HILGER ANALYTICAL LIMITED RETIREMENT BENEFITS SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

SEPTEMBER 2020

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1 INTRODUCTION

This Statement of Investment Principles (“the Statement”) has been prepared by the Trustee of the Hilger Analytical Limited Retirement Benefits Scheme (“the Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee to ensure the effective implementation of these principles.

In preparing the Statement, the Trustee has:

- Obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Mercer Limited, whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustee’s investment policy for the Scheme.

The Trustee will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustee will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustee's primary investment objective is to achieve an overall rate of return which directly matches the development in the value of the Scheme's liabilities until such a time that the Trustee can formally discharge the liabilities to an insurance company.

The Trustee has also received confirmation from the Scheme Actuary that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

3 INVESTMENT RESPONSIBILITIES

3.1. TRUSTEE DUTIES AND RESPONSIBILITIES

The Trustee is responsible for setting the investment objectives and determining the strategy to achieve these objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustee include, but are not limited to, the following tasks and activities:

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation with both the Investment Adviser and the Sponsoring Employer
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Investment Adviser and Scheme Actuary
- The appointment and review of the insurance provider and Investment Adviser
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- The setting and review of the investment parameters in relation to the Scheme's investment strategy
- The assessment of the risks assumed by the Scheme
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

3.2. INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustee has appointed Mercer as the Investment Adviser to the Scheme. Mercer provides advice as and when the Trustee requires it, as well as raising any investment-related issues, of which it believes the Trustee should be aware. Matters on which Mercer expects to provide advice to the Trustee include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Reviewing and amending the Statement
- Setting cashflow management (investments and disinvestments) policies (see Appendix 2)
- Through consultation with the Scheme Actuary, assessing how any changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested
- How any significant changes in the insurance providers organisation could affect the interests of the Scheme
- How any changes in the investment environment could present either opportunities or problems for the Scheme

The Trustee may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 2). Mercer may be proactive in advising the Trustee regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Any investment services provided by Mercer will be remunerated on a time-cost basis.

Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice.

The Trustee is satisfied that this is the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3. INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES

The Trustee is a long-term investor and does not look to change the investment arrangements on a frequent basis.

The Trustee, after considering appropriate advice, has entered into an insurance policy with Aviva Life & Pensions UK Limited ("Aviva"), with this forming the entire basis of the Scheme's holdings. As such, the Scheme does not currently invest with any traditional investment managers.

The purpose of the insurance contract is to directly match the development in the value of the Scheme's liabilities until such a date that the Trustee can formally discharge the Scheme's liabilities via buy-out policy.

Aviva will work directly with Mercer (via both the Risk Transfer and Discontinuance teams) in order to prepare the Scheme for a buy-out.

Aviva are authorised by the Prudential Regulation Authority ("PRA") and regulated by both the FCA and PRA.

3.4. SCHEME ACTUARY'S DUTIES AND RESPONSIBILITIES

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

3.5. ADMINISTRATOR'S DUTIES AND RESPONSIBILITIES

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the Investment Manager according to the Trustee's instructions

4 INVESTMENT STRATEGY

4.1 SETTING INVESTMENT STRATEGY

The Trustee has determined its investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustee has also received written advice from its Investment Adviser.

The basis of the Trustee's strategy is to invest in an insurance policy which directly matches the development in the Scheme's liabilities.

The Trustee's policy in respect of the investment of contributions and any disinvestments to meet member benefit payments is set out in Appendix 2.

4.2 INVESTMENT DECISIONS

The Trustee distinguishes between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee takes all such decisions themselves. They do so after receiving written advice from their Investment Adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions could include the following:

- Setting investment objectives
- Determining the split between the Growth and the Stabilising portfolios
- Determining the allocation to asset classes within the Growth and Stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

The Trustee has made the strategic decision to purchase an insurance policy which directly matches the development in the Scheme's liabilities until such a time that it can formally discharge the liabilities via a buy-out policy.

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Given the strategic decision to purchase an insurance policy, tactical investment decisions are not applicable to the Scheme.

Stock Selection Decisions

Stock selection decisions are typically the responsibility of investment managers.

Given the strategic decision to purchase an insurance policy, stock selection decisions are not directly applicable to the Scheme.

4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustee is permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas fixed and inflation-linked government bonds
- UK and overseas corporate and convertible bonds
- Property
- Commodities
- Hedge Funds
- Private equity and infrastructure
- High yield bonds and emerging market debt
- Diversified growth
- Liability driven investment products
- Insurance Policies
- Cash

The Trustees do not invest in traditional investment funds but instead have purchased an insurance policy. The asset classes listed above include those that the underlying insurance company may hold to back the insurance policy purchased by the Trustees.

4.4 FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee recognises that they must consider all factors which have the potential to impact on the financial performance of the Scheme's investments. This includes, but is not limited to, environmental, social and governance (ESG) factors. The Trustee recognises that ESG factors, e.g. climate change, workers' rights, or company management policies, can potentially influence the performance of the Scheme's assets and aim to incorporate such considerations within their investment decision making process.

As noted earlier, the Scheme has entered into an insurance policy. Accordingly, the Trustee recognises that the potential first order ESG considerations of an insurance policy are limited. Furthermore, the Trustee recognises that insurance company will predominantly hold fixed income securities and derivatives to back its policy and will rely upon the policies and judgement of the insurance company.

4.5 NON FINANCIAL CONSIDERATIONS

The Trustee will only consider factors that are expected to have a financial impact on the Scheme’s investments. Non-financial considerations, such as ethical views, will be left to the discretion of the investment manager in accordance with their stated policies. The views of the members of the Scheme will not be sought.

4.6 CORPORATE GOVERNANCE AND VOTING POLICY

The Trustee has invested in an insurance policy which directly matches the movements in the value of the Scheme’s liabilities. The Trustee recognises that the insurance company will predominantly hold fixed income securities and derivatives to back this policy. Therefore, it is expected that the assets backing the insurance policy will have limited voting rights. The Trustee will rely upon the policies and judgement of the insurance company in relation to the corporate governance policies of companies and organisations when selecting individual instruments to back the insurance policy.

4.7 STEWARDSHIP

Given that the Scheme invests in an insurance policy with directly matches the movements in the value of the Scheme’s liability profile, the Stewardship responsibilities of the Trustee are limited.

The Trustee, with appropriate advice, will:

- Monitor the insurance company to ensure that it is able to provide the appropriate security for member benefits.

5 RISK

The Trustee is aware, and seeks to take account of a number of risks in relation to the Scheme's investments. Under the Pensions Act 2004, Trustee is required to state their policy regarding the ways in which risks are to be measured and managed. The common investment risks faced by the Trustee are listed below, however a number of these have reduced, or mitigated, as a result of the Trustees purchasing an insurance policy.

Credit

- This is the risk that is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.

Currency

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the Scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

ESG

Environmental

- This risk that improper, or inadequate, consideration of environmental factors could lead to adverse investment performance and / or reputational damage to the Scheme.

Social

- This is the risk that social factors are not properly considered within the investment decision making process. Social risks can arise both within and external to a company, e.g. internal factors could include workplace health & safety whilst external factors may include a company's impact on the area surrounding their place of business.

Corporate Governance

- This is assessed by reviewing the insurance providers policies regarding corporate governance.

Inflation

- This is the risk that an investment's value will change due to a change in the level of expected inflation. This affects debt instruments more directly than growth instruments. Inflation movements will also affect the value of the Scheme's liabilities.

Interest Rate

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments. Interest rate movements will also affect the value of the Scheme's liabilities.

Legislative

- This is the risk that legislative changes will require action from the Trustee so as to comply with any such changes in legislation.
- The Trustee acknowledges that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Liquidity

- This is monitored according to the level of cashflows required by the Scheme over a specified period.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- The Trustees do not have any exposure to traditional investment managers and thus are not exposed to this risk

Other Price

- This is the risk that principally arises in relation to the return seeking portfolio, which invests in equities, equities in pooled funds, equity futures, hedge funds, private equity and property.
- The Trustees investment strategy is not exposed to such risks..

Political

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.

Sponsor

- This is assessed as the level of ability and degree of willingness of the sponsor (in this case the parent company of the Principal Employer which has provided a full s.75 Guarantee to the Trustee) to support the continuation of the Scheme and to make good any current or future deficit.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

The Trustee continually assesses and review the performance of their advisor.

Following the investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) introduced new duties for trustees meaning that they must set strategic objectives for their investment consultancy provider(s).

In line with this requirement, the Trustee has set their investment advisor, Mercer, strategic objectives as per the document entitled ‘Strategic Objectives for Investment Consultancy Services’ signed by the Trustee on 29th October 2019.

6.2 INVESTMENT MANAGERS

The Trustee notes that the Scheme does not currently invest with any traditional investment managers but instead holds an insurance policy which matches the development in the Scheme’s liability profile.

The Trustee received advice with regards to the appropriateness of the insurer prior to investing in the insurance policy.

The Trustee notes that the ability to replace the insurance policy is limited and that this would likely only be achievable at a significant cost to the Scheme.

6.3 PORTFOLIO TURNOVER COSTS

As noted previously, the Scheme does not currently invest with any traditional investment managers but instead holds an insurance policy.

Given the nature of the insurance policy, portfolio turnover costs are not applicable to the Scheme / Trustee. The insurance company is responsible for the management of the underlying assets backing the insurance policy held by the Trustee and thus bears any costs associated with the buying and selling of the underlying assets.

7 CODE OF BEST PRACTICE

The Trustee notes that in March 2017 the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustee has received training in relation to this guidance and is satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme’s circumstances.

The Trustee meets with its investment adviser on a regular basis, monitoring developments both in relation to the Scheme’s circumstances and in relation to evolving guidance, and will revise the Scheme’s investment approach if considered appropriate.

8 COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's investment managers, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes the Statement signed in September 2019 and was approved by the Trustee on ......

On	10 September 2020	....
Full Name	Claire Teagle	....
Position	Director HR Trustees Ltd	....

APPENDIX 1: ASSET ALLOCATION BENCHMARK

The Scheme's strategic asset allocation benchmark is set out below:

Asset Class	Strategic Allocation	Control Range
Insurance Policy	100.0%	95% - 100%
Cash	0%	0% - 5%

The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix 2.

Appendix 3 provides information on the Scheme's investment arrangements.

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

When fully established, the Scheme's insurance policy will meet all member payments as and when they fall due.

The insurance policy will make a regular monthly payment to the Trustee Bank Account equal to the value of the monthly pensioner payroll. In the event that a member requests to transfer out of the Scheme, the insurance policy will transfer additional monies to the Trustee Bank Account in order for the Scheme to meet such obligations.

Given the nature of the Scheme's investment strategy, rebalancing of the Scheme's investment strategy will not be required.

APPENDIX 3: INVESTMENT MANAGER / INSURANCE POLICY INFORMATION

The tables below show the details of the mandate(s) held by the Scheme.

Manager / Fund	Benchmark	Objective
Insurance Policy		
Aviva Life & Pensions UK Insurance Policy	N/A	To directly replicate the development in the Scheme's liabilities
Cash		
Trustee Bank Account	N/A	N/A

For the avoidance of doubt, the SIP will not be updated solely in response to the replacement of one of the investment managers / funds.