The Hartwells Pension Plan (1971) (the “Plan”)

Statement of Investment Principles (the “Statement”)

1. Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is September 2020. The Trustees will review this Statement and the Plan’s investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy. Further information on the implementation of the Plan's investments is available to Plan members on request from the regular contacts.

2. Consultations made

The Trustees have consulted with the Employer, Hartwell PLC, prior to writing this Statement and will take the Employer’s comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Plan. They have obtained written advice on the investment strategy appropriate for the Plan and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited ("Aon") who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Plan's assets has been delegated to fund managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Plan.

3. Objectives and policy for securing objectives

The Trustees’ objectives for setting the investment strategy of the Plan have been set with regard to the Plan’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives in relation to the Final Salary Section are:

- Funding - to ensure that the Plan is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;
- Security – to ensure that the solvency position of the Plan is expected to improve;
- Stability – to have due regard to the likely level and volatility of required contributions when setting the Plan’s investment strategy; and
- Expected Risk and Return – to aim to achieve sufficiently high real investment returns in the long term subject to an appropriate level of overall risk, thus optimising the expected level and stability of contributions from the Employer.

4. Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Plan, its cash flow requirements, the funding level of the Plan and the Trustees' objectives.

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Plan’s technical provisions (the liabilities of the Plan) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan.

The assets of the Plan are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks, facilitate efficient portfolio management or as part of the investment strategy of the applicable fund and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

5. The balance between different kinds of investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation.

They therefore retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers.

The Trustees review their investment strategy following each formal actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Plan.

The asset allocation set out separately in the Appendix was implemented after considering the written advice from the Plan’s advisers.

A broad range of available asset classes has been considered. This includes consideration of so called “alternative” asset classes (including property, infrastructure and insurance linked securities).

6. Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Plan, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

The strength of the Employer covenant is independently assessed every 3 years alongside the actuarial valuation. The Trustees also receive an update on trading from the Employer at each Trustee meeting. The Trustees have considered the appropriateness of their investment strategy with regards to the strength of the covenant provided by the Employer.

The Trustees are aware of the risks arising from the selection and appointment of fund managers and have appointed Aon to alert them on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

The Trustees acknowledge that investment returns achieved outside of the expected deviation (positive or negative) may be an indication that the fund manager is taking a higher level of risk than indicated.

For due diligence purposes, the Trustees aim to meet with the fund managers on a regular basis.

7. Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the funds' assets.

The custodians are independent of the Employer.

8. Expected return on assets

Over the long-term the Trustees' expectations are:

- For the "growth" assets (UK and overseas equities, infrastructure, diversified growth assets and absolute return bonds), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities;
- For the "matching" assets (LDI); to match a proportion of the change in value of the liabilities due to changes in interest rates and inflation;
- The projected long term investment returns (10 year) taken from the 2017 investment strategy review are 4.7% p.a..

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers.

9. Realisation of investments/liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (through the sale of direct holdings of stocks or the sale of units in pooled funds).

A proportion of the Plan's assets are invested in infrastructure. These holdings trade quarterly, and hence may not be realisable at short notice. In particular, the Trustees recognise that in certain circumstances the fund manager reserves the right to delay the payment of redemption proceeds. This risk has been deemed appropriate when considered in the context of the overall investment strategy.

10. Responsible Investment

In setting the Plan's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when selecting and monitoring managers.

Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

As part of their delegated responsibilities, the Trustees expect the Plan's fund managers to:

- take into account social, environmental or ethical considerations in the selection, retention and realisation of investments; and
- where appropriate, engage with investee companies to promote good corporate governance and accountability with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Plan's assets.

The Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees expect, the Trustees undertake to engage with the manager and seek a more sustainable position and may ultimately look to replace the manager.

The Trustees review the stewardship activities of the fund managers on an annual basis, covering both engagement and voting actions, and will report on this information in the Engagement Policy Implementation Statement (EPIS). The Trustees will review the alignment of their policies to those of the fund managers and look for the fund managers, or other third parties, to use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustees may where appropriate engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure and management of actual or potential conflicts of interest. When a concern is identified, the Trustees will engage with their investment adviser to consider the methods by which, and the circumstances under which, they will monitor and engage with the fund managers and other stakeholders.

<u>Arrangements with fund managers</u>

The Trustees believe that having appropriate governing documentation, setting clear expectations to the fund managers (where possible), and regular monitoring of fund managers' performance and investment strategy, is sufficient to incentivise the fund managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Before appointment of a new fund manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which this aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustees will express their expectations to the fund manager by other means (for example, verbally at Trustee meetings or in writing through a side letter).

The Trustees review annually the investment adviser's monitoring of the Plan's investments to consider the extent to which the investment strategy and decisions of the fund managers are aligned with the Trustees' policies.

The above monitoring includes the extent to which fund managers:

- make decisions based on assessments about medium- to long-term financial and non-performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Where fund managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the manager but could ultimately replace the fund manager where this is deemed necessary.

The Trustees review the performance of their fund managers quarterly and meet with them from time to time to discuss their investment strategy, performance and outlook. Where the Trustees have particular concerns with a fund manager they look to meet with them at the next available opportunity.

The Plan is a long-term investor, and as such there is typically no set duration for arrangements with fund managers, although the continued appointment for all fund managers will be reviewed if material causes for concern are identified.

The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assess the fund managers over the long-term.

In line with the required actions from the Pensions Regulator, on an annual basis the Trustees will produce an EPIS which will be included in the annual report and accounts.

Cost Monitoring

The Trustees are aware of the importance of monitoring the fund managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustees recognise that in addition to annual management charges, other costs will be incurred by their fund managers that will increase the overall cost incurred by the investments.

The Trustees expect to receive regular cost transparency reports covering all of their investments and ask that the fund managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustees to understand exactly what they are paying their managers. The Trustees work with their investment adviser and fund managers to understand these costs in more detail where required.

The Trustees believe that net of all costs performance assessments provide an incentive on fund managers to manage costs efficiently. However, they also understand that regular monitoring of these costs will improve the incentives on fund managers to control any inefficiencies.

The Trustees are aware of portfolio turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated with their underlying investments through the information provided by their fund managers. The monitoring of the target portfolio turnover and turnover range is undertaken regularly.

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, transaction costs are acceptable so long as they are consistent with the asset class characteristics and manager's style and historic trends.

The Trustees do not define a targeted portfolio turnover range, but where the Trustees' monitoring identifies a lack of consistency the mandate will be reviewed.

Members' Views and Non-Financial Factors

In setting and implementing the Plan's investment strategy the Trustees do not explicitly take into account the views of individual Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

11. Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

12. Additional Voluntary Contributions ("AVC")

Some members obtain further benefits by paying AVC to the Plan. The liabilities in respect of these AVC are equal to the value of the investments bought by the contributions. Details of AVC providers and fund options are included in the Appendix.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Signed on behalf of the Trustees of the Hartwells Pension Plan (1971)

C.F. BAMFORD
Name (Print)

22/9/2020
Date

The Hartwells Pension Plan (1971) (the "Plan")

Appendix to Statement of Investment Principles

This appendix sets out the Trustees' current investment strategy, and is supplementary to the Trustees' Statement of Investment Principles (the "Statement").

Following investment advice from their advisers, the Trustees have decided to implement the following investment strategy in order to maximise the likelihood of achieving the primary objectives set out in the Statement:

1. Asset allocation strategy

Asset Class	Weight (%)	Range (%)
UK Equities	20.0	15.0 - 25.0
Diversified Growth Assets	35.0	30.0 - 40.0
Absolute Return Bonds	10.0	5.0 - 15.0
Infrastructure	10.0	5.0 – 15.0
Liability Driven Investment (LDI)	25.0	20.0 – 30.0

2. Investment management arrangements

The Trustees have appointed Legal & General Investment Management (L&G), Schroder Investment Management Limited (Schroder), Newton Investment Management (Newton), Majedie Asset Management Limited (Majedie), Pacific Investment Management Company (PIMCO) and IFM Investors to manage the Plan's assets.

The following describes the mandates given to the fund managers within each asset class.

2.1 UK Equities

Manager/Fund	Performance measurement Benchmark	Weight (%)	Benchmark Outperformance Target
L&G UK Equity Index Fund	FTSE All-Share	20.0	Track Index
Majedie UK Equity Fund	FTSE All-Share		+3.0% pa gross of fees over rolling three year periods
Total	-	20.0	-

2.2 Diversified Growth Funds

Manager/Fund	Performance measurement Benchmark	Weight (%)	Benchmark Outperformance Target
Schroder Life Diversified Growth Fund	Consumer Price Inflation	35.0	+5.0% pa net of fees over rolling five year periods
Newton Real Return Fund	1 Month LIBOR		+4.0% pa gross of fees over rolling five year periods
Total		35.0	

2.3 Absolute Return Bonds

Manager/Fund	Performance measurement Benchmark	Weight (%)	Benchmark Outperformance Target
PIMCO Unconstrained Bond Fund	3 Month LIBOR	10.0	+3.0 - 4.0% pa net of fees over a market cycle

2.4 Infrastructure

Manager/Fund	Performance measurement Benchmark	Weight (%)	Benchmark Outperformance Target
IFM Investors Global Infrastructure Fund	N/A	10.0	Target portfolio return of 10% p.a. on a net basis over the long term, which will range between 8% and 12% p.a. depending on the stage of the market cycle.

2.5 LDI

Manager/Fund	Performance measurement Benchmark	Weight (%)	Benchmark Outperformance Target
L&G LDI Portfolio	Bespoke Liability Proxy	25.0*	Aim to match c.70% of the movement in the Plan's funded liabilities as set out by the bespoke liability proxy.**

*25% allocation may vary over time due to changes in interest rates and inflation

**70% of assets hedge calculated at inception of the LDI portfolio and may vary due to market and Plan movements

2.6 Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances, it is not the Trustees' intention to hold a significant cash balance and this is carefully monitored by the Plan's administrator.

2.7 Re-balancing arrangements

In order to ensure the assets are re-balanced in line with the Asset Allocation Strategy, the Trustees review the balance of the assets on a regular basis, following which appropriate corrective action is taken if required.

3. Additional Voluntary Contributions

In addition the Trustees may from time to time hold insurance policies or other assets, which are earmarked for the benefit of certain members. These may include for example:

- Assets secured by Additional Voluntary Contributions (AVC) or other arrangements made individually by the Trustees;
- Deferred or immediate annuity policies purchased to match part or all of the Plan liabilities.

AVC are invested with Prudential Group Pensions, Phoenix Life and Standard Life.

The Trustees review the AVC fund performance and AVC providers in their regular review against their objectives as set out above. The Trustees review the fees charged by the AVC providers in their AVC report.

4. Custodian

The appointed custodian for Schroders is JP Morgan Chase.

5. Fee structure for advisers and managers

5.1 Advisers

The Trustees' investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustees will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

5.2 Fund managers

For passive mandates, or mandates where the fund managers are seeking to add incremental value in excess of the performance benchmark, the fund managers are remunerated in an appropriate manner in keeping with market practice.