RIVER AND MERCANTILE

TT GROUP (1993) PENSION SCHEME

Statement of investment principles

November 2021

Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the TT Group (1993) Pension Scheme ('the Scheme'). It describes the investment policy being pursued by TTG Pension Trustees Limited ('the Trustee') of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

Detail on how the Scheme's investment strategy is implemented is set out in a separate Statement of Investment Implementation ('SII') document (which is maintained by the Trustee).

The Scheme Actuary is Kevin Pither of Mercer, the Investment Adviser is River and Mercantile Solutions, part of the River and Mercantile Group and the Legal Adviser is Mayer Brown International LLP (collectively termed 'the Advisers').

The Trustee confirms that, before preparing this SIP, it has consulted with TT Electronics plc ('the Company') and the Scheme Actuary and has obtained and considered written advice from the Investment Adviser. The Trustee believes the Advisers to be qualified by their professional qualifications, ability and practical experience of financial, regulatory, actuarial and other relevant matters, and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustee has set up an Investment Sub-Committee (the 'ISC') which is responsible for addressing the investment issues relating to the Scheme. Where they are required to make an investment decision, the Trustee or the ISC always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned. The Trustee also arranges for the administration of the Scheme.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but has delegated the day-to-day investment of the Scheme's assets to be undertaken by a range of professional investment managers.

Scheme Governance

The Trustee and ISC are responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure is appropriate for the Scheme as it allows the Trustee and ISC to make the important decisions on investment policy, while delegating the day-to-day aspects to the investment manager or the Advisers as appropriate. The responsibilities of each of the parties involved in the Scheme's governance are detailed in the SII.

The Trustee will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the investment managers or Adviser as part of such a review.

Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustee has taken advice from the Advisers to ensure that the proposed strategy, and the assets held by the Scheme through that strategy, are suitable given its liability profile, the Trustee's objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Scheme (the Trust Deed).

Statutory Funding Requirement

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

The Trustee will consider with the 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.

Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustee has set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this Statement, which will generate income and capital growth to pay, together with contributions from the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term, having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.
4. To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme
5. To target excess return currently within the Scheme's return seeking allocation of assets, to allow a more conservative investment strategy to be pursued in the future as the Scheme matures.
6. To pay due regard to the interests of the Company on the size and incidence of contribution payments.

In quantitative terms, the Trustee invests in a blend of Growth assets that broadly targets 3.5% above cash, a portfolio of Investment Grade credit that targets 1% above cash and a liability hedge which aims to mitigate the change in the liabilities. The Trustee decides the blends of these funds and the underlying investment managers to target the appropriate return for the Scheme; this is shown in the Quarterly Monitoring Report.

Implementation of investment strategy

The Trustee has delegated the investment of the Scheme assets to the investment managers, which have discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers.

The Trustee has received advice on the appropriateness of each investment manager's target, benchmark and risk tolerance from the Investment Adviser and believes them to be suitable to implement the Scheme's investment principles.

Monitoring

The Trustee will monitor the performance of the investment managers against the agreed performance objectives.

The Trustee, or any other suitably qualified Adviser on behalf of the Trustee, will regularly review the activities of the investment managers to satisfy themselves that the investment managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustee will consider whether the investment manager:

- Is carrying out its function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with an investment manager, it will ask the investment manager to take steps to rectify the situation. If the investment manager still does not meet the Trustee's requirements, the Trustee will remove the investment manager and appoint another.

Corporate Governance and Stewardship

The Trustee and the investment managers have agreed, and will maintain, formal Manager Agreements and fund documentation setting out the scope of each Investment Manager's activities, its charging basis and other relevant matters.

The appointment of the investment managers is ongoing. The Trustee periodically reviews the overall value-for-money of using the Investment Adviser (as specified in the Scheme's Investment Consulting objectives) and investment managers.

The Scheme's investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the investment managers.

The investment managers, where appropriate, adopt an active approach to corporate governance. The Trustee would prefer to engage with companies rather than boycott particular shares or companies. The Trustee delegates responsibility for corporate governance activity to the investment managers.

The Trustee has retained the use of voting (and other) rights attached to their mandates; however, the respective managers of the mandates retain responsibility for voting on their underlying holdings.

The Trustee and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees, as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustee reviews the governance structures of the investment managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustee and Investment Adviser assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects each investment manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long -term performance. The success of such engagement will contribute to the Scheme's performance, which is reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of their ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflict of Interest policy is available publicly here:

https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Trustee oversees the turnover costs (where available) incurred by the investment managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Where there are material deviations, the Trustee engages with the investment managers to understand the rationale for such deviations and take appropriate action.

Realisation of Investments

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so requires. The Trustee assesses the liquidity of each of their investment managers on a regular basis. This helps to ensure that there is an appropriate balance between holding illiquid assets and liquid assets to pay the benefits as and when they fall due.

Investment manager documentation

The Trustee and the investment managers have agreed, and will maintain, formal Manager Agreements and/or fund documentation setting out the scope of each investment manager's activities, its charging basis and other relevant matters.

As part of the appointment of the investment managers to the Scheme, the Trustee has entered formal manager agreements and/or accepted the terms of pooled investment vehicles, setting out the scope of each investment manager's and/or pooled investment vehicle's activities, their charging basis and other relevant matters.

Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and has delegated responsibility to the relevant investment managers to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates consideration of financially material factors to the investment manager who considers these when constructing the portfolio, including looking at underlying managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long-term performance, by the investment managers as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an investment manager is appointed, the Investment Adviser will monitor the investment manager for ongoing compliance with the expected standards at appointment and with other factors, such as stewardship, as a part of overall governance and engagement.

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require consideration.

The Trustee has taken into account the expected time horizon of the Scheme when considering how to integrate these financially material issues into the investment decision-making process.

Risks

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk –** the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - The Scheme Actuary estimates the Scheme's liabilities and this is compared to performance of the Scheme's assets on a quarterly basis. This captures the expected change in the present value of the Scheme's liabilities due to changes in the interest rate and inflation gilt curves.
  - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
  - When setting and reviewing investment strategy, the Trustee examines the impacts on downside risk with reference to the liabilities, which can be assessed as part of the quarterly review process.
  - The investment strategy addresses liability risk principally through the use of derivatives to hedge interest rate and inflation risk, and through regular reviews of the strategy. These risks are measured by the investment strategy performance against the liabilities. The Trustee keeps these risks under review and receives ad-hoc advice from the Investment Adviser.
  - This risk is also monitored through regular actuarial and investment reviews, including monthly portfolio updates.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The selective use of active management when appropriate, given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
  - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the investment manager.
- **Cash flow risk –** addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
  - The Trustee has also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments.
- **Concentration risk –** the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Counterparty risk –** the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustee partly mitigates this risk through the use of active management, granting discretion in the management of currency exposures in respect of the Scheme's Investment Fund mandates and using hedged share classes where available
- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the investment managers, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
- **ESG risk** – the risk of adverse performance due to ESG related factors including climate change This is addressed by the ESG assessment at the point of investment with the investment managers and as part of the ongoing investment manager monitoring process.
- **Mismanagement risk** – the risk of unsuitable investment activity by the investment managers. This is addressed in the agreements with the investment managers, which contain restrictions on the proportion and type of asset classes that the investment managers may invest in.
- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the investment managers and Advisers by the Trustee, and by the Investment Advisor.
- **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Sponsoring Employer.

The Trustee will keep these risks and how they are measured and managed under regular review.

Non-financial matters

The Trustee does not at present consider non-financial matters (such as members' ethical considerations) when making investment decisions as there is no settled common view on any ethical matters relevant to investing which members are all likely to hold. Currently, the Trustee has no plans to seek the views of the membership on ethical considerations.

Additional Voluntary Contributions (AVCs)

When the Scheme was open to future accrual, members were allowed to invest Additional Voluntary Contributions to improve the benefits available at retirement. The contributions could be invested across a range of investment funds chosen by the Trustee and provided by Standard Life, Aviva UK Life, The Prudential Assurance Company Limited, Royal London, The Equitable Life Assurance Society, Phoenix Life Limited and Clerical Medial.

Following the closure of the Scheme to future accrual, no new contributions are permitted. However, the Trustee reviews the existing arrangements regularly having regard to their performance, the objectives and the views of the Advisors.

Signed: ……………………….　　　　**Date: ……………………..**

For and on behalf of the Trustee of the TT Group (1993) Pension Scheme

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