YORKSHIRE COPPER TUBE PENSION SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

The Trustees, acting on behalf of the members of the Yorkshire Copper Tube Pension Scheme ("the Scheme"), have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of Section 35 of the Pensions Act 1995 and successor legislation (together "the Act"). The Statement sets out the principles that govern investment decisions by the Trustees.

The Trustees will review the Statement at least every three years, and as soon as possible after any significant change in investment policy.

This Statement now covers the Defined Benefit Assets of the Scheme only, following the bulk transfer of assets held in the former Defined Contribution Section to a Section 32 buy-out policy with Aviva in February 2021.

1.1 Advice

As required under the Act, the Trustees have consulted a person they reasonably believe to be suitably qualified, in obtaining written advice from Aon Solutions UK Limited ("Aon") on the suitability of the investments, the need for diversification and the principles contained in this Statement. The Trustees have given due consideration to the written advice provided by Aon. Aon is authorised and regulated by the Financial Services Authority.

1.2 Consulted parties

The Trustees in preparing this Statement have also consulted KME SE and KME Yorkshire Limited (together "the Company"), in particular on the Trustees' objectives and investment strategy.

1.3 Investment Powers

The investment powers of the Trustees are set out in Clause 10 of the Definitive Trust Deed dated 28 October 2011. Where relevant, this Statement is consistent with those powers.

The Trustees recognise that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries. The Trustees have overall responsibility for the prudent management of the Scheme's assets. The strategic management of the Scheme's assets is fundamentally the responsibility of the Trustees and is driven by their investment objectives as set out in Section 2 below, acting on advice from Aon.

The remaining elements of policy are part of the day-to-day management of the assets that is delegated to professional investment managers, who are authorised and regulated by the Financial Conduct Authority and described in Section 3.

2 INVESTMENT OBJECTIVES, RISK AND STRATEGY

2.1 Investment Objectives

The Trustees' primary objectives for setting the investment strategy of the Scheme are set out below:

- "Funding objective" – the Scheme should at all times have sufficient monies to meet the Trustees' obligations as and when they arise with respect to members. Where an actuarial valuation reveals a funding deficit, a recovery plan will be put in place which will seek to remove the deficit as soon as reasonably practical, taking into account the expected future out-performance (over bonds) of equity investments and the financial covenant of the Company;
- "Security objective" –the solvency position of the Scheme (as assessed on a prudent basis) should improve in line with the Trustees' expectations. The Trustees will take into account the strength of the Company's ability to continue making contributions when determining their expected improvement in the solvency position of the Scheme;
- "Stability objective" – to have due regard to the Company's ability in meeting its contribution payments given their size and incidence, and to have due regard to the volatility of measures of funding and security; and
- "Liquidity objective" – to ensure, that over the shorter-term, the Scheme's income, including contributions and investment income, will meet expenditure, for example on the provision of benefits and administration services except when exceptional payments are needed, such as members taking cash sums at retirement or transfers.

The Scheme commenced with effect from 9 May 2003. At the date of commencement, there were no pensions in payment or deferred pensioners.

Benefits due to members are linked to their Pensionable Salary at, and Pensionable Service to, the date of retirement, or earlier date of death, or withdrawal, including service with other participating companies as represented by the value of transfer payments received. The liabilities are linked to increases in members' Pensionable Salaries until retirement or other date of leaving the Section and are not directly dependent on the return achieved on the Section's investments. The Defined Benefit Section was closed to new members from 1 August 2007 and closed to the future accrual of benefits from 30 November 2012.

The Trustees recognise that pension liabilities are essentially bond-like in their characteristics and so bonds represent the best "matching asset". As such, a portfolio of bond type investments is the strategy that will best protect the funding level against changes in the value of the liabilities. However, the concurrent existence of a funding deficit within the Section and the covenant of the Company are considered to justify a departure from a "minimum risk" position in the interim. It is, though, the intention of the Trustees to increase the allocation to bonds over time, and so reduce the level of investment risk relative to the liabilities, as relative market pricing and funding levels permit.

Both the Trustees and the Company recognise that holding equity investments will bring increased volatility of the Company's contribution requirements in anticipation of reduced costs in the long-term. However, the Trustees feel that some equity investment is appropriate in an attempt to improve the ongoing and solvency positions and to reduce the reliance on the Company's contributions to fund liabilities.

The profile of the liabilities is such that, over the shorter term, the Trustees expect the Section's income, including contributions and investment income, will meet expenditure, for example on the provision of benefits and administration services except when exceptional payments are needed, such as members taking cash sums at retirement. However, whilst desiring to maximise the expected return on the Section's invested assets, the Trustees do not wish to prejudice unduly the security of the members' accrued benefits.

Over the shorter term, the objective is therefore to achieve a return in-line with the Investment Objective set out in Section 3.6 without exceeding the limits of prudent pension fund investment.

Over the longer term, the Trustees aim to achieve a return on the investments, which is consistent with the long-term assumptions of the actuary in determining the funding of the Section.

2.2 Risk

In determining their investment policy, the Trustees have considered risk in the following contexts:

- The risk of failing to meet the objectives as set out in Section 2.1 – the Trustees regularly take advice and monitor the investments to mitigate this risk.
- Funding and asset and liability mismatch risk – the Trustees address this through the asset allocation strategy and through regular actuarial and investment reviews.
- Underperformance risk – this is addressed through monitoring closely the performance of the investment managers and taking necessary action when this is not satisfactory.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries and regions.
- Currency risk – the risk of an adverse influence on overseas investment values from currency movements is mitigated by currency hedging the Scheme's allocation to Overseas Equities.
- Risks of inadequate diversification or inappropriate investment – the Trustees address this by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector.
- Organisational risk – this is addressed through regular monitoring of the managers and advisers.
- Sponsor risk – the Trustees are seeking to maximise overall investment returns subject to an acceptable level of risk and, as far as possible, are mindful of the impact of any volatility on the rate of contribution.
- Liquidity risk – the Trustees may need to pay pension and lump sum benefits in the short-term, and therefore address this risk by investing an appropriate amount in assets that are realisable at relatively short notice.

The Trustees monitor these risks from time-to-time, particularly those deemed to have high likelihood or significant adverse impact, and will look to introduce further control measures as appropriate to contain the overall level and distribution of risks to within acceptable limits.

2.3 Investment Strategy

In selecting investments, the Trustees consider the security, quality, liquidity and expected investment return of a broad range of assets.

From time to time, Aon carry out an asset and liability study on behalf of the Trustees, which helps the Trustees to set the Scheme's long term strategy. Aon undertake analysis of the future development of both assets and liabilities using their statistical and economic models to build on (and be consistent with) the actuarial valuation. These analyses identify the scope for a shortfall of assets relative to liabilities and the amount of that shortfall (and so the likely Company contributions) considering various time horizons and economic scenarios for all plausible asset allocations.

3 DAY-TO-DAY MANAGEMENT OF THE ASSETS

3.1 Arrangements with Investment Managers

Any investment manager appointed by the Trustees must exercise its investment powers in accordance with the terms of the Scheme and its investment management agreement, with a view to giving effect to the principles contained in this Statement so far as is reasonably practicable. In particular, the investment managers must have regard to the suitability and diversification of the investments within the guidelines set by the Trustees under or pursuant to their respective agreements. Subject to these guidelines, the investment managers have responsibility for the day-to-day discretionary management of assets and must exercise their investment powers and discretions:

- in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole; and
- the assets must be invested predominantly in regulated markets; unregulated assets must be kept at a prudent level; and
- the assets must be properly diversified; and
- investment in derivative instruments may be made only in so far as they contribute to a reduction in risk or facilitate efficient portfolio management.

The Trustees have appointed Aon Investments Limited ("AIL") as their fiduciary manager, who they consider to be their investment manager. The investment with AIL comprises of a liability hedging component, which aims to match the performance of the Scheme's liabilities, as well as growth component, which aims to provide a level of return above the liabilities.

The Trustees monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- Make decisions based on assessments about medium- to long-term financial 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.

The Trustees are supported in this activity by their investment adviser.

The Trustees receive regular reports and verbal updates from their investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and assess the performance of investment managers over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their managers, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustees share the policy, as set out in the Statement, with the Scheme's investment managers, and request that the managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before the appointment of a new investment manager, the Trustees review the governing documentation associated with the investment and consider the extent to which it aligns with the

Trustees' policies. Where possible, the Trustees seek to amend that documentation so that there is closer alignment to the Trustees' policies. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustees express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at a Trustee meeting).

The Trustees believe that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the 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.

Where 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 where deemed necessary by the Trustees following their attempts to engage with the manager, could ultimately replace the manager.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for managers is reviewed periodically.

3.2 Custodian Arrangements

The investment managers' own appointed custodians will provide custody services.

AIL have appointed Bank of New York Mellon as custodian of the assets.

3.3 Investment Diversification

The Trustees are satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments.

3.4 De-risking

With an eye to the Scheme's maturing profile, it is the Trustees' intention to decrease the overall level of investment risk that the Scheme is exposed to over time. The Trustees are working towards a de-risking framework that will allow them to de-risk at pre-defined trigger points where this becomes affordable for the Scheme.

3.5 Investment Restrictions

The following restrictions apply to the portfolio:

- Borrowing must only be used for short-term liquidity purposes
- Investments may be made in derivatives to the extent that this is permissible under law and regulation applicable to the Scheme
- Total leverage in the liability hedging component must not exceed 10 times
- All non-domestic holdings in the liability hedging component must be hedged back into Sterling

3.6 Investment Objective

The investment objective is to outperform the liability benchmark (i.e. the discounted value of the liability cashflows) by 2.5% per annum, over rolling three-year periods.

The fiduciary manager will target a hedge of 100% of the interest rate and inflation exposure of the liability benchmark, scaled to the market value of the total assets. The fiduciary manager will monitor the hedge on a regular basis, at least quarterly, and will use reasonable endeavours to rebalance back to the target ratio where there is material divergence (i.e. +/-5%). The fiduciary manager will inform the Trustees of any variation from the target hedge ratio on a quarterly basis.

The overseas equities are hedged back into sterling to reduce the impact of movements in overseas currencies.

3.7 Responsible Investment and Corporate Governance

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme 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 setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

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

The Trustees regularly review the suitability of the Scheme's appointed investment managers and take advice from their 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 have set out below, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to**:**

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee's voting rights in relation to the Scheme's assets;

The Trustees review the stewardship activities of their investment managers on a regular basis, covering both engagement and voting actions. The Trustees will review the alignment of the Trustees' policies to those of the Scheme's investment managers and ensure that their manager, or other third parties, 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 and assets to promote good governance, accountability, and positive change.

The Trustees will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The transparency for voting should include voting actions and rationale with relevance to the Scheme.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager, or another holder of debt or equity, and other stakeholders. The Trustees may 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.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme 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"[1]).

3.8 Cost Transparency

Understanding Costs:

Fund managers are remunerated on an ad valorem basis which ensures the investment managers' interests are aligned with those of the Scheme. In addition, investment managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustees are aware of the importance of monitoring their managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges (AMC), there are a number of other costs incurred by the managers that can increase the overall cost incurred by the Scheme's investments.

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

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

Evaluation of performance and remuneration:

The Trustees assess the performance of the investment managers on a quarterly basis and the remuneration of the managers on at least an annual basis via collecting and reviewing cost data in line with the CTI templates.

Transaction costs:

The Trustees are aware of the transaction costs (transaction costs, or 'portfolio turnover costs', are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated to their underlying investments through the information provided by the investment managers. The transaction costs are monitored annually, with the assistance of the investment adviser.

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, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustees are supported in their cost transparency monitoring activity by the investment adviser.

Ongoing reporting:

The Trustees provide reporting on the implementation of the Scheme's cost transparency policy to the Scheme's members via the annual engagement statements.

3.9 Employer-related Investments

The level of investment by the Trustees in the Company and its associated companies must not represent more than 5% of the Scheme assets.

3.10 Additional Assets

The historic options available in which members of the Scheme's Defined Benefit Section could invest Additional Voluntary Contributions ('AVCs') are tabled below.

Provider	Fund Type
Phoenix Life (formerly London Life)	With-profits
Aviva	With-profits
Aviva	Mixed Investments fund
Aviva	Global Equity fund
Prudential	Deposit

The accumulated value of a member's AVCs is used at, or following, retirement to purchase an annuity from an insurance company or to secure additional pension within the Scheme.

The with-profits vehicles are designed to provide smoothed medium to long-term growth by investing in a range of assets including equities and property. The investment returns are distributed by way of reversionary and terminal bonuses. The managed fund vehicles offer investment in pooled unit-linked funds that are invested in a range of assets including equities and property. The exact investment mix will be changed from time to time under the discretion of the funds' investment managers. The investment returns achieved by the unit-linked and managed funds will be in line with the returns achieved by the underlying assets in the funds. The value of the investments held in the unit-linked and managed funds can go down as well as up.

The objective of the with-profits and most of the unit-linked and managed fund policies is to provide returns on members' contributions that match and exceed price inflation in the long term.

The current alternatives reflect the options available to members as a consequence of their previous participation in the IMI Pension Scheme.

3.11 Realisation of Investments

In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. Moreover, by definition, cash is the most liquid and, ignoring term deposits, the most realisable of asset classes.

3.12 Advisor Fees and Costs of Management

As per the engagement letter dated October 2018 signed by the Trustees with Aon, Aon charges a fixed retainer fee plus out-of-pocket expenses and applicable value added tax per quarter. The retainer fee is for the supply of services as outlined in the same engagement letter.

For work not covered by the retainer fee, fees need to be agreed in advance by the Trustees.

The Trustees have a signed and dated agreement with AIL. This agreement and any subsequent revision letters set out the terms and conditions by and under which the portfolio is managed. In particular, the agreement details the fee structure in place.

For unit-linked AVC funds, the managers charge an annual management fee, which depends on the specific fund(s) invested in. These fees are taken from the units held by individual members.

4 SCHEME GOVERNANCE

The Trustees consider that the following governance structure is appropriate for the Scheme since it enables the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the investment managers or advisers as appropriate.

4.1 Trustees

The Trustees of the Scheme are responsible for, amongst other things:

- Reviewing the content of this Statement at least every three years, or in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Company, which they judge to have a bearing on the stated investment policy. Any such review will be based on written, expert investment advice and the Company will be consulted.
- Reviewing the ongoing suitability of the investment policy following the results of each actuarial, or investment, review, in consultation with their advisers.
- Assessing the quality of the performance and process of the investment managers by means of regular reviews of the investment results and other information, through meetings and written reports, in consultation with their advisers.
- Appointing and dismissing investment manager(s), in consultation with the advisers.
- Assessing the quality of the performance of the advisers.
- Consulting with the Company when reviewing investment policy issues.
- Reviewing the security of the Scheme's investments. The Trustees invest in a range of pooled vehicles rather than owning stocks and shares directly. As such in reviewing the security of the Scheme's investments the Trustees focus on the following issues:

  - The legal structure of the pooled fund and the implications should the pooled fund provider become insolvent.
  - Operational risks – this covers the risk of losses arising for reasons other than that associated with the performance of the underlying investments. This includes losses due to fraud and the risks associated with the failure of one or more counterparties to the various transactions undertaken within the pooled funds.
  - The custody arrangements in place – whilst arranging the custody of the assets is the responsibility of the pooled fund provider, the Trustees nevertheless seek assurance that appropriate custody arrangements are in place and that the managers have set up robust procedures to regularly monitor the continuing suitability of the custodian.

The Trustees monitor these issues through discussions with the relevant managers and information received from their advisers. In addition, the Trustees request and review, if available, a copy of each manager's AAF 1/06 report (or equivalent) and that of the underlying custodian; this report is a formal review of the relevant manager's/custodian's internal controls. Periodically, the Trustees additionally ask each manager to provide a summary of their policies and procedures relating to the security of the assets under their management.

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- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis. In particular, the Trustees will obtain written confirmation from the Investment Managers that they have complied with this Statement as supplied to them and the Trustees undertake to advise the Investment Managers promptly and in writing of any material change to this Statement.

4.2 Investment Managers

The Trustees delegate the day-to-day management of the Scheme assets, as set out in this Statement. The investment managers are responsible for, amongst other things:

- At their discretion, but within the guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class.
- Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:
  - A report of the strategy followed during the quarter;
  - The rationale behind past and future strategy;
  - A full valuation of the assets;
  - A transaction report;
  - Cash reconciliation; and,
  - Voting activity.
- Informing the Trustee immediately of:
  - Any breach of this Statement;
  - Any serious breach of internal operating procedures; and,
  - Any material change in the knowledge and experience of those involved in the management of the Scheme's investments.

Signed:

Date:

For and on behalf of the Trustees of the Yorkshire Copper Tube Pension Scheme

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