Metals & Mainetti Pension Scheme

Statement of Investment Principles

October 2021

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01 **Introduction**

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Metals & Mainetti Pension Scheme ("the Scheme"). This SIP details the matters that are required to be covered under Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Regulations"). It also has been prepared in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles").

The Scheme Actuary is John Gordon of XPS Pensions Group and the Investment Adviser is XPS Investment Limited, collectively called "the Advisors".

The Trustees confirm that, in preparing this SIP, they have consulted with Mainetti (UK) Limited ("the Employer") and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and arrange administration of the Scheme. In order to meet the requirements of S36 of the Pensions Act (choosing investments), where they are required to make an investment decision, other than those relating to a rebalancing, the Trustees obtain written advice from the Investment Adviser. They consider this to be proper advice as such term is defined Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest in pooled funds, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from the Investment Adviser.

In accordance with the Regulations this SIP will be reviewed at least every three years or on a significant change of investment policy.

01.01 Declaration

The Trustees confirm that this SIP reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Adviser, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed .... Date 16/12/2021

Name Chris Roberts

For and on behalf of the Trustees of the Scheme

02 **Scheme Governance**

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy having obtained appropriate advice, while delegating the day-to-day aspects to the managers of pooled funds.

The Trustees have decided not to appoint an investment committee to delegate investment matters to.

03 **Investment Objectives**

The overall investment objective is to achieve and maintain a fully funded Scheme, on the self-sufficiency basis of gilts +0.5% p.a.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements, and pooled fund documentation with each 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, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations, including the selection / deselection criteria.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

04 **Asset Allocation Strategy**

04.01 Investment Strategy

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their investment consultant and is driven by the investment objective as set out above. The remaining elements of policy are part of the day to day management of the assets which is delegated to the respective professional managers.

We have appointed BlackRock Investment Management (UK) Limited ("BlackRock"), M&G Investments ("M&G"), abrdn and Partners Group AG ("Partners") as the Scheme's Investment Managers.

We employ Investment Managers regulated by the relevant regulatory bodies with whom day-to-day responsibility for the investment of the Scheme's assets rests. As required by the Financial Services Act, we have entered into the signed agreements with the Investment Managers which comply in all respects with this statement. The agreements provide important protections for the Scheme itself and for the Trustees. They also set out the terms on which the Investment Managers work. The Investment Managers appoint a separate company to serve as custodian and the underlying assets are held by this custodian. With regards to the pooled fund investments managed by BlackRock, the Trustees have appointed the Bank of New York Mellon as custodian to provide record keeping of the Scheme's pooled funds with BlackRock.

The details of our Investment Manager briefs are set out in the attached Appendix.

In 2021 after taking Investment advice, the Trustees agreed that the Investment strategy for the Scheme should be altered, with a view to reducing the investment risk and reliance on equities.

As such, the Trustees agreed to change the Growth portfolio to incorporate one diversified growth manager (BlackRock), a Private Market fund (Partners), a secure income mandate (abrdn) and a diversified credit mandate ("M&G") totalling 60% of the Scheme assets. The remainder of the assets are invested in Liability Driven Investment ("LDI") Funds with BlackRock with an objective of reducing the sensitivity of the funding level to inflation and interest rate movements. Specifically the BlackRock LDI mandate aims to target a 100% interest rate and inflation hedge ratio on the funded liabilities on a technical provisions basis. Further details on the revised investment strategy are set out in the Appendix.

04.02 Rebalancing Policy

The Trustees will monitor the allocation between pooled funds at least quarterly and will seek advice from the Investment Adviser if they have any concerns about the asset allocation and will arrange to rebalance the assets, if required.

04.03 Rates of Return and Fees

The benchmark and target rates of return expected together with the impact of fees and other expenses are detailed in Appendix A to this statement for each fund.

04.04 Diversification

Our current agreements with the Investment Managers are to use pooled funds offering access to a range of securities.

The agreements with the Investment managers include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

The terms of the agreements do not allow the Investment Managers to do anything that could be considered to be speculative or 'trading' by the Financial Conduct Authority and Tax Authorities.

04.05 Liquidity

The majority of the assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Furthermore, the majority of the underlying investments are traded regularly on a public exchange and accordingly there are no foreseeable circumstances in which redemption requests could not be met.

05 **Other Issues**

05.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with their appointed advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

05.02 Environmental, Social and Governance

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme and believes there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.

05.03 Investment Managers

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees receive, and consider, regular performance monitoring reports from the Investment Consultant which review performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustee's selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee's meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

05.04 Turnover Fees

The Trustees require the Investment Managers 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.

The Trustees do not believe it appropriate to set a specific turnover target or limit, but they expect their Investment Managers to keep turnover to a minimum and be able to justify any turnover in terms of improved performance or reduced risk.

05.05 Voting rights

For the Scheme's investments in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments. For the Scheme's segregated investments, the Trustees are able to influence the policies and practices of the companies more. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustee. The Trustees also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the Trustees become aware of an 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' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

06 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. Interest rate risk – the risk that liabilities will increase as a result of a fall in interest rates is measured by reference to the percentage of liabilities that are interest rate hedged and addressed by holding a significant proportion of the Scheme in assets that are matching assets that will increase in value as interest rates fall.

ii. Inflation risk – the risk that liabilities will increase as a result of an increase in the expected rate of inflation is measured by reference to the percentage of liabilities that are inflation hedged and managed by holding pooled funds that invest in equities that are expected to increase in value in the long term as a result of inflation and by holding index-linked gilts whose value increases as inflation expectations increase.

iii. Diversification risk – the risk that the Scheme is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund and addressed by investing in pooled funds that have minimum diversification requirements.

iv. Liquidity risk – the risk that liabilities cannot be met when due is considered too insignificant to measure and is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Scheme's investment is not disproportionate relative to the overall size of the pooled funds.

v. Underperformance risk – the risk of pooled funds failing to achieve their target returns is measured by reference to how much discretion the manager of each pooled fund has relative to the benchmark and by regularly reviewing the asset allocation against the target. Underperformance risk is managed by investing in passive funds except where there is a reasonable expectation that a manager can add value and through the rebalancing policy.

vi. Market risk – the risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.

vii. Organisational risk – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by seeking to minimise the number of changes to the pooled funds.

viii. Sponsor risk – the risk that the Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.

ix. Currency risk – the risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

x. Credit risk – the risk that a bond issuer will default on its obligations is measured by reference to the exposure of pooled funds to corporate or emerging market debt and is managed by investing in pooled funds with a diversified list of credits.

xi. Counterparty risk – the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Manager chooses counterparties with a strong credit rating.

xii. Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees recognise that it is in the nature of return seeking assets that they may underperform liability matching assets in the short term and accordingly it is possible that the funding position could worsen from one actuarial valuation to the next. The Trustees are prepared to accept this risk because over the longer term the holding of return seeking assets is expected to improve the funding position.

The Trustees will keep these risks under regular review.

Appendix – Investment Implementation Policy

This Investment Implementation Policy sets out both the Trustees' current investment strategy, and how the Trustees intend to implement the Statement of Investment Principles (the "attached Statement").

This Investment Policy has been established in order to provide asset allocation and investment guidelines against which the assets of the Scheme can be measured. It also provides additional information on the investments made by the Scheme. The details are laid out below:

Asset Allocation

Following an investment strategy review in 2021, based on advice from XPS the Trustees agreed to implement the following strategic benchmark allocation for the Scheme's assets.

Long Term Asset Allocation Strategy

The Trustees have agreed to target the following long term asset allocation strategy:

	Strategic Benchmark %
Return Seeking	
Abrdn Multi Sector Private Credit	10.0
BlackRock – Dynamic Diversified Growth Fund	20.0
M&G Alpha Opportunities Fund	20.0
Partners Group Partners Fund	10.0
Matching Assets	
BlackRock – LDI Portfolio	40.0
Total	**100.0**

In addition to the above strategic targets for each asset class, there is also a target hedge ratio in place for the LDI Portfolio (targeting a 100 % hedge ratio of the assets).

Performance Benchmarks and Targets

The return expected on the Scheme's investment is defined by the current investment strategy as set out above. The performance of the investment managers in respect of each asset category will be measured by reference to the benchmark and targets specified below:

Mandate	Benchmark	Performance Target
Abrdn – Multi-Sector Private Credit	10 Year TRI Iboxx Gilt +2.5%	Cash + 2-3% pa (gross)
BlackRock – Dynamic Diversified Growth Fund	3 Month LIBOR	Outperform the benchmark by 3.0% p.a. net of fees.
BlackRock – LDI Leverage Gilt, Index-Linked Gilt Funds and Sterling Liquidity Fund	Bespoke benchmark	Match the performance of the benchmark
M&G - Alpha Opportunities Fund	1 Month LIBOR	Outperform benchmark by 3.0% p.a. – 5.0% p.a. gross of fees on a rolling 3 year basis
Partners Group – Partners Fund	n/a	Return target of 8 -12% p.a. net of all fees

Cashflow Policy

The Trustees will determine the discretion of net cashflow based on advice from XPS Investment at each Trustees' meeting. The policy agreed will be implemented until the subsequent Trustees' meeting where the cashflow policy will be re-considered.

When deciding upon the cashflow policy, the Trustees will take account of the Scheme's asset allocation relative to the Strategic Benchmark Allocation (as per Section 1 above) and also the actual hedge ratio relative to the target hedge ratio. The Trustees will also consider the operational dealing cycle of the Funds and the costs of investing and disinvesting assets.

Fees

The Investment Managers levy fees based on a percentage value of the assets under management, as detailed below. The Scheme actuary and the investment consultant typically work on the basis of time cost, however in certain circumstances a fixed fee will be agreed.

Manager	Fund	Annual Management Charge (% p.a.)	Additional Charges	Ongoing Charges Figure (OCF) (AMC + additional charges)[1]
Abrdn	Multi Sector Private Credit Fund	0.35	0.15	0.50
BlackRock	Dynamic Diversified Growth Fund	0.55	-0.01	0.54
BlackRock	Liability Driven Investments Funds	0.15	0.04	0.19
BlackRock	Sterling Liquidity Fund	0.10	0.1	0.20
M&G	Alpha Opportunities Fund	0.50**	0.00	0.50
Partners Group	Partners Fund	1.50	Additional 12.5% performance fee of the net-positive difference between the NAV per Unit (net of all fees) and the high water mark*	n/a

*The "High Water Mark" equals the higher of (i) NAV per Unit (including any paid-out distributions and before deduction of the Performance Fee) at the end of such period when the Performance Fee was paid the last time, and (ii) the initial Subscription Price (including any paid-out distributions and before deduction of the Performance Fee).

**Quoted as TER – includes annual management charge of 0.35% p.a. and additional expenses of 0.15% p.a.[1] The Ongoing Charges Figure (OCF) has been estimated by XPS Investment based on information provided by the investment managers and may differ from the investment managers if a different method has been used.

Contact us
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XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

MM Retirement Benefits Scheme SIP November 21 (ID 3194236)

Final Audit Report 2021-12-16

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