Global Marine Systems Pension Plan (“the Plan”) Statement of Investment Principles

INVESTMENT OBJECTIVE

The Trustees aim to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Plan's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan’s liabilities.

The overall objective which has been agreed with the Employer is to set an investment strategy that targets a return over the Liability Benchmark of 2.0% p.a. net of fees.

STRATEGY

The investment strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position and the liability profile. The investment strategy is equivalent to targeting a return in excess of the Liability Benchmark plus 2.0% per annum. However, the Trustees recognise the potential volatility in these returns, particularly relative to the Plan’s liabilities.

The asset allocation is chosen by the 'Manager', Aon Investments Limited (previously Hewitt Risk Management Services Limited) to meet the objective stated above. It is based on the assumption that equities will outperform gilts over the long term, that active management will add value and that some alternative asset classes offer diversification and outperformance relative to bonds. The asset allocation chosen by Aon Investments Limited to meet the given investment objective may vary over time at the discretion of the Manager. The Liability Matching Component aims to take into account the movement in the underlying value of the Plan's liabilities. The Growth Component is affected by market prices of a broad range of asset classes.

The Trustees have instructed the Manager on the proportion of inflation and interest rate sensitivity to hedge. The target level of protection against changes to inflation expectations and interest rates is set at the value of the assets. The Trustees will monitor the target level of interest rate protection periodically.

In addition, the Trustees also consulted with the sponsoring employer when setting this strategy.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

RISK

The Trustees recognise that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of risks which have the potential to cause a deterioration of the Plan's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustees and their advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ("cash flow risk"). The Trustees will manage the Plan's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustees ("manager risk"). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustees and their advisers considered this risk when setting the Plan's investment strategy.
- The possibility of failure of the Plan's sponsoring employer ("covenant risk"). The Trustees and their advisers considered this risk when setting the investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

To allow the Trustees to monitor some of the key risks they receive quarterly reports showing:

- Performance versus the estimated growth in the Plan's liabilities.
- Performance of the Manager (and the fund managers chosen by the Manager) versus target.
- Any significant issues with the Manager and the fund managers chosen by the Manager that may impact their ability to provide the service agreed by the Trustees.

RESPONSIBLE INVESTMENT

In setting the Plan's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

Environmental, Social, and Governance ("ESG") considerations

The Trustees consider investment risk to include ESG factors and climate change. These risks could negatively impact the Plan's investments. The Trustees consider these risks by taking advice from its investment adviser.

As part of the management of the Plan's assets, the Trustees expect the Manager to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
- Use its influence to engage with underlying managers to ensure the Plan's assets are not exposed to undue risk; and
- Report to the Trustees on its ESG activities as required.

Stewardship – Voting and Engagement

- The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.
- The Trustees annually review the stewardship activity of the Manager to ensure the Plan's stewardship policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by the Manager, these reports include detailed voting and engagement information from underlying asset managers.

As part of the management of the Plan's assets, the Trustees expect the Manager to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Plan's assets; and
- Report to the Trustees on stewardship activity by underlying managers as required.

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

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Plan.

The Trustees may engage with the Manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Plan.

Members' Views and Non-Financial Factors

In setting and implementing the Plan’s investment strategy the Trustees do not explicitly take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

Arrangements with asset managers

The Trustees recognise that the arrangements with the Manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustees seek to ensure that the Manager is incentivised to operate in a manner that generates the best long-term results for the Plan and its beneficiaries.

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

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

The Trustees delegate the ongoing monitoring of underlying asset managers to the Manager. The Manager monitors the Plan’s investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Plan.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

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

The Trustees believe that having appropriate governing documentation, setting clear expectations to the Manager, and regular monitoring of the Manager's performance and investment strategy, is sufficient to incentivise the Manager to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where the Manager is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically engage with the Manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the Manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the Manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Cost Monitoring:

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

The Trustees receive annual cost transparency reports from their fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Plan;
- The fees paid to the fiduciary manager;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager;
  - The Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Plan.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment manager's fund holdings change over a year. The Trustees acknowledge that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustees.

Evaluation of performance and remuneration:

The Trustees assess the (net of all costs) performance of their fiduciary manager on a rolling three-year basis against the Plan's specific liability benchmark and investment objective. The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustees. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustees monitor these costs and performance trends over time.

The Trustees benefit from the economies of scale provided by the fiduciary manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the appointed investment managers;
- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible.

IMPLEMENTATION

Aon Solutions UK Limited (previously Aon Hewitt Limited) has been selected as investment adviser to the Trustees. Aon Solutions UK Limited is paid on an ad valorem basis for the work it undertakes for the Plan. The Manager is paid on an ad valorem basis and from this amount the Manager will pay the fees of the underlying managers in which it invests. This structure has been chosen to align the interests of the Manager with those of the Plan.

The Trustees have delegated all day-to-day decisions in respect of the Plan's investments to the Manager through a written contract including the allocation of assets between different asset classes and the appointment and monitoring of fund managers. When choosing asset classes and fund managers, the Trustees and Manager are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

GOVERNANCE

The Trustees are responsible for the investment of the Plan's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

Trustees ▪ Set structures and processes for carrying out their role. ▪ Select and review the Plan's Investment Objective ▪ Review actual returns versus the Plan's investment objective ▪ Select and monitor AVC direct investments (see below). ▪ Select and monitor the investment advisers and the Manager. ▪ Make ongoing decisions relevant to the operational principles of the Plan's investment strategy (where these decisions have not been delegated) ▪ Approve this document
Investment Adviser ▪ Advise on appropriateness of service provided by the Manager ▪ Advise on investment strategy ▪ Advise on the investment liability benchmark ▪ Review the Statement of Investment Principles ▪ Carry out further project work when required
The Manager ("Aon Investments Limited") ▪ Set the strategy for investing in different asset classes in line with the investment objective. ▪ Determine strategy for selecting fund managers. ▪ Implement the investment strategy ▪ Select and appoint investment managers. ▪ Monitor investment managers ▪ Adjust asset allocations to reflect medium term market expectations ▪ Report on asset performance against the liability benchmark. ▪ Report on asset returns against objectives. ▪ Communicate any significant changes to the investment arrangements

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustees' policy is to review their direct investments and to obtain written advice about them annually. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the

Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the Manager to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this statement so far as is reasonably practicable.

The Trustee has appointed BNY Mellon as the Plan's custodian. The custodian provides safekeeping for all of the Plan's assets and performs the administrative duties including the collection of interest and dividends and dealing with corporate actions.

The Trustees will review this statement at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to this statement.

Signed on behalf of the Global Marine Systems Pension Trustee Limited

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Trustee Trustee

Effective Date: ……………………………….

Appendix

The flightplan has been set for the Plan on the basis that the investment objective is reduced at each trigger point so that (allowing for transaction costs) the remaining assets, together with the agreed contributions, continue to be expected to reach the funding objective by the target date.

The trigger points in this flightplan will change over time as the recovery period passes and as the Plan's assets and liabilities develop.

Investment Objectives in excess of Liability Benchmark (% pa)	Funding Trigger Level based on self-sufficiency measure of the liabilities (%) with effect from 1 April		
	2019	2020	2021
2.4	80.2	84.3	88.4
2.2	82.2	86.2	90.2
2.0	84.2	88.1	91.9
1.8	85.8	89.5	93.2
1.6	87.5	91.0	94.6
1.4	88.9	92.3	95.8
1.2	90.4	93.7	97.0
1.0	91.9	95.0	98.3

The funding level will be calculated based on a self-sufficiency measure of the liabilities calculated using a Gilts + 0.5% pa measure of the liabilities.