STATEMENT OF INVESTMENT PRINCIPLES SEPTEMBER 2023

THE METAL IMPROVEMENT COMPANY HOURLY PAID STAFF PENSION SCHEME

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;

- 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.

The latest actuarial valuation took place as at December 2022. At the time, the majority of the Scheme's assets were invested in a with-profits fund managed by Scottish Widows Limited, 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 invested in the Legal & General Investment Management ("LGIM") Over 15 Year Index-Linked Gilts Index Fund and held in cash.

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.

- 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. The Trustees seek to minimise this risk by taking them into account in the selection, retention and realisation of investment mandates, noting that ESG considerations are of less relevance in respect of UK government bonds and cash, in which a proportion of the Scheme's assets are invested in. 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)	70.0
Over 15 Year Index-Linked Gilts Index Fund (LGIM)	22.5
Cash and net current assets	7.5
Total	**100.0**

Please note that the asset allocation above is based on the Scheme's actual asset allocation as at December 2022. The 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.

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 does not have a requirement for a default arrangement as defined by the Charges and Governance Regulations. The requirements in relation to a default investment option 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. Socially Responsible Investment, Corporate Governance, 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 the 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.

The Trustees can review the decisions made by their manager, including engagement activity, and can challenge such decisions to try to ensure the best performance over the medium to long term.

The Trustees may also consider the Investment Adviser's assessment of how investment managers embed ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

A change in the ESG views and rating by the Investment Adviser does not mean that the fund will be removed or replaced automatically. The Trustees will ask the investment managers to comment on these areas from time to time.

The Trustees have not set any ESG related investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in the future.

Non-financial considerations, including members' ethical views, are not explicitly taken into account in the selection, retention and realisation of investments.

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 objectives of the Scheme.

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.

Portfolio turnover costs for each of the funds are considered on an annual basis as part of the value for members assessment. The Trustees recognise the ability to assess the appropriateness of these costs is limited by the availability of data but the annual Chair's Statement will comment on the findings.

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:

- 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