

Aeromet International Plc Retirement Benefits Scheme

Statement of Investment Principles

September 2020

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Background

The Trustee of Aeromet International Plc Retirement Benefits Scheme (“the Scheme”) has prepared this Statement of Investment Principles (“the SIP”) in accordance with the Pensions Act 1995¹ (“the Act”) and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee.

The Scheme operates on defined contribution basis where contributions are invested to accumulate capital sums to provide the member with retirement and death benefits.

The benefits each member receives at retirement depend upon the size of the member’s capital sum and the financial conditions prevailing at the time.

Certain members previously had the option to continue to build up State pension benefit or to contract out via the Scheme.

- For those members contracted out through the Scheme, when their benefits are purchased a guarantee applies which equates to the minimum pension that the Scheme must provide (GMP). The insurance policy held with Royal London Assurance Limited, funds any shortfall between the cost of securing these GMPs and the value of the money purchase funds at the appropriate ages.
- For members that did not choose to contract out via the Scheme, their benefits are invested on a money purchase basis and no defined benefit underpin applies.

Individual member money purchase funds are held partly in specialist unit linked funds and deposit funds (where the value of the units reflects the underlying value of the funds’ assets) and the rest in with-profits funds. As above, Royal London holds an insurance policy for the Scheme which covers any excess funds required to meet the Scheme’s GMP guarantees for those members who chose to contract out via the Scheme. This insurance policy however does not cover those GMP liabilities arising from the impact of GMP equalisation.

The Scheme is fully paid up and no additional contributions are due from members nor the Employer in respect of future service or death benefits. Additional liabilities may need to be funded by the Employer resulting from GMP equalisation.

The Scheme benefits are provided by and investments are managed by Royal London. Given the insured nature of the Scheme there is limited flexibility on the investment approach. The Trustee has delegated responsibility for investment management to Royal London Asset Management under the policy that is held with Royal London.

The Scheme also holds assets invested separately from the main funds in the form of insurance policies securing additional benefits on a money purchase basis for those members who elected to pay additional voluntary contributions (AVCs). These funds are also invested in funds managed by Royal London Asset Management.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

In preparing this SIP the Trustee has:

- Obtained and considered the written advice from an investment consultant who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the Employer, Aeromet International Limited.

Choosing investments

The Trustee is ultimately responsible for setting the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

Given the insured nature of the Scheme there is limited flexibility on the investment approach. The Trustee has delegated responsibility for investment management to Royal London Asset Management under the policy of insurance that is held with Royal London.

Where the investment manager has delegated discretion under Section 34 of the Act, the investment manager will exercise its investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustee relies on the investment manager to appoint appropriate Custodians for pooled funds in which assets are invested. The Custodians are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the investment manager to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

Investment objective and strategy - Member with DB underpins

Investment objective

The investment objective is to invest in such a way that the members benefits can be provided as they fall due.

Those members who elected to contract out via the Scheme have a DB GMP underpin in respect of their benefits. As detailed above, any shortfall of assets against the value of the GMP underpin is covered by a policy of insurance provided by Royal London. For these members, the Trustee's objective is to ensure that the Scheme holds sufficient assets in order to meet the members' benefits as they fall due and at least cover the GMP DB underpin.

Investment strategy

The Trustee has delegated investment responsibility to Royal London Asset Management for the assets applicable to these members. Royal London Asset Management invest these assets in the Royal London Crest Secure Plan. The Crest Secure Plan is operated on deposit administration principles, which is similar to a with-profits arrangement but with a lower exposure to the stock market. The policy is invested in a mix of backing assets with a smoothed regular bonus rate being declared every year, which stabilises the rate of return on the underlying assets over the longer term. There is no terminal bonus on this policy.

Investment objective and strategy – Members without DB underpins

Investment objective

For members who did not elect to contract out via the Scheme, their benefits are invested in a number of unit linked funds which are provided and managed by Royal London Asset Management. Details of the funds in which member funds are invested are provided in Appendix 1.

In relation to these members the Trustee has set the following objectives:

- To ensure members are given an appropriate range of investment options and guidance on the suitability of those options.
- To give members investment options that enable them to maximise their returns at acceptable levels of risk.
- To give members investment options that provide them protection against volatility.
- To ensure that members' invested funds make allowance for change in risk preference as members approach retirement.
- To adhere to the provisions contained within this SIP.
- To adhere to the Pension Regulator's DC code and DC regulatory guidance.

Investment strategy

The Trustee meets the investment objective by:

- Providing members with an appropriate range of investment options to enable them to reasonably expect to meet their retirement aspirations, together with guidance on those options, allowing members to make informed decisions on their pension savings. This will include a range of different choices with different return and risk characteristics.
- As the Scheme is paid up and closed to new entrants and no further contributions are payable there is no requirement for the Trustee to set a default investment fund.

Range of assets

The Trustee has made investment options available to members which hold a suitably diversified range of securities, and which avoid undue concentration of assets. The Trustee considers the range of assets suitable to meet the investment objectives. The Trustee intends to adhere to the following restrictions:

Incentives to align investment managers' investment strategy and decisions with the trustees' policies

Based on the structure in place, the Trustee considers the arrangements with the investment manager to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and fund documentation with the investment manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the investment managers' tactical asset allocation preferences at any time. Such variation will be within any scope given to them through asset allocation parameters set by the Trustee or governing the pooled funds in which the Scheme is invested.

The Trustee will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security. The investment manager is incentivised to perform in line with expectations for its specific mandate as its continued involvement as investment manager in management of the Scheme's assets – and hence the fees they receive – is dependent upon them doing so. The manager is therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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

The Trustee expects the investment manager to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights, on the basis that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. The Trustee also expects the investment manager to take ESG factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore make decisions about the retention of the investment manager, accordingly.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management. Responsibility for this has been delegated to the investment manager.
- Stock lending is permitted at the discretion of the Scheme's investment manager in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)

- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee will seek strategic investment advice from an investment consultant, as required, that may include risk modelling and quantification whenever strategic changes are considered.
- The Trustee will undertake monitoring of the Scheme's investments supplemented by information provided by the investment manager, as well as advice from an investment consultant as and when required.
- The Trustee assess the strength of the Employer covenant, to the extent required, and will consider the use of external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Manager.
- The Trustee considers the investment manager's role and approach to managing risk is considered when selecting an appropriate investment managers.
- The Trustee considers issues around custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, investment managers and Custodians (where there is a direct relationship).

Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time. The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times.

The Trustee has considered how easily investments can be realised for the types of assets in which the Scheme is currently invested. As such, the Trustee believes that the Scheme currently holds an acceptable level of readily realisable assets. The Trustee will also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future.

Responsible investment

The Trustee has not explicitly incorporated social, environmental or ethical considerations into the setting of the investment strategy or its implementation. This extends to resource and environmental considerations, such as climate change. Therefore, the extent to which these considerations are taken into account is delegated to, and left to the discretion of, the investment manager.

Given the nature of the insurance policy with Royal London, under which benefits are provided to members, and the way in which responsibility is delegated to Royal London Asset Management for investment matters, the Trustee is reliant upon Royal London Asset Management to incorporate social, environmental and ethical considerations into the way in which they manage Scheme assets.

Additional information on the Trustee's policy in relation to the exercise of rights (including voting rights) attaching to investments and undertaking engagement activities in respect of the investments (e.g. the approach to monitoring investment managers over how they take into account performance, strategy, capital structure, management of actual or potential conflicts of interest and ESG issues in relation to issuers of debt or equity)

As the Scheme invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore, as noted above, delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment manager. The Trustee expects the investment manager to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and

corporate governance as part of their decision-making processes. The Trustee requires the investment manager to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of the investment manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee’s expectation, then the Trustee may consider terminating the relationship with the investment manager.

Investment manager review process

The duration of the arrangement with the asset manager

Appointments of the investment manager is expected to be long-term, but the Trustee will review the appointment of the investment managers, as necessary, in accordance with their responsibilities. Such reviews will include analysis of the investment manager's performance and processes and an assessment of the diversification of the assets held. The review will include consideration of the continued appropriateness of the mandate given to the investment manager within the framework of the Trustees' investment policies.

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 Trustee receives performance monitoring reports which consider underlying fund performance. If there are concerns, the Trustee may carry out a more in-depth review of the investment manager.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored on an ongoing basis to ensure it is in line with the Trustee’s policies and with fee levels deemed to be appropriate for the particular asset class and fund type.

How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee requires the investment manager to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the investment manager expects and the reasons for any divergence.

Signed on behalf of the Trustee:

Signature:

Name:

Date:

This SIP is the responsibility of the Trustee. You must not use, copy or repeat any part of the SIP for commercial purposes without obtaining permission to do so in writing to us. We use material from third parties in preparing the SIP and although we try to ensure that all of the information is correct we do not give any express or implied warranty as to the accuracy of the material in the SIP and are not responsible, and do not accept and liability, for any error, omission or inaccuracy. We are not liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this SIP, or any material contained in it, or from any action or from any action or decision taken as a result of using it.

Appendix 1 – Money purchase fund options

Fund availability

The Trustee and Royal London Asset Management have made the following funds available to those non-contracted out members of the Scheme. These funds are shown in the table below.

Asset class	Manager Fund	Objective
Equity	RLP UK Equity Fund	Outperform the FTSE All Share Index
Cash	RLP Deposit Fund	Outperform the LIBID GBP 7 Day Index
Bonds	RLP Fixed Interest Fund	Outperform the FTSE A British Govt All Stocks Index
Multi Asset	RLP Managed Fund	Maximise “real returns” over a ten year period



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