The H J Enthoven Limited Pension Scheme

Statement of Investment Principles

June 2023

Introduction

This document is the Statement of Investment Principles (the 'Statement') for the H J Enthoven Limited Pension Scheme (the 'Scheme'). This Statement has been drawn up by the Trustees of the H J Enthoven Limited Pension Scheme (the 'Trustees'), taking into account the relevant legislation

The Statement sets out the high-level objectives, principles and policies governing the investment decisions of the Trustees.

Governance arrangements

The Trustees have ultimate responsibility for the management of the Scheme and its investments but they delegate responsibilities to specialist advisers and service providers. The Trustees ensure that appropriate guidelines and restrictions are agreed with each party to clearly set out their responsibilities and the scope of their services. The Trustees take all such steps as are reasonable to satisfy themselves that the parties to whom they delegate responsibilities have the appropriate knowledge and experience required to take on their role.

A key investment appointment is the Fiduciary Manager, a professional investment firm with expertise in investment and risk management for pension funds. The Fiduciary Manager provides investment advice and investment management services to the Trustees, including advice on setting the Investment Objective and preparing this Statement. Many of the details of this document are reflected in the Investment Management Agreement between the Trustees and the Fiduciary Manager.

Objectives

Long Term Objectives

The primary objective of the Trustees is to pay the benefits in full as they fall due.

The first milestone towards achieving this objective is to achieve full funding on the Technical Provisions basis. Once achieved, the Trustees will continue to seek further improvements in the funding position, through maximising investment returns using a risk-controlled approach.

The investment risk may be adjusted over time reflecting funding level improvements and/or changes in the ability of the Sponsor to support the Scheme. These considerations will inform the Trustees' view of what is the most secure method at the time to meet the promised benefits for all members.

Investment Objectives

A performance objective known as the "Investment Objective" is set and reviewed by the Trustees, ensuring consistency with the Trustees' Long Term Objective and Statement of Funding Principles. When setting the Investment Objective, the Trustees also take into account the trade-off between expected returns and investment risk:

> *Investment Objective*
>
> *The Trustees aim to achieve a return on the Scheme's assets of 2.0% p.a. (net of fees) above the return on the Liability Benchmark, over a rolling 5-year period.*

The Liability Benchmark is a measure of the return of the Scheme's liabilities on a gilts-flat basis. It is agreed between the Trustees and the Fiduciary Manager and is periodically updated, such as after triennial actuarial valuations.

The Investment Return Objective is specified in the guidelines to the Investment Management Agreement of the Fiduciary Manager. The Fiduciary Manager is tasked with investing the Scheme's assets to target the Investment Objective over rolling 5-year periods, while reducing short-term volatility in the funding position and the chance of large losses.

A risk guideline of 12% per annum has been set for the volatility of the Scheme's funding position, although the Trustees expect that the active risk within the Portfolio will generally be below 6% per annum. The Fiduciary Manager is required to monitor the realised (ex-post) and forecasted (ex-ante) risk levels to ensure they remain below this level. If the risk guideline is exceeded the Fiduciary Manager will notify the Trustees in writing, explain why the risk guideline has been exceeded and confirm either that it is comfortable running the portfolio at a risk level above the guideline or the actions it proposes to reduce the risk level to within the guideline.

Investment policies

Securing compliance with the duty to choose scheme investments under Section 36 of the Pensions Act

In advance of choosing or retaining any direct investments, the Trustees obtain and consider advice from the Fiduciary Manager. This advice considers the overall suitability of the investments in relation to a number of key investment principles.

Note that this advice is not required or sought where the investments are selected (or retained) on behalf of the Trustees by the Fiduciary Manager.

The kinds of investments held by the Scheme

The management of the Scheme's portfolio is delegated by the Trustees to the Fiduciary Manger.

The full range of assets, detailed targets and restrictions are agreed between the Trustees and the Fiduciary Manager and may change over time. These are recorded in the legal agreement between the Trustees and the Fiduciary Manager.

Liability Hedging Portfolio:

The purpose of these assets is to increase or decrease in value to broadly match changes in the value of the liabilities due to movements in long-term interest rates and inflation expectations.

This requires an asset portfolio which seeks to broadly match an agreed portion of the interest rate and inflation sensitivities of the Liability Benchmark. The assets are invested in a mixture of cash, physical gilts, leveraged gilts and swaps.

Investment Portfolio:

The purpose of these assets is to generate consistent, absolute returns while managing downside risks and reducing the chance of large losses in stress situations.

When combined with the Liability Hedging Portfolio, Investment Portfolio returns above short-term cash rates are intended to result in the total Scheme assets outperforming the Liability Benchmark, as targeted in the Investment Objective.

The assets are invested in a wide range of instruments to create a highly-diversified portfolio, with positions including:

- 'Alpha' (or active manager) investments
  - These consist of a diversified set of collective investment vehicles managed by third-party investment managers.
  - Performance is primarily driven by manager skill, as the third-party managers implement specialist investment strategies.
  - They are a mix of systematic or discretionary strategies across, for example, equity, credit, macro and multi-strategy funds.
- 'Beta' (or market driven) investments
  - These provide a diversified set of exposures where performance is mainly dependent on the economic outlook
  - They include, but are not limited to, Equities and Equity Options, Government Bonds, Inflation swaps, Commodities, High Yield Bonds and Emerging Market Bonds
  - The positions are typically accessed through derivative instruments to reduce costs, increase liquidity and support efficient portfolio management

- These positions are dynamically managed meaning they are frequently adjusted to reflect the prevailing market conditions. The aim is to take advantage of opportunities as they arise and to guard against risks that may materialise

Balance between investment types

The Trustees have provided the Fiduciary Manager with guidelines setting out permissible ranges for each kind of investment. The Fiduciary Manager adjusts the balance of investments in response to evolving market conditions and ensures that:

- It stays within the guidelines;
- The balance is appropriate to achieving the Investment Objective over the long term;
- There is sufficient liquidity to meet cashflow requirements; and
- There is sufficient collateral available to manage the collateral risk of the derivative positions.

Risks, including the ways in which they are to be measured and managed

The key risk to the Scheme is that the value of assets is insufficient relative to the value of the liabilities. This is called solvency risk and ultimately could lead to there being insufficient assets to secure all benefits.

There are many other individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustees consider most of these in a qualitative rather than quantitative manner.

The Trustees work with the Fiduciary Manager to regularly monitor the risks affecting the investments and to manage them where possible to avoid the accumulation of excessive risk exposures. The main risk factors affecting the Scheme are described in the Appendix, along with a summary of how each is measured and managed.

Expected return on investments

The Trustees delegate assessment of the expected return on investments to the Fiduciary Manager. This is one of the factors taken into account by the Fiduciary Manager when selecting the balance of assets to target the Investment Objective.

Realisation of investments

The Trustees delegate decisions around the realisation of investments to the Fiduciary Manager. Assets are realised as part of the rebalancing of assets in response to changing market conditions and to meet the cashflow needs of the Trustees.

Responsible investment & corporate governance

Financially material considerations over the appropriate time horizon of the investments

The Trustees have a long-term time horizon for their portfolio and acknowledge the importance of being a responsible investor. The Trustees consider responsible investment to be the integration of environmental, social and governance considerations into investment decisions in respect of the Scheme's investment portfolio where financial risk and / or return is or could be materially affected ("Responsible Investment"). These considerations include the potential impact of climate change.

The Scheme assets are held in pooled arrangements, therefore, the Trustees expect their managers to take into account environmental, social, and governance considerations (including but not limited to climate change) when making investment decisions, where financial risk and / or return is, or could be, materially affected.

The Trustees have delegated responsibility to take account of environmental, social and governance considerations in investment decision making to the Fiduciary Manager. The Trustees periodically monitor how the Fiduciary Manager takes account of Responsible Investment.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

It is not practicable for the Trustees to take the views of individual members and beneficiaries, including (but not limited to) their views in relation to governance, social and environmental impact, into account when making investment decisions. Furthermore, for those assets of the Scheme invested in pooled arrangements, it is not possible to reflect individual member views. However, the Trustees believe that by being a responsible investor, they are managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

The exercise of rights (including voting rights) attaching to the investments

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

Undertaking engagement activities in respect of the investments

Where relevant, the Trustees prefer their investment managers to have an explicit strategy, outlining the circumstances in which they will engage with relevant persons (an issuer of debt or equity, an investment manager, another stakeholder or holder of debt or equity) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Fiduciary Manager is responsible for engaging with investment managers regarding their voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact (and the Trustees monitor the Fiduciary Manager's activity in this regard).

The Trustees selected three key stewardship priorities for investment manager engagement, in order to improve alignment with their policies as well as enhance disclosure. The priorities are linked to the UN Sustainable Development Goals with an aim to improving responsible investment characteristics within the portfolio and ultimately deliver better outcomes to members. The Trustees' stewardship priorities are:

- Climate Change
- Environmental Impact
- Human Rights

On behalf of the Trustees, the Fiduciary Manager has written to the Trustees' investment managers reaffirming and expanding on the Trustees' policy and expectations. The Trustees expect their investment managers to incorporate these priorities into their voting practices and the Fiduciary Manager will monitor manager disclosures to ensure alignment against them.

Arrangements with the Fiduciary Manager

The Trustees delegate various activities in relation to the Scheme's investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustees' policies as set out below.

The Trustees keep the Fiduciary Manager's performance under review, focusing on longer-term outcomes. The Trustees receive regular reports from the Fiduciary Manager, including on portfolio turnover costs incurred by the underlying investment managers. The Trustees' review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

Although the Trustees' arrangement with the Fiduciary Manager is expected by the Trustees to be a long-term partnership, the Fiduciary Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustees' policies.

The Fiduciary Manager is paid a fixed and an ad valorem fee in line with normal market practice, for a given scope of services which includes consideration of long-term factors, responsible investment and engagement. The Trustees review the costs incurred in managing the Scheme's assets annually.

Arrangements with all Investment Managers

The Trustees believe that an understanding of, and engagement with, Investment Managers' arrangements (including the Fiduciary Manager) is required to ensure they are aligned with the Trustees' policy, including their Responsible Investment policy. In accordance with latest regulation, it is the Trustees' policy to ensure that the following are understood and monitored by the Fiduciary Manager:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustees' policies
- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or

equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term. This will consider strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters

- How the method (and time horizon) of the evaluation of investment mangers' performance and their remuneration are in line with the Trustees' policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustees' policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustees on any areas of potential divergence between the Trustees' policies and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustees to review all of the above aspects in sufficient detail each year. The Trustees will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Additional Voluntary Contributions (AVCs)

The Trustees have made available various investment vehicles for the investment of AVCs. The Trustees consider the following sources of risk:

- Member understanding – the risk that the Trustees do not provide clear, balanced and timely information to members to aid their understanding. The Trustees are aware that poor information could lead to members' reasonable expectations not being met
- Investment practices – the risk that the range of funds does not meet members' requirements. The range of funds is monitored for both suitability and competitiveness on an ongoing basis
- Risk of default funds, where provided, being unsuitable for the requirements of some members
- Manager risk - risk of fund managers not meeting their objectives. This risk is considered by the Trustees both upon the initial appointment of the fund manager and on an ongoing basis thereafter
- 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 these risks in a qualitative rather than quantitative manner. The AVC arrangements will be reviewed periodically to ensure the investment profile of the funds available remains consistent with the objective of the Trustees and the needs of the members.

Fee basis for service providers

The Trustees use a range of fee arrangements which may include performance related fees, fees as a percentage of the assets managed and fixed fees. The Trustees delegate the consideration of suitable fee bases to the Fiduciary Manager. The Fiduciary Manager considers a range of factors, including the level of the fees offered and the alignment of interests that the fees give with the Trustees' objectives.

Agreeing and reviewing this Statement

Advice received

The Trustees have obtained written advice on the content of this statement from their Fiduciary Manager. They will also take written advice on any future major changes to this Statement.

The Trustees are satisfied that the Fiduciary Manager has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustees have consulted the Principal Employer, Ecobat Resources UK Ltd and the Participating Employer, Eco-Bat Technologies Ltd, on the content of this Statement and will consult with them on future changes.

Compliance and review

The Trustees monitor compliance with this Statement regularly and will review it at least every three years and immediately following any significant change in investment policy.

Agreed on behalf of the Trustees of the H J Enthoven Pension Scheme:

Signed: ________________________________

Name: ________________________________

Title: ________________________________

Date: ________________________________

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustees

The Trustees have ultimate responsibility for decision-making on investment matters. The Trustees' investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of advisers and other third parties
- Setting appropriate investment objectives, following advice from the Fiduciary Manager and Scheme Actuary
- Agreeing the range of investment types to be used to achieve the investment objectives, taking account of the need to manage risks
- Agreeing the policies for governing investment manager arrangements
- Monitoring the appropriateness of the Fiduciary Manager
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this statement, if deemed appropriate, in consultation with the Principle Employer and with written advice from the Fiduciary Manager
- Monitoring compliance with this Statement on an ongoing basis
- Identifying the Trustees' training needs

Fiduciary Manager

The Fiduciary Manager's role includes providing investment advice to the Trustees and investment management of assets. A summary of the duties that fall into each category is shown below:

Fiduciary Manager – Investment advice:

- Advice on setting the Investment Objective
- Risk modelling (including asset-liability analysis)
- Asset class, investment manager and risk reporting
- Advice and monitoring of any direct investments
- Trustee investment training and education
- Advice relating to investment governance and compliance
- Advice on this statement

- Advice relating to potential conflicts of interest, including their own

Fiduciary Manger – investment management:

- Designing and implementing investment strategies appropriate to the investment objective for the Scheme, which has been set out by the Trustees
- Appointing and removing investment managers
- Investment manager mandate definition and negotiation
- Designing and executing derivative strategies for and on behalf of the Trustees
- Portfolio monitoring, including checking consistency of investment manager arrangements with the Trustees' policies
- Appointing transition managers for and on behalf of the Trustees
- Advice relating to potential conflicts of interest, including their own
- Ongoing management of the assets delegated to them within the terms of their agreement with the Trustees
- Complying with this Statement

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Fiduciary Manager on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustees' Investment Objectives and investment strategy
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities on at least a triennial basis, or more frequently as required
- Advice relating to potential conflicts of interest, including their own

Investment managers

The investment managers' responsibilities include:

- Managing the assets delegated to them within the terms of their agreement
- Providing regular reports on their performance, including any agreed benchmark and performance targets

- Providing reports at least annually on portfolio turnover and costs, including their remuneration
- Instructing their custodian on corporate governance and voting issues, including issues relating to Responsible Investment
- Where relevant, providing information at least annually on how they are incentivised to consider both financial and non-financial risks over the medium to long-term, including but not limited to detailing their engagement activities with investee companies
- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

Providers of direct investments

Investments held directly by the Scheme are held in the form of units in pooled funds, insurance policies or other contractual arrangements. The responsibilities of the providers are set out in the legal documentation for each investment. There is then usually an agreement between the provider and an organisation which manages the assets underlying the direct investment on a day-to-day basis. This agreement sets out the responsibilities of this organisation to the provider.

APPENDIX B

Risk factor	What is the risk?	How is the risk measured?	How is the risk managed?
Economic (or market) risk	Economic, financial or political conditions cause the return on investments to be worse than expected, reducing the chance of meeting the investment return objective	The Fiduciary Manager monitors the economic exposures and assesses the economic outlook and regularly reports the position to the Trustees	The assets are spread across a range of different investments in a highly diversified portfolio that manages downside risks and reduces the chance of large losses in stress situations
Investment manager risk	The investment managers fail to meet their performance expectations	The Fiduciary Manager monitors manager performance relative to suitable benchmarks and peers and regularly reports the position to the Trustees	Rigorous investment and operational due diligence is performed upon manager appointment and close monitoring is performed thereafter
Interest rate and inflation risk	The value of the Scheme's liabilities rises due to either or both of the interest rate falling or the inflation rate rising	The Fiduciary Manager monitors any mismatch between the interest rate and inflation sensitivities of the assets relative to the Liability Benchmark and regularly reports the position to the Trustees	The Liability Benchmark is designed to reflect the sensitivity of the liabilities to interest rate and inflation risk. The Liability Hedging Portfolio is designed to match an agreed portion of these sensitivities
Currency risk	Loss arising from the falling value of overseas investments due to strengthening Sterling	The Fiduciary Manager monitors the currency risk and regularly reports the position to the Trustees	Where investments are not denominated in Sterling and currency exposure is not desired as part of the thesis, currency derivatives are used to remove currency risk
Concentration risk	Underperformance in a section of the investments has an overly large adverse impact on the total portfolio return	The Fiduciary Manager monitors the portfolio concentration and reports the position to the Trustees as needed	The Fiduciary Manager operates to guidelines that ensure assets are spread across a range of investments
Liquidity risk	There is a shortfall in liquid assets relative to the Scheme's immediate cashflow requirements	The Fiduciary Manager monitors the cashflow needs and reports the position to the Trustees as needed	The Fiduciary Manager operates to guidelines that ensure assets are spread across a range of investments
Operational risk	Loss arising as a result of fraud, acts of negligence or lack of suitable processes	The Fiduciary Manager monitors the operational procedures of the collective investment schemes and bank counterparties and reports the position to the Trustees as needed	The Fiduciary Manager undertakes due diligence to identify the operational risks associated with each service provider. The Trustees ensure that all advisers and third-party service providers are suitably qualified and experienced. Suitable liability and compensation clauses are included in all contracts for professional services
Demographic risk	The mortality assumptions used to value the Scheme's liabilities strengthen, resulting in an increase in the value of the liabilities	Regular updates on changes in demographic assumptions are provided by the Scheme Actuary	The Trustees make an allowance for this risk by setting prudent actuarial assumptions
Sponsor risk	The sponsoring employer makes insufficient contributions to support payment of the Scheme benefits, leading to greater reliance on investment returns	Assessment of the ability and willingness of the sponsor to support the continuation of the Scheme and make good any current / future deficit	Sponsor risk has been taken into account when agreeing a suitable Recovery Plan and investment objective

Risk factor	What is the risk?	How is the risk measured?	How is the risk managed?
ESG (including climate change) risk	The potential for non-financial factors to adversely impact the value of the assets or overall funding position	The Fiduciary Manager measures ESG risk based on the materiality of the potential impact on each investment and distinguishes between high and low focus positions.	The Fiduciary Manager monitors the portfolio regularly to ensure ESG risks are being appropriately considered in ongoing investment decisions. The Trustees review ESG risks on a regular basis.