

Statement of Investment Principles

For the Trustees of the Haynes Brothers Limited Retirement Benefits and Cash Retirement Benefits Plan

September 2020

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01 Introduction

Purpose

This Statement describes the investment policy of the Trustees of the Plan and is issued by the Trustees to comply with the Act and the Regulations. It supersedes the previous Statement and reflects the investment strategy agreed by the Trustees in August 2009 and the ESG policy agreed in September 2019.

Plan details

The exclusive purpose of the Plan is to provide retirement benefits and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension Plan, registered under Chapter 2 of Part 4 of the Finance Act 2004.

Advice and consultation

Before preparing this Statement, the Trustees have sought advice from the Plan's investment consultant, XPS Investment Limited in the form of section 35 letter. The Trustees have also consulted the Principal Employer. The Trustees will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Plan's Trust Deed and Rules sets out the investment powers of the Trustees. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restrict the Trustees' investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustees set general investment policy but delegate responsibility for the selection of the specific securities and any financial instruments in which the Plan invests to the Investment Managers.

Review of the Statement

The Trustees will review this Statement and their investment policy at least every three years in conjunction with each triennial valuation or immediately following any significant changes in investment policy. The Trustees will also review this Statement in response to any material changes to any aspect of the Plan, its liabilities, finances and attitude to risk of either the Trustees or Principal Employer which they judge to have a bearing on the stated investment policy.

The Trustees will receive confirmation of the continued appropriateness of this Statement annually, or more frequently if appropriate.

Definitions

Capitalised terms in this document mean the following:

Act - The Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004)

AVCs - Additional Voluntary Contributions

Investment Manager – The organisation(s) appointed by the Trustees to manage investments on behalf of the Plan

Principal Employer – Haynes Brothers Limited

Regulations - The Occupational Pension Schemes (Investment) Regulations 2005

Recovery Plan - The agreement between the Trustees and the Principal Employer to address the funding deficit

Plan – The Haynes Brothers Limited Retirement Benefits and Cash Retirement Benefits Plan

Statement - This document, including any appendices, which is the Trustees' Statement of Investment Principles

Technical Provisions - The amount required, on an actuarial calculation, to make provision for the Plan's liabilities

Trustees - the collective entity responsible for the investment of the Plan's assets and managing the administration of the Plan; **Value at Risk** - a technique which uses historical correlations of asset class returns and volatilities to estimate the likely worst case scenario loss for a given portfolio of assets.

02 Division of responsibilities

The Trustees are accountable for all aspects of the Plan's investments, however, as permitted within the Trust Deed and Rules, the Trustees have delegated some of the decision making powers and other responsibilities as set below.

Trustees

The Trustees have retained the following responsibilities and powers for themselves:

- > The content and the reviewing of this Statement.
- > Reviewing the investment policy.
- > Appointing the Investment Managers and (where appropriate) the Custodian(s).
- > Assessing the performance and investment process of the Investment Managers.
- > Consulting with the Principal Employer when reviewing investment policy issues.
- > Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

In addition, the Trustees will make decisions relating to the Plan's investments, including issues such as:

- > The kinds of investments to be held.
- > The balance between different kinds of investments.
- > The level of risk to which the Plan is exposed.
- > The Investment Manager arrangements.
- > The performance target of the Investment Managers.

Investment Consultant

The Investment Consultant's responsibilities include:

- > Participating with the Trustees in regular reviews of this Statement and in the review of investment related issues as described in this Statement.
- > Undertaking project work as required, including reviews of asset allocation policy and reviews or selection of Investment Managers.
- > Advising the Trustees how any changes in the Plan's benefits, membership and funding position may affect the way in which the Plan's assets should be invested.

Investment Managers

Each Investment Manager's responsibilities will include:

- > Investing in diversified portfolios of assets suitable for pension Plans in accordance with the mandate they have been given by the Trustees.
- > At their discretion, but in accordance with the mandate they have been given by the Trustees, implementing changes in the asset mix and selecting individual securities and financial instruments within each asset class.
- > Providing the Trustees with regular portfolio valuations and records of transactions, along with a report at least annually, on actions and future intentions, and any changes to the processes, objectives and guidelines applied to their management of the Plan's assets to enable the Trustees to review the Investment Manager's activities.
- > Exercising the rights attached to the shareholdings of the Plan so as to protect and enhance the long-term value of a stock holding for the Plan.
- > Reporting in person at a meeting of the Trustees as requested.

Custodian

Each custodian's responsibilities include some or all of the following:

- > The safekeeping of all of the assets of the Plan.
- > Providing the Investment Managers with statements as required of the assets, cashflows and schedules of transactions.
- > Undertaking all appropriate administration relating to the Plan's assets.
- > Processing all dividends and tax reclaims in a timely manner.
- > Dealing with corporate actions.

For pooled assets, the custodian is invariably appointed by the Investment Managers with the above functions undertaken on behalf of the pooled fund as a whole. Record keeping of the Plan's entitlement within the pooled fund is the responsibility of the pooled fund administrator or registrar.

03 Strategic investment policy and objectives

Choosing investments

The Trustees rely on professional Investment Managers for the day-to-day management of the Plan's assets. However, the Trustees retain control over some investments. In particular, the Trustees make decisions about pooled investment vehicles in which the Plan invests and any AVC investment vehicles.

The Trustees' policy is to regularly review the investments over which they retain control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The Trustees' long-term objectives are:

- > The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Principal Employer, the cost of the benefits which the Plan provides, as set out in the Trust Deed and Rules.
- > To limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the Technical Provisions under Section 222 of the Pensions Act 2004, by considering the Plan's liability profile when setting the asset allocation policy.
- > A secondary Long Term Funding Target to achieve 100% funding on a basis that has a low dependency on the sponsor. To minimise the long-term costs of the Plan by optimising the return on the assets whilst having regard to the objectives shown above.
- > To adhere to the provisions contained within the Plan's Statement of Funding Principles.

Expected returns

By undertaking the investment policy described in this Statement, the Trustees expect that future investment returns will at least meet the rate of return underlying the Recovery Plan.

Investment Policy

Following advice from the Investment Consultant, the Trustees have set the investment policy and objectives with regard to the Plan's liabilities and funding level.

The Trustees intend to achieve these objectives through investing in a diversified portfolio of return seeking assets (e.g. equities) and liability matching assets (e.g. bonds and cash). The Trustees recognise that the return on return seeking assets, whilst expected to be greater over the long-term than that on liability matching assets, is likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk (of underperforming the liabilities) for the Trustees, and an acceptable level of cost to the Principal Employer.

The investment policy the Trustees have adopted is detailed in Appendix I. The specific Investment Manager mandates against which performance of the assets will be assessed are specified in Appendix II.

Range of assets

The Trustees consider that the combination of the investment policy detailed in Appendix I and the specific manager mandates detailed in Appendix II will ensure that the assets of the Plan include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives. In setting out the mandates for the Investment Managers, the Trustees will ensure that they hold a suitably diversified range of securities in each category, avoiding an undue concentration of assets.

Based on the structure set out in Appendix I, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in 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 asset allocation

parameters set by the Trustees or governing the pooled funds in which the Plan is invested.

The Trustees will ensure that the Plan's assets are predominantly invested in regulated markets to maximise their security.

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 Plan'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 Trustees' expectations, including the selection / deselection criteria set out in Section 7.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Plan. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term. As covered in more detail in Section 4, 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 Responsible investment

The Trustees have considered their approach to environmental, social and corporate governance (“ESG”) factors for the long term time horizon of the Plan and believes there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG and those related to climate change to the Plan’s investment managers. The Trustees require the Plans’ 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 Consultant on the extent to which their 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 Consultant, 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.

As the Plan invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest

They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan’s investments to the Investment Managers. The Trustees encourage them 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 Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

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

Trustees’ expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

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 plan and aim to do this with best endeavours at all times. The Trustees will always take into account the beneficiaries views on risks including (but not limited to) ethical, social and environmental issues, whenever these are raised with the Trustees by beneficiaries.

05 Risk measurement and management

The Trustees recognise a number of risks involved in the investment of the assets of the Plan. The Trustees measure and manage these risks as follows:

Solvency risk and mismatching risk - The risk that the assets do not respond to market changes in the same way as the liabilities, resulting in volatility in the funding position, is addressed through the strategic asset allocation and through ongoing triennial actuarial valuations. In setting the investment strategy, the Trustees will consider (for example) the Value at Risk.

Strategy risk - The risk that the Investment Managers' asset allocation deviates from the Trustees' investment policy is addressed through regular review of the asset allocation and/or the imposition of investment ranges as described in Appendices I and II. In reviewing the investment strategy periodically, the Trustees will consider the current economic factors affecting the asset classes in which they are invested and the short to medium term outlook for performance by reference to e.g. current and historic yields, GDP growth forecasts and other relevant factors. The Trustees will also consider how far the actual asset allocation has drifted from the strategic asset allocation and take action to rebalance if necessary.

Liquidity risk - The risk that assets cannot be sold quickly enough to enable benefits to be paid or that the Trustees cannot exit a particular investment is addressed through the process by which the administrator estimates the monthly benefit outgo and ensures that sufficient cash balances are available, and through the Trustees' policy on realisation of assets (see below).

Inappropriate investments - The risk that an Investment Manager invests in assets or instruments that are not considered to be appropriate by the Trustees is addressed through the Trustees' policy on the range of assets in which the Plan can invest (see section 3).

Counterparty risk – the risk that a third party fails to deliver cash or other assets owing to the Plan is addressed through the Investment Managers' guidelines with respect to cash and counterparty management e.g. using a diverse range of

counterparties and the daily posting of collateral of a high credit rating (e.g. gilts or bank deposits).

Fraud/Dishonesty – The risk that Plan assets are reduced by illegal actions is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.

Manager risk - The risk that an Investment Manager fails to meet their stated objective is addressed through the performance objectives set out in Appendix II and through the ongoing monitoring of the managers as set out below and in Section 7. In monitoring the performance of the Investment Managers the Trustees measure the returns relative to benchmark and objective and the volatility of returns. In addition, the Trustees will regularly review each Investment Manager's approach to risk within each fund in order to highlight any unintended risk being taken. For example:

- > for bond investments, the Trustees will review the risks of the underlying assets comprising the bond portfolios. For example, the Trustees will consider weightings to specific stocks and sectors;
- > for equities, the Trustees will consider the spread of assets across various geographic and industry sectors, the concentration of investments in individual stocks and the active positions taken by the Investment Managers;

Custodian risk - The risk that the custodian fails to provide the services expected is addressed through the agreement with the third party custodian and ongoing monitoring of the custodial arrangements. In pooled arrangements this is invariably delegated to the Investment Managers.

Political risk - The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

06 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustees will monitor closely the extent to which any assets not readily realisable are held by the Investment Managers and will limit such assets to a level where they are not expected to prejudice the proper operation of the Plan.

The Trustees have considered how easily investments can be realised for the types of assets in which they are currently invested. As such, the Trustees believe that the Plan currently holds an acceptable level of readily realisable assets. The Trustees will also take into account how easily investments can be realised for any new investment classes they consider investing in, to ensure that this position is maintained in the future.

The Trustees will hold cash to the extent they consider necessary to meet impending anticipated liability outflows. A bank account is used to facilitate the holding of cash awaiting investment or payment.

Investment Restrictions

The Trustees have established the following investment restrictions:

- > The Trustees may not hold in excess of 5% of the Plan's assets in investments related to the Principal Employer.
- > Whilst the Trustees recognise that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustees have received advice from the Investment Consultant that the Plan's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer.
- > Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

The Investment Managers impose internal restrictions that are consistent with their house style. In some instances the Trustees may impose additional restrictions and any such restrictions are specified in Appendix II.

07 Investment Manager arrangements and fee structure

Delegation to Investment Manager(s)

In accordance with the Act, the Trustees have appointed two Investment Managers and delegated to them the responsibility for investing the Plan's assets in a manner consistent with this Statement.

The Investment Managers are authorised and regulated to provide investment management services to the Plan. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Where Investment Managers are delegated discretion under section 34 of the Pensions Act 1995, the Investment Managers will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the Investment Managers must have regard to the suitability and diversification of the investments made on behalf of the Plan.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Plan.

Performance objectives

The individual benchmarks and objectives against which each Investment Manager mandate is assessed are given in Appendix II.

Review process

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. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policy.

The Trustees receive quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below 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 Trustees meetings as requested.

The Investment Consultant has also carried out a review of how well 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 Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection / De- selection criteria

The criteria by which the Trustees will select (or deselect) the Investment Managers include:

- > Parent - Ownership of the business;
- > People - Leadership/team managing the strategy and client service;
- > Product - Key features of the investment and the role it performs in a portfolio;
- > Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;
- > Positioning - Current and historical asset allocation of the fund;
- > Performance - Past performance and track record;
- > Pricing - The underlying cost structure of the strategy;

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:

- > The Investment Manager fails to meet the performance objectives set out in Appendix II.
 - > The Trustees believe that the Investment Manager is not capable of achieving the performance objectives in the future.
 - > The Investment Manager fails to comply with this Statement.
-

Investment Managers' fee structure

The Investment Managers are remunerated by receiving a percentage of the Plan's assets under management. In addition, a performance related fee may be payable.

Details of the fee arrangements in place for each Investment Manager are set out in Appendix II.

It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustees.

Portfolio turnover

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.

Investment Consultant's fee structure

The Investment Consultant is remunerated by a combination of fixed fees and work completed on a project-fee or time-cost arrangement.

It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustees undertaking their responsibilities as described in Section 2.

08 Additional Voluntary Contribution arrangements

Provision of AVCs

The Plan provides a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement. The Trustees' objective is to provide vehicles that enable existing members to generate suitable long-term returns, consistent with their reasonable expectations.

The investment funds in which members are invested are provided by Prudential Assurance Company Limited.

The Trustees selected this vehicle as it was believed to meet the Trustees' objective of providing a vehicle that enabled these members to generate suitable long-term returns, consistent with their reasonable expectations.

Review process

The appointment of the AVC provider and the choice of AVC funds offered to members will be reviewed by the Trustees in accordance with its responsibilities, based on the result of its monitoring of performance and process. The Trustees will review the appointment of the AVC provider periodically in the light of their performance.

Where possible, performance of the AVC providers will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options as measured in industry AVC surveys.

09 Compliance statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the Trustees of a pension scheme, they must have consulted with the Principal Employer and obtained and considered the written advice of a person who is reasonably believed by them to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes.

The Investment Consultant hereby confirms to the Trustees that they have the appropriate knowledge and experience to give the advice required by the Act and has provided the necessary written advice to the Trustees.

Trustees' declaration

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

Approved and adopted by the Trustees on 28/9/2020

Appendix I - Investment structure

Overall strategy

The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted. The Trustees have identified the following structure as appropriate to meet the objectives of the Plan:

	Current Strategy (%)
Matching Assets	15.0
- Government Bonds (Index Linked Gilts)	15.0
Return Seeking Assets	85.0
- Equities	80.0
- Property	5.0
Total	100.0

There is no automatic rebalancing back to the approximate allocation shown above, however the Trustees will periodically review the position and take action to rebalance if considered appropriate.

Return Seeking assets

In order to achieve the required rate of investment return the Trustees have decided to invest in return seeking asset classes. These are currently accessed through equities and property.

Equities - All equities are passive and managed on a global basis.

Property – The Plan has a small allocation to property to provide further diversification.

Appendix II - Investment Manager mandates

Legal & General Investment Management

All Stocks Index Linked Gilt Index Fund

Benchmark FTSE Actuaries UK Index-Linked Gilts All Stocks Index

Objective To track the benchmark within +/-0.25% p.a. for 2 out of 3 years.

UK Equity Fund

Benchmark FTSE All-Share Index

Objective To match the benchmark, gross of fees, over rolling 3 year periods.

UK Smaller Companies Index Fund

Benchmark FTSE Small Cap Index

Objective To track the benchmark to within +/- 1.0% p.a. for 2 out of 3 years.

Overseas Equity Consensus Index Fund

Benchmark FTSE All-World (ex UK) Index

Objective To provide diversified exposure to a range of overseas equity markets.

Phoenix Asset Management

UK Equity Index Fund

Benchmark ABI UK All Companies sector

Objective To achieve medium to long term capital growth primarily through investments in a diversified portfolio of UK quoted equities and other related instruments.

International Equity Fund

Benchmark ABI Global Equities sector

Objective To achieve medium to long term capital growth primarily through investment in a portfolio of global equities and other related instruments including those of the UK.

Property Fund

Benchmark ABI UK Direct Property sector

Objective To achieve medium to long term capital growth primarily through investment in a directly held diversified portfolio of UK commercial property.