

# The Cronite Pension Scheme

## Statement of Investment Principles

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### Background

#### Purpose of Statement

This Statement sets out the principles governing decisions relating to the investment of the assets of the Cronite Pension Scheme (the Scheme).

#### Nature of Scheme

The Scheme is a defined benefit arrangement set up under trust and registered with HM Revenue and Customs (HMRC).

#### Compliance with Legislation

This Statement has been prepared to comply with Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

#### Availability to Members

A copy of this Statement will be made available to Scheme members on request to the Trustees.

#### Investment Advice

The Trustees have obtained and considered professional advice on the content of this Statement from Broadstone Pensions Limited (Broadstone), their appointed investment adviser. Broadstone has confirmed to the Trustees that it has the appropriate knowledge and experience to give the advice required under legislation.

The Trustees will obtain such advice as they consider appropriate and necessary whenever they intend to review or revise this Statement.

#### Consultation with the Principal Employer

The Trustees have consulted the Principal Employer, Cronite Castings Limited, when setting their investment objectives and strategy, and in the preparation of this Statement.

Responsibility for maintaining the Statement and determining the Scheme's investment strategy rests solely with the Trustees.

#### Investment Powers

The Trustees' investment powers are set out in Clause 10 of the Trust Deed and Rules dated 3 June 1996. The powers granted to the Trustees under this Clause are wide and this Statement is consistent with those powers.

## Investment Objectives

### Strength of Employer Covenant

In determining their investment objectives and strategy, the Trustees have considered the strength of the Principal Employer's willingness and ability to support the Scheme. They have determined that it is reasonable to take a long-term view in determining its investment objectives and strategy.

### Key Funding Measure

The Scheme is subject to the Statutory Funding Objective (SFO) introduced by the Pensions Act 2004, i.e. that it should have sufficient and appropriate assets to cover its Technical Provisions, as calculated in accordance with the Trustees' Statement of Funding Principles.

The Trustees have agreed that the funding position measured under the SFO is the assessment of scheme funding that is of most importance to the Trustees, the Principal Employer, and members, as it determines the Scheme's funding requirements.

### Investment Objectives

The Trustees' investment objectives are as follows:

- To ensure that the assets are of a nature to enable the Trustees to meet the Scheme's benefits as they fall due.
- To invest the Scheme's assets in an appropriately diverse and liquid range of investments.
- To invest in a way that is consistent with the Scheme's funding objectives, i.e. to invest so that the investment return assumptions used to determine the Scheme's funding plan have a reasonable chance of being achieved in practice.
- To appropriately constrain volatility in the Scheme's funding position subject to continuing to be able to meet the return objective.
- Where future opportunities arise to improve protection against key risks without adversely affecting its funding plan, the Trustees will consider steps to further reduce the volatility of the Scheme's funding position relative to its liabilities calculated under the SFO basis.

### Paying Regard to the Principal Employer's Views

The Trustees will have regard to the Principal Employer's interests in relation to the size, incidence, and volatility of its contribution payments, as well as the Principal Employer's views on the potential costs and risks associated with the investment objectives set and their implementation through the practical strategy.

## Principles for Setting the Investment Strategy

### Selection of Investments

The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.

The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.

The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.

The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.

The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and any expenses of running the Scheme that are not met by the Principal Employer.

### Balance of Investments

The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.

The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes in the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.

### Delegation to Investment Managers

The Trustee will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.

### Realising Investments

The Trustees make disinvestments from the Investment Managers with the assistance of their administrators and advisers, Broadstone, as necessary, to meet the Scheme's cashflow requirements.

## Setting the Strategy

### Target Asset Allocation

The Target Asset Allocation for the Scheme's assets is as follows:

Asset Class	Target Asset Allocation
<b>Risk-controlled multi-asset</b>	30%
<b>Corporate bonds</b>	40%
<b>LDI solution</b>	30%
<b>Total</b>	<b>100%</b>

The balance of assets within the LDI solution will vary with market conditions and will be maintained to target the agreed hedging levels against changes in long-term interest rates and inflation expectations.

### Investment Managers

The Trustees entered into a contract with Legal & General Investment Management Limited (LGIM) in April 2019 and with Insight Investments (Insight) in March 2023. LGIM and Insight undertake day-to-day investment management of the Scheme's assets.

LGIM and Insight are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

### Strategies Used

The Trustees use the following funds operated by the Investment Managers, which are given together with their target allocation within the overall strategy.

Fund	Target Asset Allocation
<i><b>Risk-controlled multi-asset</b></i>	
<b>LGIM Dynamic Diversified Fund</b>	30%
<i><b>Corporate bonds</b></i>	
<b>Insight Long Dated Buy &amp; Maintain Bond Fund</b>	40%
<i><b>LDI solution</b></i>	
<b>LGIM Matching Core (LDI) Funds LGIM Absolute Return Bond Fund</b>	30%
<b>Total</b>	<b>100%</b>

### Target Hedging Ratios

The target hedging ratios against the interest rate risk and inflation risk associated with the Scheme's funded Technical Provisions, are summarised below:

	Target Hedging Ratio
<b>Interest rate risk</b>	100%
<b>Inflation risk</b>	100%

### Maintaining the Target Asset Allocation and Target Hedging Ratios

The Trustees will regularly review the balance of the Scheme's investments in conjunction with their advisers, Broadstone, and will make any necessary transfers of holdings to maintain the allocation and hedging levels within a reasonable range of their targets, taking account of the reasons for and extent of any deviation, together with the costs associated with rebalancing the portfolio.

## Performance Benchmarks and Objectives

The risk-controlled multi-asset, corporate bond and absolute return bond funds used by the Trustees are actively managed, with an objective to outperform a specified benchmark, as summarised below:

Fund	Benchmark	Performance Objective
<b>LGIM Dynamic Diversified Fund</b>	Bank of England Base Rate	To outperform the benchmark by 4.5% p.a. (gross of fees) over rolling three-year periods
<b>Insight Long Dated Buy &amp; Maintain Bond Fund</b>	Not applicable	To capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality
<b>LGIM Absolute Return Bond Fund</b>	ICE BofA Sterling Overnight Index Average (SONIA) three-month Constant Maturity Total Return Index	To outperform the benchmark by 1.5% p.a. (gross of fees) over rolling three-year periods

The LGIM Matching Core Funds have an objective to provide a prescribed level of hedging against changes in the value of liabilities for a typical defined benefit pension scheme caused by interest rate risk and inflation risk. The practical method of implementing this level of hedging is delegated to LGIM, with the expectation that LGIM will choose the most cost-effective method.

## Investment Management Charges

The annual management charges for each of the funds used, based on the assets under management at the date of this Statement, are given below:

Fund	Annual Management Charge
<b>LGIM Dynamic Diversified Fund</b>	0.40% p.a.*
<b>Insight Long Dated Buy &amp; Maintain Bond Fund</b>	0.15% p.a.
<b>LGIM Absolute Return Bond Fund</b>	0.25% p.a.
<b>LGIM Matching Core Funds</b>	0.24% p.a.

\*The AMC is being discounted from 0.50% p.a. until further notice.

In addition, LGIM charge a flat fee of £1,500 per annum.

## Employer Related Investment

Neither the Trustees nor the Investment Managers directly hold any employer related investments.

## Additional Voluntary Contributions (AVCs)

The Scheme holds AVCs separately from the assets backing defined benefits via investments held with Utmost Life and Pensions Limited.

## Expected Returns and Risks

### Overall Return Target

The Trustees' objective is for the Scheme's assets to produce a return in excess of the growth in the value of its liabilities calculated under the SFO.

The Trustees expect the assets to produce a return in excess of the long-term rate of growth in the value of its Technical Provisions of up to 1.2% per annum over the medium to longer term, depending on the level of prudence adopted in assessing future expected returns.

### Expected Returns

Over the long-term, the Trustees' expectations are to achieve the following rates of return from the asset classes they makes use of:

Asset Class	Expected Return
<b>Risk-controlled multi-asset</b>	In excess of UK price inflation, as measured by the Retail Prices Index, and in excess of the market yield available on longer dated low risk assets, such as gilts, but with significantly lower volatility in returns than UK equities.
<b>Corporate bonds</b>	To achieve a long-term return in excess of the yield available on a comparable portfolio of UK gilts to compensate for the additional risk associated with investing in a diversified portfolio of corporate bonds.
<b>LDI solution</b>	In-line with the sensitivity of the Scheme's Technical Provisions to changes in interest rates and inflation expectations, subject to the Target Hedging Ratio.

### Consideration of Risks

The Trustees have considered various risks the Scheme faces, including market risk, interest rate risk, inflation risk, default risk, concentration risk, manager risk and currency risk, and consider that the Target Asset Allocation strikes a reasonable balance between risk mitigation and seeking an appropriate level of return, taking account of the strength of the Principal Employer's covenant and the long-term nature of the Scheme.

### Risk Relative to the Value of the Scheme's Key Funding Measure

The Target Asset Allocation has been determined with due regard to the characteristics of the Scheme's Technical Provisions.

The calculation of the Scheme's Technical Provisions uses assumptions for future investment returns and price inflation expectations that are based upon market values of financial securities such as fixed interest and index-linked government bonds. This means that the Technical Provisions are sensitive to changes in the price of these assets as market conditions vary, and can have a volatile value.

The Trustees accept that their investment strategy may result in volatility in the Scheme's funding position. Furthermore, the Trustees also accept that there is a risk that the assets will not achieve the rates of investment return assumed in the calculation of the Scheme's Technical Provisions.

### Concentration of Risk and Diversification

To reduce the risk of concentration within the portfolio, the Trustees will monitor the overall mix of asset classes in the investment strategy with its adviser, Broadstone.

The Trustees invest in a range of asset classes through the funds they use and consider the Scheme's strategy to be sufficiently diversified in the context of the objectives.

### **Manager Controls and Custodianship**

The day-to-day activities that the Investment Managers carry out for the Trustees are subject to regular internal reviews and external audits by independent auditors to ensure that operating procedures and risk controls remain appropriate.

Safe-keeping of the Scheme's assets held with the Investment Managers is performed by custodians appointed by the Investment Managers.

### **Manager Security**

The Trustees have considered the security of the Scheme's holdings with the Investment Managers, allowing for their status as reputable regulated firms, and consider the associated protection offered to be reasonable and appropriate.

### **Monitoring and Management of Risks**

The Trustees will monitor the investment and funding risks faced by the Scheme with the assistance of their investment adviser and the Scheme Actuary at least every three years. The Trustees will consider the appropriateness of implementing additional risk mitigation strategies as part of such reviews.

In addition, the Trustees will review wider operational risks as part of maintaining their risk register.

## Responsible Investing, Governance and Engagement

### Financially Material Considerations Related to Environmental, Social and Governance Considerations

The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets.

The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.

The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues but will review this position from time to time. The Trustees receive information from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a longer term risk and likely to be less material in the context of the short-term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area in conjunction with their investment adviser.

### Views of Members and Beneficiaries

The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustees therefore do not explicitly seek to reflect any specific views through the implementation of the investment strategy.

### Engagement and Voting Rights

The Trustees' voting and engagement policy is to use their investments to improve the ESG behaviours of the underlying investee companies. These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustees believe that having this policy, and aiming to improve how companies behave in the medium and long term, are in the members' best interests. The Trustees will aim to monitor the actions taken by the Investment Managers on their behalf and if there are significant differences from the policy detailed above, they will escalate their concerns which could ultimately lead to disinvesting their assets from the Investment Managers.

The Investment Managers provide, on request, information to the Trustees on their actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Managers.

### Capital Structure of Investee Companies

Responsibility for monitoring the make up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitors capital structure to be appropriate to the nature of the mandate.

### Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, 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 their management.

### **Incentivisation of Investment Managers**

The Investment Managers are remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustees' policies and objectives. Instead, the Investment Managers and the funds are selected so that, in aggregate, the returns produced are expected to meet the Trustees' objectives.

The Trustees do not directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

## Review and Monitoring

### Frequency of Review

The Trustees will review this Statement at least every three years or if there is a significant change in the Scheme's circumstances or the regulations that govern pension scheme investment.

### Monitoring the Investment Strategy and Manager

The Trustees employ Broadstone to assist them in monitoring the performance of the Scheme's investment strategy and Investment Managers.

The Trustees receive quarterly reports from the Investment Managers and meets with their representatives periodically to review their investment performance and processes.

The Trustees and Broadstone will monitor the Investment Managers' performance against their performance objectives.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise they have had in meeting their objectives, both financial and non-financial.

### Monitoring the Duration of Investment Arrangements

The Trustees are a long-term investor and have not set an explicit target to review the duration of their arrangements with the Investment Managers. However, the arrangements will be reviewed in conjunction with any review of investment strategy.

### Portfolio Turnover Costs

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.

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

The Investment Managers provide information on portfolio turnover and associated costs to the Trustees so that this can be monitored, as appropriate.

### Review of Investment Managers and AVC provider

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.

### Information from Investment Managers

The Investment Managers will supply the Trustees with sufficient information each quarter to enable them to monitor financial and non-financial performance.

**Name** Payam Kazemian (On behalf of Zedra Governance Limited)

**Date** 19/06/2023

**On behalf of the Trustees of the Cronite Pension Scheme**