

# Electrosonic Pension Scheme

## Statement of Investment Principles

**Barnett Waddingham LLP**

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## 1. Introduction

- 1.1. This is the Statement of Investment Principles ("the Statement") prepared by the Trustees ("the Trustees") of the Electrosonic Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004; and
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted Electrosonic Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustees are set out in Rule 56 of the Definitive Trust Deed & Rules (4<sup>th</sup> edition), dated 6 April 2007. This statement is consistent with those powers.
- 1.6. This statement was agreed by the Trustees and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the fund manager, the actuary and the Scheme auditor upon request.

## 2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their manager against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the underlying assets (i.e. government and corporate bonds) within the pooled funds is delegated to one investment manager. The management of the Scheme's overall assets and split between funds is the responsibility of the Trustees and is not delegated. The Scheme's investment manager is detailed in the Appendix to this Statement. The investment manager is authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment manager with respect to performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

### 3. Investment objectives

- 3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:
- to prepare the Scheme for buyout in the short-term and to match the estimated liability pricing of an insurer as far as possible (noting that a precise match cannot be achieved due to the current deficit);
  - to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
  - in the event the current buyout project doesn't complete in the short-term, the strategy will be reviewed with a view to achieving a long-term positive real return;
  - to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
  - to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with any contributions received, the cost of benefits which the Scheme provides;
  - to reduce the risk of the assets failing to meet the liabilities over the long term;
  - to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives;
- 3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

### 4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 4.2. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

### 5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

## 6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk	Description
<b>Risk versus the liabilities</b>	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
<b>Covenant risk</b>	The creditworthiness of the Scheme's sponsoring employers and the size of the pension liability relative to the employers' earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
<b>Solvency and mismatching</b>	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
<b>Asset allocation risk</b>	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
<b>Investment manager risk</b>	The Trustees monitor the performance of each of the Scheme's investment manager on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
<b>Governance risk</b>	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the manager's practices in their annual Implementation Statement.
<b>ESG/Climate risk</b>	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
<b>Liquidity risk</b>	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
<b>Currency risk</b>	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.

#### **Loss of investment**

The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

## **7. Expected return on investments**

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of the underlying investments (i.e. government and corporate bonds) within the funds that the Scheme invests in is delegated to the investment manager. The management of the Scheme's overall assets and split between funds is the responsibility of the Trustees and is not delegated.
- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment manager as frequently as is appropriate, in order to review performance.

## **8. Realisation of investments**

- 8.1. The Trustees have delegated the responsibility for buying and selling the underlying investments of the funds the Scheme invests in to the investment manager. The Trustees have considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## **9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities**

- 9.1. The Trustees have set policies in relation to these matters. These policies are set out in the Appendix.

## **10. Policy on arrangements with asset manager**

- 10.1. The Trustees have set policies in relation to these matters. These policies are set out in the Appendix.

## **11. Agreement**

- 11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment manager, the

actuary and the Scheme auditor upon request.

## Appendix 1: Note on investment policy of the Scheme as at November 2023 in relation to the current Statement of Investment Principles

### The balance between different kinds of investment and meeting cashflows

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Investment manager	Fund	Initial allocation (%)
LGIM	Buyout Aware Fixed Long	31
LGIM	Buyout Aware Real Short	19
LGIM	Buyout Aware Real Long	50
<b>Total</b>		<b>100</b>

Alongside this, the Scheme holds cash in a bank account. At present, any contributions received are held as cash in the bank account. Disinvestments are made from the LGIM funds as and when required to meet the Scheme's benefit requirements and transfers out.

### Choosing investments

The Trustees have appointed Legal & General Investment Management ("LGIM") to carry out the day-to-day investment of the Scheme. LGIM are authorised and regulated by the Financial Conduct Authority.

The LGIM Buyout Aware funds aim to hedge some of the Scheme's liability interest rate and inflation risks. As these funds do not have a leverage overall, no collateral source is required.

The performance of the investment manager will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

### Fee agreements

The fee arrangement with the investment manager, at the date of this report, is summarised below:

Investment manager	Fund	Annual Management Charge (p.a.)
LGIM	Buyout Aware Fixed Long	0.24%
LGIM	Buyout Aware Real Short	
LGIM	Buyout Aware Real Long	

As well as the annual management charge given above, additional fund expenses will apply (covering legal, accounting and auditing fees for each fund). The additional fund expenses will vary from quarter to quarter.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

## Triggers for reviewing investment strategy

At the Trustee meetings in October 2017 and March 2018, the Trustees agreed to put in place formal triggers that if breached, would cause them to review the investment strategy. The triggers were then updated following the Trustee meeting and change in investment strategy in October 2023. The table below sets out the event that the Trustees agree should trigger a strategy review, including the rationale.

Trigger	Measurement & frequency	Rationale
The buyout of the Scheme does not proceed within a reasonable timeframe	As required	The Scheme's current investment strategy was designed to match the expected value of the buyout liabilities as far as possible (noting the current deficit of the Scheme which means a precise match is not possible. If the full buyout of the Scheme's liabilities does not go ahead, the objectives of the Scheme may change and the investment strategy should be reviewed to reflect these objectives.

In addition to the trigger above, the Trustees have agreed to review the amount of cash in the Scheme bank account at each Trustee meeting and assess whether there is a surplus in the bank account (i.e. after considering the Scheme's short-term cashflow requirements).



## Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

### Financially Material Considerations

The Trustees consider that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) may be financially material for the Scheme over the length of time during which the benefits provided by the Scheme for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be more than five years from the date of this Statement of Investment Principles.

The Trustees have elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the manager of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

**Selection of investments:** may assess the investment manager's ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

**Retention of investments:** seeking information on the responsible investing policies and practices of the investment manager, when relevant.

**Realisation of investments:** The Trustees may request information from investment manager about how ESG considerations are taken into account in decisions to realise investments.

The Trustees may also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustees will obtain training on ESG considerations, as required, in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment manager, the Trustees may use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment manager takes account of ESG issues; and
- Through their investment consultant the Trustees may request that the Scheme's investment manager provides information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

### Non-financially material considerations

The Trustees do not 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 of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

## The exercise of voting rights

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment manager on the Trustees' behalf. In doing so, the Trustees expect that the investment manager will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees may monitor and engage with the investment manager about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Investment manager will be asked to provide details of their stewardship policy and engagement activities on an annual basis. The Trustees may, with input from their investment consultant, monitor and review the information provided by the investment manager. Where possible and appropriate, the Trustees will engage with their investment manager for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

## Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating the decision making of the underlying investments of the funds to their investment manager, they provide their investment manager with a benchmark they expect the investment manager to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment manager's role to assess and monitor developments in the capital structure for each of the companies in which the manager invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustees also consider it to be part of their investment manager's role to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the manager invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment manager is granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect the investment manager to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees, investment manager and the investee companies.

In selecting and reviewing their investment manager, where appropriate, the Trustees will consider investment manager's policies on engagement and how these policies have been implemented.

## Appendix 3: Note on investment manager arrangements

### Incentivising alignment with the Trustees' investment policies

Prior to appointing the investment manager, the Trustees may, where relevant, discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees may also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

The Trustees carry out a strategy review broadly every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment manager's approach to ESG and climate related risks on a regular basis.

In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be reviewed.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback may be provided to the investment manager.

### Incentivising assessments based on medium to long term, financial and non-financial considerations

The Trustees are mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees have acknowledged this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over an agreed predetermined rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have a return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.

The Trustees expect investment manager to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

## Method and time horizon for assessing performance

The Trustees monitor the performance of their investment manager over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment manager are remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

## Portfolio turnover costs

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the annual investment monitoring process.

During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

## Duration of arrangement with asset manager

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment manager.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs may be assessed every three years, or when changes deem it appropriate to do so. As part of this review the ongoing appropriateness of the investment manager, and the specific funds used, is assessed.