Brown and Sharpe Pension Plan

Statement of Investment Principles

Date prepared: 26 August 2020

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BARNETT WADDINGHAM
beyond the expected

1. Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustee of the Brown and Sharpe Pension Plan (the "Plan"). This statement sets down the principles governing decisions about the Plan's investments to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2 In preparing this statement the Trustee has consulted Hexagon Metrology Group Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5 The investment powers of the Trustee are set out in Clause 3 in Schedule C of the Definitive Trust Deed & Rules, dated November 2007. This statement is consistent with those powers.

2. Choosing investments

2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Plan's assets is delegated to one or more asset managers. The Plan's asset managers are detailed in the Appendix to this Statement. The asset managers are authorised and regulated by the Financial Conduct Authority.

2.3 The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the asset managers with respect to performance within any guidelines set. The Trustee will consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Plan's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to ensure that the Plan can meet the members' entitlements under the Trust Deed and Rules as they fall due;

- to take account of the long-term risks, including those relating to non-financial factors, when making investment decisions;
- to manage the expected volatility of the returns and funding level in order to control the level of volatility in the Plan's required contribution levels; and
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

4. Kinds of investments to be held

4.1 The Plan is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2 The Trustee monitors, from time-to-time, the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Plan's auditors.

5. The balance between different kinds of investments

5.1 The Plan invests in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained in the Plan's Statement of Investment Strategy.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

6. Risks

6.1 The Trustee has considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities, and considered ways of managing/monitoring these risks:

Risk	Description
Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.

Covenant risk	The creditworthiness of the employers and the size of the pension liability relative to the employers' earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer's covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.
Asset allocation risk	The asset allocation is detailed in the Plan's Statement of Investment Strategy and is monitored on a regular basis by the Trustee.
Asset manager risk	The Trustee monitors the performance of each of the Plan's asset managers on a regular basis, in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each asset manager, which contains a number of restrictions on how each asset manager may operate.
Concentration risk	Each asset manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cashflow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by each asset manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
Governance risk	Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
Environmental, Social and Governance ("ESG") risk and climate risk	The Trustee considers ESG factors and climate risk to be financially material. Going forward, the Trustee will assess these risks alongside other financially material risks when selecting or reviewing the Plan's investments.

7. Expected return on investments

7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the asset managers.

7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustee monitors the performance of each asset manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustee meets the Plan's asset managers as frequently as is appropriate, in order to review performance.

8. Realisation of investments

8.1 The Trustee has delegated the responsibility for buying and selling investments to the asset managers. The Trustee has considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.

9. Environmental, Social and Governance considerations, non-financial matters, the exercise of voting rights, and engagement activities

9.1 The Trustees/Trustee have/has set policies in relation to these matters. These policies are set out in the Appendix.

10. Policy on arrangements with asset managers

Aligning the investment strategy and decisions of the asset manager with the Trustee's investment policies

10.1 When choosing an investment manager, the Trustee selects the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

10.2 The Trustee recognises that when investing in pooled funds there is limited scope to influence the investment managers' strategy and decisions but has resolved to:

- Monitor the performance of the funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustee's expectations.
- In the event that the investment manager ceases to invest in line with the Trustee's policies and expectations, including the management of ESG and climate related risks, their appointment will be reviewed.

10.3 In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, the Trustee would discuss this further with the manager. If the manager is not able to alter their approach their appointment may be terminated.

10.4 Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance

10.5 In making investment decisions, the Trustee expects the Plan's active investment managers to assess the long-term financial and non-financial prospects of any investment. The Trustee believes that non-financial factors – such as ESG risk, climate risk and the engagement of investment managers with the companies in which they invest – may have a long-term impact on returns and therefore investment managers should take these into consideration when making decisions.

10.6 In order to encourage this, the Trustee will monitor the manager on the following:

- The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon and will therefore focus on the performance of the investment managers over this timeframe. In particular, in the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.
- The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short-term targets.
- The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Trustee monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts.

Method and time horizon for assessing performance

Evaluation of investment managers' performance

10.7 From time to time the Trustee reviews the investment managers' performance on a net of fees basis. This is considered over 3-5 year periods, which is consistent with the Trustee's wider investment policies. This review reflects not only fund returns, but also whether the investment managers continue to invest in line with the Trustee's expectations in terms of their investment approach, philosophy and process. This includes the investment managers' approaches to ESG and climate risk.

Remuneration of asset managers

10.8 The Plan invests exclusively in pooled funds. In all cases, the investment manager's remuneration is linked to the value of the assets they manage on behalf of the Plan. Therefore, as the assets grow in value, due to successful investment by the investment manager, the manager receives more in fees (and as values fall they receive less). The Trustee believes that this fee structure incentivises the manager to invest in a way that benefits the Plan; in particular, it enables the investment manager to focus on long-term performance.

10.9 The Trustee asks the Plan's Investment Consultant to assess whether the investment management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time to time.

Portfolio turnover costs

10.10 The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. However, equally the Trustee believes that active managers can add value through turnover of investments.

10.11 When underperformance is identified, the level of turnover may be investigated with the investment manager concerned if it is felt this may have been a significant contributor to the underperformance. In these cases, the Trustee defines the target turnover with respect to the market conditions and peer group practices.

Duration of the arrangement with the investment manager

10.12 For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.

10.13 The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed periodically as appropriate. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

For closed-ended funds, the Plan reviews the appointment with the investment manager as the manager releases new iterations of the funds (which the Trustee may consider further investment into) and at, or just prior to, maturity of the closed-ended fund.

11. Agreement

This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the asset managers, the actuary and the Plan auditor upon request.

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Appendix 1: Note on financially material considerations, the exercise of voting rights and engagement activities

Policy on ESG considerations

The Trustee has considered long-term financial risks to the Plan and noted that ESG factors and climate risk are financially material. As such, the Trustee will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments in order to avoid unexpected losses.

Given the maturity profile of the Plan and the objective to fund future member benefits from the Plan's assets as they fall due, the Trustee has a long-term time horizon over which they take into account the financial materiality of ESG factors (including climate change).

The Trustee considers ESG factors to be more pertinent for some areas of investment, in particular, the Trustee believes these factors can have more of an impact through the Plan's investments in equities than in other areas.

The Plan primarily invests through managed pooled investment vehicles where the Plan's assets may represent only a small proportion of the capital invested by the investment manager. Therefore, the Trustee understands that, in some cases, they will be constrained by the policies of the manager. However, the Trustee recognises the important role that the Plan has as an asset owner, and the opportunity to influence positive ESG standards through the managers' ability to engage with the boards on behalf of the Plan. The Trustee believes it would be good governance to try, wherever reasonably practicable, to ensure their manager selection and existing manager monitoring process can identify investment approaches that can have a positive material impact on both risk and returns allowing for ESG issues.

The Trustee will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG and climate risk in making their investment decisions. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

The Trustee will engage with investment managers regarding issues believed to have a material impact (both positive and negative) on future returns.

In order to establish and maintain an investment portfolio that incorporates ESG, the Trustee will:

1. Receive, where considered necessary, training to understand the key issues around ESG factors and latest developments;
2. Assess, as part of any manager review, that manager's approach to ESG issues; and
3. Consider a manager's approach to ESG as part of any new manager selection exercises.

The exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including

where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustee also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.

The Plan's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Plan's Investment Consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustee believes they have appropriately managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the companies in which the manager invests.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

Non-financially material considerations

The Trustee does not take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future qualify of life of the members and beneficiaries of the Plan (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

Appendix 2: Asset manager arrangements

The Trustee has appointed the following asset managers to carry out the day-to-day investment of the Plan:

- Standard Life Investments – Global absolute return strategies fund ("GARS");
- Barings Investment Management – Dynamic asset allocation fund ("DAAF");
- Schroders Investment Management – Bond portfolio.

The Trustee also has AVC contracts with Equitable Life and Aegon for the receipt of members' Additional Voluntary Contributions (AVCs). The Funds help by members are:

AVC provider	Fund
Equitable Life	With Profits Fund
Aegon	Balanced Lifestyle 2020 Fund
	Dynamic Lifestyle 2015 Fund
	Newton UK Income Fund
	European Fund

The asset managers and AVC providers are authorised and regulated by the Financial Conduct Authority. This work complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work issued by the Financial Reporting Council.

Investment benchmarks and objectives

The investment benchmarks and objectives for each asset manager is given below:

Asset manager	Fund	Benchmark	Objective
Standard Life	GARS	6 month LIBOR	+ 4.25% p.a. net of fees over rolling 3 years
Barings	DAAF	3 month LIBOR	+ 4% p.a. net of fees over rolling 3 years
Schroders	All Maturities Corporate Bond Fund	Merrill Lynch All Stocks Non-Gilts Index	+ 0.5% p.a. net of fees over a market cycle

Sterling Broad Market Bond Fund	Merrill Lynch Broad Market All Stocks Index	+ 0.7% p.a. net of fees over a market cycle
Life Matching Index Linked Gilt Fund (2018-2027)	n/a	To provide exposure to the return on index-linked gilts within set maturity bands by investing in a portfolio of sterling denominated index-linked gilts, cash and cash funds
Life Matching Index Linked Gilt Fund (2028-2037)	n/a	
Life Matching Index Linked Gilt Fund (2038-2047)	n/a	
Life Matching Index Linked Gilt Fund (2048-2057)	n/a	
Life Matching Index Linked Gilt Fund (2058-2077)	n/a	