

ELG Haniel Metals Limited Pension and Assurance Scheme

Statement of Investment Principles – August 2024

1. Introduction

The Trustees of the ELG Haniel Metals Limited Pension and Assurance Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. The Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, consultation has been undertaken with ELG Metals UK Limited (the “Sponsor”) to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements and, in particular on the Trustees’ objectives.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager to implement the Trustees’ investment strategy. In this capacity, and subject to agreed restrictions, the Scheme’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA, and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme’s assets on a day to day basis.

In considering the appropriate investments for the Scheme, the Trustees have obtained and considered the written advice from the investment consultant whom the Trustees believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme’s ongoing and solvency funding positions. The Trustees recognise that equity (and other growth asset) investment will bring increased volatility of the funding level, but in the expectation of improvements in the Scheme’s funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees’ primary objective is to invest the Scheme’s assets in the best interest of the members, beneficiaries and the Sponsor and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Within this context the Trustees’ main objectives with regard to investment policy are to:

- ultimately reach a position such that the Scheme's assets would be sufficient to exceed the liabilities as determined, in the event of the Scheme winding-up, on the basis of a buyout with an insurance company;
- ensure that the long term return expectations for the investment strategy are consistent with the funding strategy;
- ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- consider the interests of the Sponsor in relation to the size and volatility of the Sponsor's contribution requirements.

The Trustees understand, following discussions with the Sponsor, that the Sponsor is willing to accept some degree of volatility in the contribution requirements in order to minimise the long-term cost of the Scheme's benefits.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in section 9.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more volatility in the Scheme's funding position.
- To control the risk outlined above, the Trustees, having taken advice, set the split between the Scheme's Growth and Matching Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3.
- The Trustees recognise that even if the Scheme's assets are invested in Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Trustees invest in leveraged LDI funds to maintain a high level of liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with nominal and real gilt yield (i.e. interest rate and inflation) changes. The Trustees review the Matching Portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and broader governance.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.

- To help the Trustees ensure the continuing suitability of the current investments, provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees.
- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Scheme's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy. In addition, the Trustees have set restrictions on investments in certain illiquid assets to improve the liquidity profile of the assets ahead of a potential insurer transaction, as set out in Section 5.
- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, Mercer sets a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current investment strategy remains appropriate.

5. Investment Strategy

The Trustees, with advice from the Scheme's Investment Consultant and Scheme Actuary, have reviewed the Scheme's investment strategy at least annually since 2014, and most recently in 2024. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the initial review in 2014, the key decision was to seek a long term solution to "de-risk" the Scheme's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustees engaged Mercer to implement their de-risking strategy, by way of its Dynamic De-risking Solution.

In 2024, the Scheme reached its final de-risking trigger band and the Trustees decided to maintain a fixed target Growth Portfolio Allocation and would not set any further de-risking

triggers. This target remains under review as the Scheme progresses towards the Trustees' and Sponsor's ultimate objective.

- The Scheme has achieved its objective of full funding on a gilts +0.2% basis within the initial 2023 – 2028 target timeframe. As such, the investment objective for the Trustees, in consultation with the Sponsor is to invest the Scheme's assets in a low risk manner in line with the short to medium term objective of securing member benefits through an insurer transaction.

As part of preparing the Scheme for this objective, the Trustees have now restricted investments in funds with dealing frequencies that are less frequent than weekly, to enhance liquidity within the investment strategy. However, the Trustees are aware that allocations may remain whilst positions are sold in line with the redemption processes.

Responsibility for monitoring the Scheme's asset allocation, and undertaking any rebalancing activity remains delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities.

6. Realisation of Investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

8. Rebalancing

As noted, responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer will review the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside the appropriate tolerance range Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

9. Environmental, Social and Corporate Governance, Stewardship, and Climate Change

The Trustees believe that good stewardship and the incorporation of environmental, social, and corporate governance (ESG) factors into investment decision-making processes can have a material impact on the financial and non-financial performance of the Scheme's assets over the medium and long-term. The Trustees also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments. The asset managers are expected to act in accordance with their own corporate governance policies and current best practice, including the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustees thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the appointed underlying asset managers. In particular, the Trustees review the reporting provided by Mercer, and MGIE, on a regular basis, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot-printing for equities and/or climate scenario analysis for diversified portfolios.

Mercer, and MGIE, is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and other asset classes where relevant and data is available and/or climate transition analysis for diversified growth portfolios.

The Trustees have also considered the Sponsors responsible investment policy, and note the alignment with Mercer's commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Scheme, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.

An allocation to Sustainable Equities is made by the Scheme.

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions in relation to particular Mercer Funds. The restrictions applied by MGIE are outlined in the [Sustainability Policy](#).

10. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should the Trustees consider that Mercer or MGIE have failed to align their investment strategies and decisions with the Trustees' policies, the Trustees will notify Mercer and may consider disinvesting some or all of the assets invested that are managed by Mercer, and/or seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception (if applicable). The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, the responsibility for making portfolio selection decisions based on assessments of the medium to long-term financial and nonfinancial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement activities.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

11. Additional Voluntary Contributions ("AVCs")

The Trustees are responsible for the investment of AVCs paid by members. Assets in respect of members' AVCs are held in insurance contracts invested with Legal & General Assurance Society.

The Trustees review these arrangements from time to time to ensure that they remain consistent with the needs of the members.

12. Custodian and Advisors

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the Mercer Funds. However, the Trustees are comfortable that MGIM has procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

The actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Sponsor's contribution rate.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial

matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Agreed for and on behalf of the Trustees of the ELG Haniel Metals Limited Pension and Assurance Scheme