

Metal Improvement Company Hourly Paid Staff Pension Scheme

Annual Implementation Statement

Metal Improvement Company Hourly Paid Staff Pension Scheme

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees of the Metal Improvement Company Hourly Paid Staff Pension Scheme ('the Scheme'), has been followed during the year to 31 December 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator. The table later in the document sets out how, and the extent to which, the policies in the SIP have been followed.

Investment Objectives of the Scheme

The Trustees are required to invest the Scheme's assets in the best interest of the members, beneficiaries and the Sponsor, and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regards to investment policy are:

- To achieve, over the long term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Sponsor in relation to the size and volatility of the Sponsor's contribution requirements.

Review of the SIP

The Trustees will review the Scheme's SIP at least once every three years and without delay after any significant change in investment policy. Any change to the SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

During the year, the Trustees reviewed the Scheme's SIP. Revisions were made to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2019, relating to the following:

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- How the Trustees' arrangements with the asset managers incentivise the asset managers to align their investment strategy and decision requirements with the Trustees' policies in the SIP.
- How the arrangements incentivise the asset managers to make decisions based on the medium to long-term financial assessments 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.
- How the method and time horizon of the evaluation of an asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how those managers define and monitor this.
- The duration of the arrangement with the asset managers.

The Scheme's SIP was most recently updated in September 2020.

Assessment of how the policies in the SIP have been followed for the year to 31 December 2020

The information provided in the following table highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the policies in the SIP. The SIP is attached as an Appendix and sets out the policies referenced below.

In summary, it is the Trustees' view that the policies in the SIP have been followed during the Scheme year to 31 December 2020.

	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
1	Securing compliance with the legal requirements about choosing investments	<i>The investment responsibilities of the Trustees are governed by the Scheme's Trust Deed and Rules, as detailed in Section 2 of the SIP. In the Trustees opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.</i>	<p>There have been no changes to the Scheme's investment strategy over the year to 31 December 2020 and therefore no suitability advice was required during the year.</p> <p>The last investment strategy review was undertaken in January 2018. Although not over the Scheme year, the Trustees obtained advice from their Investment Adviser in relation to the strategy and, as a result, introduced an allocation to the Legal & General Investment Management ("LGIM") Over 15 Year Index-Linked Gilts Index Fund.</p> <p>Given the Scheme does not have a default arrangement, the requirements in relation to a default investment strategy do not</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
			apply to the Scheme. Nonetheless, the Trustees regularly review the continuing suitability of the Scheme's investments, with assistance from their Investment Adviser as and when required.
2	Kinds of investments to be held	<p><i>As outlined in section 5 of the SIP, the Scheme has no requirement for a default arrangement, as defined by the Charges and Governance Regulations.</i></p> <p><i>The Trustees retain full discretion over the Scheme's actual allocation between the with-profits fund, index-linked gilts and cash.</i></p>	<p>The Scheme is closed to new entrants and future accrual. No contributions have been paid to the Scheme since the Regulations came into force and the Scheme is not a qualifying scheme for auto enrolment purposes. The Scheme therefore has no requirement for a default arrangement, as defined by the Charges and Governance Regulations. As such, the requirements in relation to a default investment strategy do not apply to the Scheme.</p> <p>The last investment strategy review was undertaken in January 2018. The Trustees concluded that the funds utilized by the Scheme were appropriate for the strategy, and that the with-profits fund, index-linked gilt and cash funds remain suitable. No changes to the type of investments used by the Scheme have been implemented since this review and the strategy remains consistent with the policy in the SIP.</p>
3	The balance between different kinds of investments	<p><i>The Trustees review the continuing suitability of the Scheme's investments, including the appointed managers, which may be adjusted from time-to-time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.</i></p>	<p>The Trustees last undertook a detailed review of the investment strategy in 2018, following the 2016 actuarial valuation. As part of this review, the Trustees decided to introduce an allocation to the LGIM Over 15 Year Index-Linked Gilts Index Fund.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
4	Risks, including the ways in which risks are to be measured and managed	The Trustees recognize risk (both investment and operational) from a number of perspectives in relation to the funds used by the Scheme, as detailed in section 4 of the SIP.	<p>As detailed in the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.</p> <p>The Scheme maintains a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarizes methods to mitigate the risks.</p>
5	Expected return on investments	As highlighted in Section 6 of the SIP, the expected return on investments will be in line with the target investment strategy, which is in Section 5 of the SIP.	<p>The Trustees last undertook a detailed review of the investment strategy in 2018, following the 2016 actuarial valuation, and considered the expected return on the Scheme's investments. No changes to the strategy have been made since this review.</p> <p>The with-profits fund provides a guaranteed return of 4% p.a. up to each member's normal retirement age. Scottish Widows adds regular bonuses, when this is possible and does not add too great a risk to the financial strength of the fund, to increase the minimum guaranteed amount that policyholders will receive when their policy matures.</p>
6	Realisation of investments	<i>As highlighted in section 8 of the SIP, the investment managers have discretion in the timing of the realisation of investments and in considering the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.</i>	All investment transactions are processed by the investment managers. A schedule of transactions and compliance with Service Level Agreements (SLAs) is provided in the Aon Hewitt administration reports. Aon Hewitt makes available frequent administration monitoring reports, and any issues are raised as part of the Trustees meetings. Should there be any significant administration issues which require immediate attention, these

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
			<p>will be raised directly with the Trustees outside of regular meeting cycle.</p> <p>The cash and gilt funds used by the Scheme are highly liquid pooled investment vehicles, and are therefore easily realisable.</p> <p>The with-profits fund is realisable when members' policy matures, Market Value Reduction may be applied on a disinvestment that takes place on a date other than the investor's pre-selected retirement age or on death.</p>
7	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realization of investments	<p>As highlighted in section 10 of the SIP, the Trustees consider financially material considerations in the selection, retention and realization of investments:</p> <p><i>The Trustees have given appointed investment managers full discretion in evaluating environmental, social and corporate governance ("ESG") factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities (where applicable), in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.</i></p>	<p>The Trustees delegate the day-to-day management of the assets to external investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and are carrying out their work competently.</p> <p>The Trustees periodically review the continuing suitability of the Scheme's investments, including the appointed managers, which may be adjusted from time-to-time.</p> <p>The Trustees acknowledge that fixed income and with-profit funds do not score highly on the Investment Adviser's ESG rating scale. This is due to the nature of the underlying investments, where it is harder to engage with the issuer of debt, or harder to establish ESG measurement for derivative strategies.</p> <p>The Trustees keep their ESG policies under regular review with the SIP subject to review at least triennially.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realization of investments	<i>Member views are not taken into account in the selection, retention and realisation of investments.</i>	Member views are not explicitly taken into account in the selection, retention and realization of investments.
9	The exercise of the rights (including voting rights) attaching to the investments	<i>As highlighted in section 10 of the SIP, the Trustees have given appointed investment managers full discretion in exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities.</i>	<p>As the Scheme invests solely in pooled funds, the Trustees delegate the exercise of voting rights associated with investments to the investment managers.</p> <p>The Trustees are fully supportive of the UK Stewardship Code ("the Code") published by the Financial Reporting Council in September 2012 and expects the Scheme's managers who are registered with the FCA to comply with the Code. The Scheme's investment managers are required to report on the extent of their adherence to the UK Stewardship Code on an annual basis. The following fund contains an allocation to equities:</p> <ul style="list-style-type: none"> • Scottish Widows with-profits fund <p>The Trustees note that the asset allocation within the With-profits Fund is at the discretion of Scottish Widows and may include holdings in various asset classes including global equities, government bonds, corporate bonds, property, cash, derivatives and absolute return strategies.</p> <p>The Trustees have requested more information on voting records from the investment managers. The information received is summarized at the end of this statement.</p> <p>The Trustees have not actively challenged managers on voting activity.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
10	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustees would monitor and engage with relevant persons about relevant matters)	<p><i>Investment managers are expected to exercise stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p> <p><i>Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.</i></p>	<p>As the Scheme invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf.</p> <p>As the Trustees invests in pooled funds they accept that they have limited ability to influence investment managers to align their decisions with the Trustees' policies set out in the SIP. The Trustees have requested more information on engagement activity from the investment managers and the information received is summarized at the end of this statement.</p>
11	How the arrangements with asset manager s incentivize them to align its investment strategy and decisions with the Trustees' policies	<p><i>The Trustees' policy in relation to investment manager arrangements is set out in section 11 of the SIP.</i></p> <p><i>Managers are chosen based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.</i></p>	<p>The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities.</p> <p>In the year to 31 December 2020, there were no changes made to the managers appointed by the Scheme.</p>
12	How the arrangement incentivizes 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	<p><i>The Trustees' policy in relation to investment manager arrangements is set out in section 11 of the SIP.</i></p> <p><i>The Trustees are long-term investors and do not seek to change the investment arrangements on an unduly frequent basis. The Trustees will generally retain an investment manager unless:</i></p> <ul style="list-style-type: none"> - <i>There is a strategic change to the overall strategy such that the Scheme no longer</i> 	<p>Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.</p> <p>In the year to 31 December 2020, the Trustees have discussed their continued appointment of managers and are happy that the contractual arrangement in place continues to incentive the managers to make decisions based on medium to long term financial and non financial performance.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
	order to improve their performance in the medium to long-term	<i>requires exposure to that asset class or manager;</i> <i>- The manager appointment has been reviewed and the Trustees have decided to terminate the specific mandate.</i>	
13	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies	The Trustees recognize the Scheme has a long time horizon, as set out in policy 11 of the SIP. As such, managers are assumed to be held for a suitably long time. <i>Managers' performance net of fees is therefore reviewed over both short and long time horizons. Remuneration is agreed upon prior to manager appointment and is reviewed on a regular basis.</i>	The Trustees may receive reporting and communications from the appointed investment managers from time-to-time. Upon receiving such information, the Trustees review the information, considering whether the performance and behaviour of the manager has been in line with expectations. If a manager is not performing in line with the Trustees' expectations, or the manager's investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees or even terminate their appointment by Trustees.
14	How the Trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range	<i>The Trustees monitor portfolio turnover costs, as part of the consideration of transactions costs, on an annual basis as part of its annual governance statement.</i>	Transaction costs, using the 'slippage cost methodology' (as defined in COBS 19.8 of the FCA Handbook), are disclosed in the annual Chair's Statement. The transaction costs for each fund cover the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager. An investment manager can also factor in anti-dilution mechanisms into the total transaction costs. At present, the Trustees note a number of challenges in assessing these costs: <ul style="list-style-type: none"> • No industry-wide benchmarks for transaction costs exist; • The methodology leads to some curious results, most notably "negative" transaction costs; and

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2020
			<ul style="list-style-type: none"> Explicit elements of the overall transaction costs are already taken into account when investment returns are reporting, so any assessment must also be mindful of the return side of the costs. <p>There is little flexibility for the Trustees to impact transaction costs as they invest in pooled funds. The Trustees will continue to monitor transaction costs on an approximately annual basis.</p> <p>The Trustees fully support transparency of costs for members and have requested this information from Scottish Widows for their with-profits fund and from LGIM for their index-linked gilts fund.</p>
15	The duration of the arrangement with the asset manager	As described in Section 11 of the SIP, the Scheme is a long-term investor and all funds are open-ended and therefore there is no set duration for manager appointments.	There have been no changes in managers over the last 12 months.

Voting Activity during the Scheme year

The Trustees have delegated their voting rights to the investment managers. The Trustees do not use the direct services of a proxy voter.

The SIP states “The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities (where applicable), in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.”

It is the Trustees’ view that the policy has been followed during the Scheme year.

Going forward investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports will be reviewed by the Trustees as necessary to ensure that they align with the Trustees’ policy. Over the prior 12 months, the Trustees have not actively challenged the manager on its voting activity.

The Scheme invests in the following daily dealt and daily priced pooled funds:

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Investment Manager	Fund name
Scottish Widows	With-profits fund
Legal and General Investment Management ("LGIM")	Over 15 Year Index-Linked Gilts Index Fund
Trustee Bank Account	Cash

Overview of Scottish Widows' Responsible Investment and Stewardship Framework

Scottish Widows is firmly committed to being a responsible investor and giving their clients investment options to support them in making sustainable investment choices. Scottish Widows have been a signatory of the UN PRI (Principles of Responsible Investment) for almost 10 years. The UN PRI set an objective for its signatories to have at least 50% of AUM managed with ESG taken into account by the end of 2019. As of the end of 2019, Scottish Widows materially exceeded this, with c. 70% of their investments in aggregate taking account of ESG factors. Within this, 100% of equities in their mandated and default funds met this PRI objective. This includes passively managed funds on the basis of a strong stewardship policy. Stewardship plays a central role in all Scottish Widows' funds, whether they are passively or actively managed.

At Scottish Widows, in contrast to many pension providers, they do not run asset management activities in-house and instead delegate these to their partner investment managers. This is a crucial point as this set up allows Scottish Widows to see themselves and behave like an asset owner. What Scottish Widows do is directly additive to the efforts in Responsible Investment and Stewardship that their partner investment managers undertake on their behalf already. The largest fund manager partners for Scottish Widows are Schrodgers and ASI, who in the latest ShareAction ranking of world's largest 75 asset managers on their approach to ESG came 7th and 16th respectively.

Scottish Widows have recently refreshed their Responsible Investment and Stewardship Framework.

Scottish Widows' Responsible Investment principles guide all their investment activities. This is also the reason why their Head of Pension Investments is tasked with both leading their Investment Propositions Team across their Workplace, Individual and Longstanding pension segments and their Responsible Investment team - to ensure that RI principles are integrated into their investment offering by design.

The investment strategies of their SWWS standard schemes do not currently have specific ESG overlays integrated into their investments (though Scottish Widows require all of their investment managers to have strong stewardship policies and use these as a mechanism to positively influence ESG outcomes with investee companies and they monitor this on a regular basis).

Overview of LGIM's approach to voting and engagement

LGIM support the "one share one vote" philosophy and favours share structures where all shares have equal voting rights and those rights are equal to economic value held. LGIM do not support the issue of shares with enhanced or impaired voting rights. In some markets, however, differential voting rights is a long-standing structure and where this exists, the structure should be transparently disclosed. In the case of controlled companies, LGIM will review the issuance of shares with enhanced voting rights to understand why these would be necessary. In general, LGIM encourages companies to eliminate differential voting rights over time.

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As a long-term and engaged investor, LGIM takes responsibility to exercise the voting rights of client's assets seriously. LGIM direct the vote of a considerable proportion of a company's shares by exercising the shareholder rights of a significant number of clients with one consistent voice across its entire active and index funds. This improves the effectiveness of voting as a means to support their engagement activities and bringing about change in the market as a whole.

LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions.

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Appendix: Metal Improvement Company Hourly Paid Staff Pension Scheme - Statement of Investment Principles

1. Introduction

The Trustees of the Metal Improvement Company Hourly Paid Staff Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (as amended) (“the Act”) and its attendant legislation. The Statement sets out the investment principles that govern decisions about the Scheme’s investments.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, consultation has been undertaken with the Sponsoring Company (the “Sponsor”) to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements and, in particular on the Trustees’ objectives.

The Scheme is a defined contribution scheme, but certain former members have a defined benefit guarantee.

2. Process For Choosing Investments

The investment responsibilities of the Trustees are governed by the Scheme’s Trust Deed and Rules. Mercer has confirmed in writing to the Trustees that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995, the Occupational Pension Scheme (Investment) Regulations 2005 and any subsequent legislation.

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set; and
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

The strategic management of the assets is fundamentally the responsibility of the Trustees, acting on expert advice, and is driven by the investment objectives as set out in Section 3.

3. Investment Objectives

The Trustees are required to invest the Scheme’s assets in the best interest of the members, beneficiaries and the Sponsor, and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Within this context the Trustees’ main objectives with regards to investment policy are:

- To achieve, over the long term, a return on the Scheme’s assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;

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- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Sponsor in relation to the size and volatility of the Sponsor's contribution requirements.

Following the actuarial valuation that took place as at December 2016, the Trustees undertook a review of the Scheme's investment strategy. At the time, the majority of the Scheme's assets were invested in a with-profits fund managed by Scottish Widows Fund and Life Assurance Society, which provides a guaranteed return of 4% p.a. up to each member's normal retirement age. The asset allocation within the with-profits fund is at the discretion of Scottish Widows and may include holdings in various asset classes including global equities, government bonds, corporate bonds, property, cash, derivatives and absolute return strategies.

The remainder of the Scheme's assets were held in cash (c.£1.1m as at December 2017, or c.25% of total assets). The majority of this cash (c.77% as at December 2017), was held in a 95 day notice trustee bank account, with the remainder held in an instant-access bank account.

On the back of this investment strategy review, the Trustees decided to retain the Scheme's allocation to the with-profits fund, but to re-allocate the proceeds of the 95 day notice Trustee bank account into index-linked gilts. The rationale for this is to provide a level of matching of the Scheme's assets to its liabilities, given that the value of the index-linked gilts will be influenced by similar factors to the present value of the liabilities themselves (namely interest rates and inflation). In turn, this should translate into a reduction in the level of volatility in the Scheme's funding position, which is seen as a positive outcome for the Scheme given the ultimate objective of achieving buyout with an insurance company.

After consulting with the Sponsor and taking advice from Mercer, the Trustees decided to invest in the Over 15 Year Index-Linked Gilts Index Fund managed by Legal & General Investment Management ("LGIM").

The Trustees will review these investment objectives on a periodic basis, and update this Statement should these objectives change in any material way.

4. Risk Management and Measurement

There are various risks to which the Scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk on which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities, and the Sponsor's ability to support this mismatch risk.

The Trustees recognise that there are a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. The Trustees recognise that amongst those risks are inflation and interest rate risk.

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- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities, as well as producing more short-term volatility in the Scheme's funding position. The Trustees take advice on the matter and (in light of the objectives noted in Section 3) carefully consider the implications of adopting different levels of risk.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to satisfying the risk from a mismatch of assets and liabilities, the Trustees believe that the asset allocation policy in place provides an adequately diversified distribution of assets given the level of risk deemed acceptable.
- The Trustees recognise that there is a risk in holding assets that cannot easily be sold should the need arise. To guard against this, they review the profile of each portfolio to ensure that there is sufficient liquidity to meet the likely demands of the members.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, may have a financially material impact on future returns. Section 10 sets out further details on this topic.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered.

5. Investment Arrangements

The Scheme's investment arrangements are detailed in the table below.

	Approximate Asset Allocation (%)
With-Profits Fund (Scottish Widows)	75.0
Over 15 Year Index-Linked Gilts Index Fund (LGIM)	20.0
Cash/Trustee Bank Account	5.0
Total	100.0

Please note that the asset allocation above is based on the analysis undertaken as part of the investment strategy review described in Section 3 of this Statement, based on the Scheme's actual asset allocation as at December 2017. These allocations are shown for guidance only, and will drift over time. The Trustees retain full discretion over the Scheme's actual allocation between the with-profits fund, index-linked gilts and cash, and there will be no specific rebalancing ranges applied.

It is the Trustees' intention that cash in the Trustee bank account will be held to meet the Scheme's benefits requirements as they fall due. It is anticipated that any surplus cash above the expected amount of benefit payments will be invested in the LGIM Over 15 Year Index-Linked Gilts Index Fund. If there is a cash deficit, monies will be disinvested from the LGIM Over 15 Year Index-Linked Gilts Index Fund.

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The Scheme is closed to new entrants and future accrual. No contributions have been paid to the Scheme since the Regulations came into force and the Scheme is not a qualifying scheme for auto enrolment purposes. The Scheme therefore has no requirement for a default arrangement, as defined by the Charges and Governance Regulations. The requirements in relation to a default investment strategy do not apply to the Scheme and are therefore not covered in this Statement.

The Trustees will review the Scheme's investments on a periodic basis, and amend this Statement should the Scheme's circumstances change.

6. Expected return on investments

The expected return on investments will be in line with the target investment strategy, set out in Section 5.

7. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to external investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and are carrying out their work competently.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers, which may be adjusted from time-to-time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

8. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in consideration relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

9. Custodians

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. With the Scheme's assets invested solely in pooled funds, the Trustees are not responsible for the appointment of the custodian of the assets. This has been delegated to the investment managers.

10. ESG, Stewardship and Climate Change

The Trustees believe that environmental, social and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities (where applicable), in

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accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities.

11. Investment Manager Arrangements

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class in which they invest.

The Trustees consider the Scheme's Investment Adviser's forward-looking assessment of a manager's ability to deliver a return in line with expectations over a full market cycle. This view is based on an assessment of the manager's idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular manager's fund were to change, the Trustees would review the manager's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Due to the nature of the investment vehicles in which the Scheme invests, the Trustees accept that they do not have the ability to specify the risk profile and return targets of the manager. However, the Trustees look to select appropriate mandates whose characteristics are aligned to the overall investment strategy of the Scheme.

The Trustees consider the extent to which ESG and stewardship are integrated into the investment process of each appointed manager and how this aligns with the Trustees' views. This may include the investment managers' policy on voting and engagement.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The Trustees may receive reporting and communications from the appointed investment managers from time-to-time. Upon receiving such information, the Trustees review the information, considering whether the performance and behaviour of the manager has been in line with expectations. If a manager is not performing in line with the Trustees' expectations, or the manager's investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees or even terminate their appointment by Trustees.

The annual Chair's Statement comments on items such as transaction costs, however due to the nature of the Scottish Widow's With Profits fund, transaction costs are not explicitly considered.

The Trustees are long-term investors and do not seek to change the investment arrangements on an unduly frequent basis. The Trustees will generally retain an investment manager unless:

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- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustees have decided to terminate the specific mandate.

12. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

For and on behalf of the Trustees of the Metal Improvement Company Hourly Paid Staff Pension Scheme