

**The Morgan Group
Senior Staff Pension and Life
Assurance Scheme**

*Statement of Investment Principles
March 2024*

The Morgan Group Senior Staff Pension and Life Assurance Scheme

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1. INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by Morgan Group Senior Staff Pension Trustees Limited ("the Trustee") on behalf of the Morgan Group Senior Staff Pension and Life Assurance Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation.

This document 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 this Statement, the Trustee has obtained and considered written advice from its investment adviser and consulted with the Sponsoring Employer, Morgan Advanced Materials plc. The advice and consultation process considered the suitability of the Trustee's investment policy for the Scheme.

2. THE TRUSTEE BOARD

The duties of the Trustee Board with respect to investments include the following:

- a) Liaising with and reviewing the performance of the:
 - Investment managers and the AVC providers;
 - Investment advisers;
 - Actuarial advisers;
 - Independent covenant assessor; and
 - Custodian
- b) Selecting and replacing the investment managers, custodian and other service providers.
- c) Establishing appropriate investment objectives, guidelines and restrictions for the investment managers following receipt of formal written advice from the appropriate advisers and establishing objectives for investment advisers;
- d) Reviewing from time to time the funding and investment strategy to ensure that the strategy remains consistent with the journey plan.
- e) Reviewing the Scheme's Statement of Investment Principles at least every three years and without delay following any significant change in investment strategy.
- f) To review from time to time whether the arrangements in respect of the investment managers, including the investment guidelines and the fee basis, remain appropriate.
- g) To consult with the Sponsor on funding and investment matters in a spirit of on-going partnership as required by law.

The Trustee will consult the Sponsor before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

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3. INVESTMENT ADVISER

The Trustee has selected an investment consultancy firm, Redington Ltd, as adviser to the Trustee. The appointment will be reviewed by the Trustee formally on at least a triennial basis. The investment adviser advises the Trustee on the appropriate objectives and guidelines for the investment managers and in monitoring the investment managers against the agreed objectives, as well as providing advice as and when required.

The Trustee's investment adviser is authorised and regulated by the Financial Conduct Authority ("FCA").

4. OVERALL POLICY, INVESTMENT OBJECTIVES, RISK AND INVESTMENT STRATEGY

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee and is driven by its investment objectives as set out below. The day-to-day management of the assets is delegated to professional investment managers under separate Investment Management Agreements (IMAs).

4.1 Investment Objectives

The Trustee's overall objective is to ensure sufficient assets are available to pay members' and dependents' benefits as and when they fall due in accordance with the Scheme's Rules. The Trustee's investment objective is to maintain full funding on a 'gilts +0.5% basis'. The Trustee sets an investment strategy that aims to meet these agreed objectives, within a level of investment risk appropriate to the Scheme's circumstances. The Trustee reserves the right to invest in a wide range of asset classes, including investment in derivatives for the purposes of hedging and efficient portfolio management, in order to target the investment returns required to meet the investment objective.

To meet the long-term funding objective within an appropriate level of risk in the context of the Sponsor strength, the Trustee has agreed to take some investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the Scheme's liabilities.

The Trustee recognises that it is possible to select "matching" investments whose cashflows are similar to the estimated liability cash flows, especially in its sensitivity to inflation and interest rates. The appropriate use of these instruments to hedge inflation and interest rates, all other things being equal, reduces the volatility of the Scheme's funding position and the funding deficit risk.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Scheme if required.

4.2 Diversification of risks

In addition to targeting an appropriate overall level of investment risk, the Trustee seeks to diversify risks across a range of sources to limit the impact of any single risk. The Trustee aims to take risks for which it expects to be rewarded over time, in the form of excess returns.

The Trustee takes into account the following risks:

- *Interest rate risk* exists if the projected cash flow profile of the assets held differs from that of the projected liabilities.
- *Inflation risk* exists if the projected cashflows from the assets have different inflation linkages from the projected liabilities.
- *Credit risk* reflects the possibility that the payments due under a bond might not be

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made by the issuer.

- *Currency risk* arises through investment in non-Sterling assets, as changes in exchange rates will affect the relative value of the assets and the sterling-denominated liabilities.
- *Volatility risk* concerns the stability of the market value of assets, where the price achievable may be particularly affected by short-term sentiment and is not certain until the point of sale.
- *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. Similarly, *political risk* arises in environments where the political situation may be unstable.
- *Liquidity risk* arises from holding assets that are not readily marketable and realisable.
- *Concentration risk* arises when a high proportion of the Scheme's assets are invested in securities of the same or related issuers.
- *Security selection risk* arises where a manager underperforms the relevant benchmark or objective by a material amount.

The Scheme has chosen investment managers that hold a diversified portfolio of assets to reduce the stock-specific and market-specific risks faced by the Scheme.

5. INVESTMENT MANAGERS

The Trustee has chosen to employ a number of investment managers, in respect of the members' liabilities not covered by the Bulk Purchase Annuity Policy, to invest in a diversified portfolio of assets subject to meeting the objectives outlined in Section 4.1 above (Investment Objectives).

The Scheme's LDI manager has been provided with the scheme's liability cashflows and may be provided with updates of these cashflows from time to time, which it uses to guide the construction of the liability hedge, and against which it manages the interest rate and inflation hedge ratios within tolerance of the hedge ratio target.

The Trustee, advised by the investment adviser, has invested in a diversified portfolio of assets and in doing so seeks to achieve an efficient risk-reward trade-off having due regard to the liquidity and collateral requirements of the Scheme.

6. REALISATION OF INVESTMENTS

The Trustee will instruct the realisation of assets to keep the investment strategy on target. The majority of the Scheme's assets are invested in funds that invest in securities that are traded on quoted markets and are readily realisable.

The Trustee has due regard to the liquidity requirements of the Scheme to meet benefit outgoings and other requirements.

The benefits of those members' liabilities that are backed by an annuity policy will be met by the insurer from whom the Trustee has purchased the annuity.

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7. ANNUITY PROVIDERS

The Trustee ensures that any providers of bulk annuities are appropriately regulated and are only selected after the receipt of advice from a suitably qualified person. The Trustee may also purchase annuities and deferred annuities from a reputable Life insurer, to meet specific pensioner and deferred member benefits.

In 2008 the Trustee purchased a Bulk Purchase Annuity Policy with Lucida plc. Under the terms of the policy, Lucida agreed to make monthly payments which covered the monthly pension payments made by the Scheme. Following the purchase of Lucida by Legal & General Assurance Society (LGAS) the policy was transferred to LGAS. The policy terms remained unchanged.

In the event of favourable market conditions and subject to liquidity considerations, the Trustee may, in consultation with the company, seek to reduce risk further by either extending the existing policy, or purchasing a new policy to cover pensioner liabilities arising since 2008.

8. RESPONSIBLE INVESTMENT

8.1 Environmental, social and governance considerations

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee's investment advisors will provide regular updates on the performance of investment managers against the above.

The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, nor do they appoint asset managers that consider these factors.

8.2 Stewardship

The Trustee's overall investment objective is to deliver sufficient returns to ensure assets are available to pay members' and dependents' benefits as and when they fall due, and The Trustee believes that effective stewardship can enhance its ability to deliver against this objective.

The Trustee understands stewardship to be the responsible allocation, management, and oversight of capital to create long-term value for members, leading to sustainable benefits for the economy, the environment and society. The Trustee aims to use its influence as an owner of assets to ensure that as far as reasonable and where it does not adversely affect its ability to meet the overall investment objective, best practices are reflected in terms of environmental, social and governance ("ESG") factors, and investment managers are held to account for the effective use of their influence as owners of assets.

The Trustee holds overall responsibility for the stewardship practices of the Scheme's investment managers. The role of the Trustee Board is to provide oversight of the investment managers and to hold them to account for delivery. The Scheme hires appropriately skilled investment managers, sets clear expectations, assesses the quality of their performance, and holds them to account where deficiencies or areas for further improvement are identified.

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Our key areas of focus

To best channel stewardship efforts, the Trustee is focusing on four key themes. These themes have been communicated to each of the Scheme's investment managers. The themes were selected by assessing its relevance to the Scheme and the financially material risks it poses. The key themes are:

- Climate Change (environmental theme)
- Water use (environmental theme)
- Diversity, Equality and Inclusion (social theme)
- Safety (social theme)

The Trustee believes that adopting these themes is appropriate as a starting point and the Trustee may explore adopting additional theme(s) in the future.

Significance of stewardship in appointment and monitoring of investment managers

It is the responsibility of the Trustee to lead engagements with investment managers. The Scheme will only appoint new managers that meet the Trustee's standards and these can be summarised as:

- Effective processes for and delivery of stewardship activity, alignment with leading standards, and evidence of positive engagement outcomes related to our key themes;
- Provision of tailored reporting on stewardship activities and outcomes;
- Participation as appropriate in public policy, industry initiatives and the development of best practices.

Engagement: expectations and process

The Trustee expects investment managers to engage with issuers to maintain or enhance the long-term value of investments. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages investment managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company or other asset.

Where initial engagement has made little progress, the Trustee expects investment managers to escalate engagement accordingly.

Voting: expectations and process

The exercise of voting rights for the Scheme's equity holdings within pooled funds has been delegated to investment managers. The Trustee therefore does not direct how votes are exercised within these mandates and does not have its own proxy voting provider. Nonetheless, the Trustee fully recognises and appreciates the value of voting as a signal or ultimate sanction in influencing company behaviour. It is the Trustee's responsibility to hold investment managers to account for their voting activities to ensure they are exercising voting rights in the Trustee's best interests. As such, the Trustee considers investment managers' voting policies and records, and requires investment managers to report significant votes as relevant.

Under DWP Guidance, it is the Trustee's responsibility to define the significance of votes placed on its behalf, and to be transparent with stakeholders and beneficiaries regarding outcomes. Significant votes have been defined as votes which meet one or more of the following criteria. Please note the more of these criteria a vote meets, then the more significant the vote will be deemed, with the most significant votes to be disclosed in the Implementation Statement (rather than all significant votes):

- Votes relating to the key stewardship themes;

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- Votes relating to an issuer to which the Scheme has a large £ exposure (defined as the top-10 largest holdings);
- Votes which may be inconsistent between investment managers; and
- Votes identified due to potential controversy, driven by the size and public significance of a company, the nature of the resolution, and the weight of shareholder vote against management recommendation.

9. MONITORING OF INVESTMENT ADVISER AND MANAGER

9.1 Investment adviser

The Trustee formally measures the performance of its adviser against investment adviser objectives, set by the Trustee, on an annual basis. The investment adviser fees are charged primarily on a fixed fee basis, with additional project fees agreed as and when such instances arise.

The investment adviser provides quarterly performance reporting to the Trustee, covering the Scheme's overall performance against its investment objectives and individual manager performance.

9.2 Investment managers

The investment managers provide performance reporting to the Trustee (excluding the Bulk Purchase Annuity Policy), via the investment adviser.

The investment managers charge asset-related fees.

10. COMPLIANCE

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

A copy of the current Statement is supplied to the Sponsoring Employer, the Scheme's Investment Managers, the Scheme's Auditors, the Scheme Actuary and the Scheme's Investment Adviser.

This Statement of Investment Principles supersedes all others and was approved by the Trustee on 27 *March 2024*.

Signed on behalf of the Trustee by

NAME

SIGNATURE

POSITION

APPENDIX 1

Annex 1: Requirements in respect of the Statement of Investment principles, under Section 35 of the 1995 Pensions Act

The trustees of a trust scheme must secure that a statement of investment principles is prepared for the scheme under section 35 of the 1995 Act and is reviewed at least every three years; and without delay after any significant change in investment policy.

Before preparing or revising a statement of investment principles, the trustees of a trust scheme must–

- (a) obtain and consider the written advice of a person who is reasonably believed by the trustees to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes; and
- (b) consult the employer.

A statement of investment principles must be in writing and must cover at least the following matters–

- (a) the trustees' policy for securing compliance with the requirements of section 36 of the 1995 Act (choosing investments);
- (b) their policies in relation to–
 - (i) the kinds of investments to be held;
 - (ii) the balance between different kinds of investments;
 - (iii) risks, including the ways in which risks are to be measured and managed;
 - (iv) the expected return on investments;
 - (v) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and
- (c) their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to the investments.