGIM Dynamic Diversified Fund	50%
M&G All Stocks Corporate Bond Fund	20%

5.4 The asset allocation will vary from the strategic asset allocation over time as a result of market movements or cash disinvestments.

5.5 Nothing in this SIP shall prevent the Trustees from changing the strategic asset allocation or amending the choice of funds in the light of subsequent advice.

Managers' Objectives

5.6 The fund managers are aiming to achieve the following:

Fund	Management	Objective	Fees
LGIM Matching Core	Active	Match a liability benchmark designed to reflect a generic pension liability profile	0.24% pa
LGIM Dynamic Diversified Fund	Active	Bank of England Base Rate + 4.5% pa over a full market cycle. (gross of fees)	0.50% pa
M&G All Stocks Corporate Bond Fund	Active	iBoxx Sterling Non-Gilts index + 0.8% pa over rolling 3-year periods (gross of fees)	0.30% pa

5.7 The Trustees expect the managers to achieve these objectives in the majority of three-year periods, although it is not expected that the managers will necessarily achieve their targets in every three-year period.

5.8 More detailed objectives may be agreed from time to time with the investment managers.

Expected return on investments

5.9 The Trustees expect that total long-term average returns after fees will be in excess of the 4.0% pa required by the Recovery Plan, as set out in the Statement of Funding Principles (as revised from time to time).

Monitoring

5.10 The Trustees will review the investment strategy in full at least every three years. Any changes to the strategy or to the managers will be made only after obtaining written investment advice and after consulting with the Employer

5.11 The Trustees will assess the performance (net of the impact of turnover costs) of the investment managers and review their appointments regularly. The Trustees will consider the managers' compliance with the requirements of the Pensions Act 1995 concerning diversification and suitability, where relevant. In addition, the fee structure for investment managers and advisers will be reviewed at least once every three years.

Rebalancing

5.12 The Trustees may use cashflows payable to/from the Scheme to help rebalance the allocations occasionally. However, a full rebalance will only take place if there is a formal strategy review, and there will be no automatic rebalancing.

Additional Voluntary Contributions (AVCs)

5.13 Some members may obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Units from surplus distribution

5.14 Some members of the Scheme benefited from a surplus distribution in 1992 whereby they were granted a money purchase pot in addition to their defined benefit entitlement under the Scheme.

5.15 The vast majority of members who hold these units are due to retire within the next few years, the units are currently held as cash in the Scheme bank account. The Trustees will review this position each time the Scheme's investment strategy is reviewed.

6. SUITABILITY

Scheme Funding

6.1 The Trustees have taken advice from the Scheme Actuary to confirm that the expected return from the Scheme's investment strategy is consistent with the funding plan.

Risk capacity and appetite

6.2 The Trustees have acknowledged that the strategy is likely to result in some volatility of the funding position, and additional contributions may be needed from the Employer to support the policy.

6.3 Risk appetite is a measure of how much risk the Trustees are willing to take within the investment strategy, having considered the Employer's views and the risk capacity. The Trustees and the Employer have agreed that the Scheme's existing asset allocation is suitable for the long-term and consistent with their risk appetite.

6.4 The Trustees monitor the Employer's covenant regularly and are satisfied that the Employer is able to underwrite the risks within the current investment strategy. The Trustees will continue to monitor the Employer's covenant and may adjust the investment strategy if there is a change in the covenant strength.

7. TRUSTEE INVESTMENT POLICIES

Liquidity and cashflow management

7.1 Through the information provided by the Scheme Administrator the Trustees will monitor the cash flow requirements of the Scheme regularly.

7.2 Any contributions in excess of those needed to meet short term cashflow requirements will be paid to the fund managers to maintain the Scheme's current asset allocation. Similarly, at times when disinvestments may be needed the disinvestment will be taken from fund(s) as necessary to return the Scheme to broadly the initial asset allocation.

7.3 The Trustees' policy is to ensure that the invested assets are sufficiently realisable to enable the Trustees to meet their obligations to provide benefits and management expenses as they fall due.

Financially material considerations (including ESG)

7.4 The Trustees have given each individual fund manager their full discretion when evaluating ESG issues and in exercising rights, engagement activities[1], and stewardship obligations attached to the Scheme's investments. However, the extent to which these factors are taken into account by the fund managers in the selection, retention and realisation of investments is considered by the Trustees as part of the process of selecting organisations with which to invest. The Trustees reserve the right to request from the manager information regarding their actions.

7.5 The Trustees have taken into consideration the Financial Reporting Council's UK Stewardship Code, and the investment managers all have stated corporate governance policies which comply with these principles.

7.6 The Trustees do not take any non-financial[2] matters into account in the selection, retention and realisation of investments.

Delegation of Voting Rights

7.7 The Scheme's voting rights are exercised by each investment manager in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

1 "Engagement activities" include the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters. "Relevant matters" includes (but is not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance. "Relevant persons" includes (but is not limited to) an issuer of debt or equity, an investment manager or another holder of debt or equity.

2 "Non-financial matters" means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme

Long-term journey planning

7.8 The Trustees plan to reduce risk in the investment strategy over time. Following each actuarial valuation, the Trustees will ask the Scheme Actuary to advise on the extent to which the investment strategy could, according the funding plan, be de-risked without requiring additional employer contributions or extending the recovery plan. However, the Trustees will not operate automatic de-risking but will consider the options for investment strategy at each review.

Liability hedging

7.9 The Trustees target full interest rate and inflation hedging of the Scheme's liabilities. However, the Trustees will not operate automatic re-hedging but will consider the level of hedging within the investment strategy at each review.

Monitoring the capital structure of investee companies

7.10 The Trustees delegate the responsibility for monitoring the make-up and development of the capital structure of investee companies to their investment managers.

Managing conflicts of interest

7.11 The Trustees have a formal conflict of interest policy and register, which is reviewed at each Trustee meeting. These documents record any actual or potential conflicts of interest in relation to investee companies or the investment managers, while also setting out a process for the management of any such conflict of interest.

Incentivising asset managers

7.12 The Trustees will select investment managers who are primarily remunerated via an agreed fixed annual percentage of the asset value for each underlying fund. The Trustees may also agree to pay a performance related fee to its fund managers.

7.13 The Trustees do not directly incentivise the investment managers to align their investment strategy and decisions with the Trustees' policies and objectives. Neither do the Trustees incentivise the asset manager 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.

7.14 However, the Trustees will review their investment managers from time to time and will select funds that they believe operate in line with the Trustees' policies and objectives, and will meet the Trustees' return requirements overall.

Evaluation of the asset managers' performance and remuneration

7.15 The Trustees will review the investment managers' remuneration and performance relative to the market costs and performance of managers with similar strategies.

Monitoring portfolio turnover

7.16 The Trustees expect the investment managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

7.17 The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

7.18 The investment managers are expected to provide information on portfolio turnover and associated costs to the Trustees so that this can be a factor in the Trustees' review process.

The duration of the arrangement with the asset manager

7.19 The Trustees will consider on a regular basis whether or not the investment managers and AVC provider remain appropriate to continue to manage the Scheme's investments and AVCs. The Trustees expect the investment managers to supply the Trustees with sufficient information regularly to enable them to monitor financial and non-financial performance.

Frequency of review

7.20 The Trustees will review investment managers' performance via the managers' own regular reports and will conduct a fuller review to consider all of the matters referred to above at least once every three years.

8. INVESTMENT RESTRICTIONS

8.1 No direct investment shall be made in any of the following:

- securities issued by the Employer.
- property owned by or leased to the Employer.
- securities issued by associate companies of an investment manager.

8.2 The Trustees recognise that where investments are held in pooled funds or an investment company, they may not be able to apply investment restrictions. However, for any direct investment or where feasible the following additional restrictions shall be observed by the investment manager:

- No more than 5% of the Scheme assets can be held in the securities of any one company.
- No more than 5% of the Scheme assets can be invested in assets that are not readily realisable.
- The manager may not use the portfolio to underwrite new issues.

9. RISK MANAGEMENT

9.1 The Trustees recognise that there are a number of risks involved with investment of the assets of the Scheme.

- *Volatility / capital loss:* the investments are subject to market fluctuations and other risks inherent in investing in securities. The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest. There is no certainty that the investment objective of a fund will actually be achieved. The Trustees mitigate against this risk by diversifying assets across a range of investments.
- *Solvency risk:* the Trustees review the strength of support provided by the Employer regularly, and will review the investment strategy immediately if they become aware that the covenant has worsened.
- *Mismatching risk:* addressed through the choice of funds and through ongoing triennial actuarial valuations.
- *Manager risk:* addressed by the performance objectives set out in Section 5; and by regular monitoring of each manager's performance. Using multiple investment managers mitigates this risk without adding disproportionately to the governance costs.
- *Liquidity risk:* the Trustees monitor cash flow requirements regularly and make investments that are readily realisable.
- *Political risk:* the risk of political intervention having an adverse effect on asset performance is reduced by diversification of the assets across companies, geographical regions and monitoring the amount invested in foreign countries.
- *Currency risk:* the risk of mismatching the currency of the assets to that of the liabilities is reduced by the choice of fund and monitoring the amount of overseas investment.

- *Custody Risk:* Investment in pooled funds gives the Trustees a right to the cash value of the units rather than the underlying assets. The managers of the pooled fund are responsible for appointing and monitoring the custodian of the fund's assets.

9.2 The Trustees will continually monitor these risks.

This statement was agreed by the Trustees on…8 October 2021…………………………………….

Signed on behalf of the Trustees:

Name…Ramona Tipnis……………………………….   Signature…R Tipnis……………………………………

APPENDIX A

September 2021

Dear Trustees

The Cronite Pension Scheme (the "Scheme")
Investment Strategy

As the sponsoring employer of the Scheme, we are required under Section 35 5(b) of the Pensions Act 1995 to confirm to the Trustees that we have been consulted about the investment strategy of the scheme.

This letter is to confirm that:

- We have read the Statement of Investment Principles dated September 2021;
- We have been consulted about this investment strategy;
- We have no further comments to make in addition to those we have already expressed during the formulation of this investment strategy.

Yours sincerely

For and on behalf of
Cronite Castings Limited