The ATI Specialty Materials Ltd Pension Plan

Statement of Investment Principles – November 2021

1. Introduction

The Trustee ("Trustee") of The ATI Specialty Materials Ltd Pension Plan ("the Plan") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. A separate document detailing the specifics of the Plan's investment arrangements, the Investment Policy Implementation Document ("IPID"), has also been drawn up and is available on request.

In preparing this Statement the Trustee has consulted ATI Specialty Materials Ltd, as Plan Sponsor, and obtained and considered written professional advice from Mercer Limited ("the Investment Consultant"). The Trustee believes the Investment Consultant meets the requirements of the Pensions Act 1995 (as amended).

2. Process For Choosing Investments

The Trustee has considered its objectives for investing the Plan assets. They have also considered its Investment and Funding objectives together to ensure that the two are compatible and supportable.

The Trustee has then constructed a portfolio of investments consistent with these objectives and which it hopes will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity and governance of their investment arrangements appropriate to the size of assets under management).

In doing so the Trustee takes into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues. These are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Plan over the investment time horizon of the Trustee. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Plan, the Trustee obtained and considered the written advice of Mercer, whom the Trustee 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 investment objectives set out here are those that the Trustee determined to be financially material considerations in relation to the Plan.

The Trustee is required to invest the Plan's assets in the best interest of the members, beneficiaries and the Plan Sponsor and in the case of a potential conflict of interests in the sole interest of the members and beneficiaries.

The Trustee has agreed to a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed. The primary objectives of the Trustee are as follows:

- *To achieve over the long term a return on the investments consistent with the return required to achieve the Plan's funding target as calculated by the Actuary, ensuring suitable liquidity and limiting expected variability in the funding position to a level that is no higher than is necessary to achieve the level of return targeted.*

- *To ensure that the Plan holds sufficient assets to meet the liabilities of the Plan as they fall due, when combined with any contributions paid in by the Sponsor.*

- *To achieve a favourable return against the benchmark set for the Plan's investments.*

Given the nature of the liabilities, the investment time horizon of the Plan is potentially long-term. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Plan's investment horizon significantly.

These objectives take into account the Plan Sponsor's interest in the size and incidence of contribution payments.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Plan.

The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accrued liabilities. The Trustee has have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk. The Trustees' policy on risk management over the Plan's anticipated lifetime is set out below.

The primary investment risk upon which the Trustee has focused is a deterioration in the value of assets relative to the value of the liabilities, as assessed on the funding basis set by the Trustee, beyond a level that the Plan Sponsor is comfortable rectifying through additional payments or reduction in benefits. Specifically, key strategic investment risks that impact Plan funding are as follows:

- Market Risk (including equities, property and exposure to other growth asset markets) – the risk that asset valuations fluctuate in an uncorrelated way with the value of the liabilities;

- Interest Rate Risk – the risk that changes in the value of the assets do not move in line with changes in the value placed on the Plan's liabilities in response to changes in interest rates;

- Inflation Risk – similar to interest rate risk but concerning inflation;

- Credit Risk – the risk that one party to a financial instrument will cause a financial loss to the Plan by failing to discharge an obligation.

- Currency Risk – the risk that foreign currency exposure causes asset valuations to fluctuate in an uncorrelated way with the value of the liabilities which are denominated in Sterling.

- Liquidity Risk – the risk that the Plan doesn't have sufficient liquid assets to meet payments.

Considerations specific to ESG issues are addressed in Section 11.

The Trustee measures risk using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk ("VaR").

- Market risk is managed via the strategic allocation to the various asset classes and by holding diversified portfolios by individual holdings, sectors and market regions.

- The Trustee has also developed a Liability Driven Investment ("LDI") framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. Further detail on the LDI portfolio is set out in the IPID. The Trustee recognises that the target LDI portfolio will not produce a perfect match for the liability exposures it is aiming to hedge. Furthermore, the Trustee recognises that there are different measures for calculating the liabilities that may not be closely matched by the LDI assets held.

- The Plan's LDI portfolio is invested on a pooled fund basis. However, the underlying investments include derivative exposures that introduce other specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:

  - basis risk (the risk that the derivative invested in does not perfectly match the physical asset that the derivative has replaced);

  - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);

  - recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);

- collateral and counterparty risk (the risk that the party with whom the LDI manager has contracted defaults and that any collateral is insufficient to make good any resulting loss);

  These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks is low and/or the impact of them is low.

- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds that are predominantly of investment grade quality.

- Currency risk is managed through the total allocation to overseas markets and consideration of currency hedging.

- Regarding liquidity risk, the Trustee believes that the majority of the Plan's investments are realisable at short notice in most prevailing market conditions.

The Trustee recognises the following additional risks over the time horizon consistent with the investment objectives, set by the Trustee, and take the following steps to manage risk:

- Risks may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the investment manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.

- Arrangements are in place to monitor the Plan's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. The Trustee meets periodically with the Plan's investment managers and receive regular reports from them.

- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

- Across all of the Plan's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

The Trustee has considered this policy and these risks when setting the investment strategy set out in section 6 and regularly review its continued appropriateness taking into account funding and covenant considerations. Should there be a material change in the Plan's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered, in particular whether the current risk profile remains appropriate.

5. Portfolio Construction

The Trustee has adopted the following principles subject to the overriding constraint that at the total Plan level the expected level of risk is consistent with that detailed in Section 3 and 4 and subject to the Trust Deed & Rules:

- There is a role for both active and passive management. **Passive management** involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. **Active management** involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both, the Trustee aims to take advantage of active management where they believe it is likely to lead to outperformance net of fees, while using passive management in other areas to control overall manager risk and to manage overall fee levels.

- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments

- **Specialist managers** are preferred over generalists because of the potential to access a higher level of expertise.

- At the total Plan level investments should be broadly **diversified** to ensure there is not a concentration of exposure to any one issuer, to the extent that this not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt. Appropriate diversification between markets will also be ensured.

- The amount invested in highly **concentrated portfolios** will take into account the level of risk this represents taking into account the Plan’s assets overall.

- The amount invested in **illiquid investments**, such as unlisted equity/debt, property, pooled property or hedge funds, will take into account the implications of not being able to readily liquidate a proportion of the Plan’s investment on the operation of the Plan.

- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

- Investment may be made in securities that are not traded on **regulated markets**. The level of exposure will take into account the potential benefit in terms of generating return and diversifying risk, set against the potential risks (in particular liquidity and counterparty exposure. In any event the Trustee would ensure that the assets of the Plan are predominantly invested on regulated markets.

- The **Plan sponsor** is not a Company in which the Plan could invest, should this change the Trustee would ensure that in so far as possible no investment will be made in the Sponsor.

- No investment is permitted in the securities issued by an **appointed investment manager or any affiliated companies** (other than any such securities held within a pooled fund in which the Trustee invests).

- **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustee as part of the on-boarding process for new investments.

6. Investment Strategy

The Trustee has agreed, based on expert advice, an investment strategy (including a de-risking framework whereby the investment strategy will evolve as the funding position improves) that is consistent with the Trustees' funding and investment objectives. The current split of assets within each asset class (excluding any cash held separately to meet day to day cash flow requirements) is set out in the table below.

Asset Class	Target %	Tolerance range %
Growth assets	24.5	+/- 5%
Matching assets	75.5	+/- 5%
Total	**100.0**	

The Trustee recognises that the actual allocation will deviate from this target due to market movements. Sometimes this will lead to asset allocations lying outside the strategic ranges set out in the table above.

The Trustee believes that the investment risk arising from the investment strategy combined with the risks arising from active management are consistent with the overall risk implied by their investment objectives.

The split of assets within markets, control ranges and rebalancing policy is set out in the IPID.

7. Day-to-Day Management of the Assets

The Trustee delegates the day to day management of the assets to a number of investment managers in accordance with Section 5 and detailed in the IPID. The Trustee has taken steps to satisfy themselves that the investment managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustee regularly reviews the continuing suitability of the Plan's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring consistency with the investment objectives as set out in Section 3.

Section 13 sets out how the Trustee incentivises the investment managers, where applicable, to operate in line with its stated objectives.

8. Expected Return

The Trustee expects to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Plan's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.

9. Additional Assets

Members of the Plan may also hold Additional Voluntary Contributions ("AVCs"), which are invested and used to increase pension benefits at retirement, or in the event of death. No new AVC contributions can be made. The Trustee reviews the arrangements under which these contributions are invested from time to time. Further details are contained in the IPID.

10. Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Plan's overall strategic allocation and consistent with the overall principles set out in this Statement. The Trustee aims to maintain sufficient liquid assets in its bank account to meet the expected day to day requirements of the Plan. The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments subject to the relevant appointment documentation and pooled fund prospectuses.

In addition the Trustee monitors the allocation between the appointed managers and between asset classes and will rebalance (or delegate this to individual investment managers) as set out in the IPID.

11. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustee believes that financially material factors, including ESG issues may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies as a whole. The Trustee also recognises that long-term sustainability issues, including climate change, present risks and opportunities that may apply over their investment time horizon and increasingly require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors (including climate change).

The Plan's assets are invested predominantly in pooled vehicles and the day-to-day management of the Plan's assets has been delegated to investment managers, including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code where appropriate. The Trustee engages with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence.

The investment managers are expected to engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee also expects the fund manager to engage with investee companies on the capital structure and management of conflicts of interest. The Trustee will review the investment managers' engagement activity and voting policies, with the help of its investment consultant, and decide if they are appropriate. Investment managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustee considers, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes in appointing, monitoring, retaining and withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

In a way to address the ESG beliefs of the Trustee, the Plan invests a proportion of its equity holdings in the LGIM Future World Fund which is characterised as an alternative to traditional index strategy. It seeks to address the investment risks associated with climate change by incorporating a climate 'tilt', and seeks to raise the standards of companies that are critical to the transition to a low-carbon economy.

Monitoring of existing managers is undertaken on a regular basis and this makes use of the Investment Consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee also obtains training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments.

The Trustee will not consider the ESG policies of Additional Voluntary Contributions providers as these are a small proportion of total assets.

12. Non-Financial Matters and Risks

“Non-financial matters” (where non-financial matters” includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee reviews this policy in response to significant member demand.

13. Investment Manager Arrangements

Incentives to align investment managers’ investment strategy and decisions with the trustees’ policies

The Plan invests in pooled funds and so the Trustee acknowledges the investment strategy and day-to-day investment decisions cannot be tailored to its specific policies. However, the Trustee sets its investment strategy and then selects investment managers that best suits its strategy taking into account the fees being charged, which acts as the investment managers incentive. The Trustee reviews the use of pooled funds should there be any material changes in the terms of the pooled funds.

The Trustee makes use of the stated objective/benchmark of each pooled fund as a guide on whether its investment strategy is being followed and monitors this regularly.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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

The Trustee selects investment managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the investment managers’ voting and ESG policies and how they engage with the companies in which they invest as they believe that these factors can improve the medium to long-term performance of the investee companies.

The Trustee monitors the investment managers’ engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their investment managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Plan.

The Trustee believes the annual fee paid to the investment managers incentivise them to do this.

If the Trustee feels that the investment managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustee reviews the performance of each investment quarterly, on a net of fees basis, compared to its objective.

The Trustee assesses the performance of the investments over at least a 3-5 year period when looking to select or terminate an investment manager, unless there are reasons other than performance that need to be considered.

The investment managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the stated policies of the Trustee.

How the trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustee seeks explicit reporting on ongoing costs for all appointed investment managers.

The Trustee has defined target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the investment manager has been appointed to manage.

The Trustee does not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via their investment consultant.

The duration of the arrangement with the asset manager

The Trustee plans to hold each of its investments for the long term (to the extent this is consistent with the Trustees' overall investment time horizon) but will keep this under review.

Changes in investment strategy or change in the view of an investment manager can lead to the duration of the arrangement being shorter than expected.

14. Compliance with this Statement

The Trustee monitors compliance with this Statement annually.

15. Review of this Statement

The Trustee reviews this Statement at least once every three years and without delay after any significant change in investment policy, the Plan's liabilities, finances and the attitude to risk of the Trustee and the Plan Sponsor. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believe 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.

Signed

Name	Signature

For and on behalf of the Trustee of the ATI Specialty Materials Ltd Pension Plan