

Addendum to the Statement of Investment Principles

For the Ultra Electronics Pension Scheme

Effective from: 19 June 2024

This addendum to the Statement of Investment Principles (“SIP”) for the Ultra Electronics Pension Scheme (the “Scheme”) has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme’s investment arrangements.



Part 1:

Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended)
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.

We have delegated consideration of certain investment matters to an investment sub-committee ("ISC"), although any decisions remain our responsibility. The terms of reference for the ISC detail its responsibilities.

2. Investment managers and platform provider

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios
- having regard to the provisions of Section 36 of the Pensions Act insofar as it is necessary to do so.

The investment platform provider for the DC Section and AVCs will be responsible for:

- providing access to a range of funds
- providing us with regular information concerning the management and performance of the assets.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested
- advising on the strategic asset allocation and the selection, and review,

of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)

4. Fee structures

The provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. We have agreed terms of business with the Scheme's investment advisers, actuary and other service providers under which work undertaken is charged for by on a time-cost or fixed fee basis, or with pre-agreed budgets.

The investment managers receive fees calculated by reference to the market value of assets under management and in some cases a performance related fee.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's' perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:

Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. We aim to strike the right balance between risk capacity and risk appetite.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time
- the Scheme's long-term and shorter-term funding targets and required return to achieve these objectives
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the Scheme's cash flow requirements and employer contributions
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following implementation of the Scheme's current investment strategy, as at 30 November 2022, the Scheme's 1 year 95% Value at Risk is expected to be £12m. This means that there is expected to be a 1 in 20 chance that the Scheme's funding position will worsen by £12m or more, compared to the expected position, over a one-year period. When deciding on the current investment strategy, we believed this level of risk to be appropriate given the Scheme's objectives.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

For the DC and AVC arrangements, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made available a range of lower risk funds. In addition, the Trustee has made available three lifestyle options.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (eg equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class and the DC and AVC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The Scheme is subject to credit risk because it invests in bonds, loans, derivatives, and other money market instruments via pooled funds.

Credit risk is mitigated through the diversification of credit instruments, within and between funds, the application of risk limits by the individual managers as well as security in the form of assets pledged against the debt. Credit risk arising on cash held within financial institutions is mitigated by ensuring cash is held with a diversified range of institutions, which are at least investment grade credit rated.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy, and believe that it diversifies the strategy and is appropriate.

Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Scheme's assets provides protection (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time-to-time review how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately, and from time-to-time review how these risks are being managed in practice.

Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

For the DC and AVC arrangements, this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. We manage this risk by only using pooled funds with daily dealing and, within the lifestyle options, diversifying the strategy across different types of investment.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, the LDI manager makes use within its LDI funds of derivative and gilt repurchase contracts and these funds are used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The LDI manager may call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that we are not able to post additional cash to the LDI fund within the required timeframe when requested. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, our objective is that the Scheme has a sufficient allocation to highly liquid

assets that could be used to meet LDI collateral calls. This is achieved by having an agreed collateral management framework in place with the LDI manager.

Risk from excessive charges

Within the DC arrangements, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. We are comfortable that the charges applicable to the Scheme are in line with market practice and assess regularly whether these represent good value for members.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as property and private market assets), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:

Investment manager arrangements

Defined Benefit Section

BlackRock – Equities

The Scheme invests in passive equities via a pooled fund called the BlackRock Aquila Life Overseas Fixed Benchmark Equity Fund.

- The objective of this fund is to match the benchmark index of 33.3% FTSE USA Index, 33.3% FTSE AW Developed Europe ex-UK Index, 16.7% FTSE Japan Index and 16.7% FTSE AW Developed Asia Pacific (ex-Japan) Index, before the deduction of fees.
- The target tracking error of the fund is up to 1% pa.
- The fund is priced daily. It is open ended and unlisted.

BlackRock – Short Duration Credit (SDC)

The Scheme invests in short duration credit via a pooled fund called the BlackRock Sustainable Sterling Short Duration Credit Fund.

- The objective of the fund is to provide a return of 3-month SONIA + 1.5% pa, before the deduction of fees, over a 1-3 year period, generated through an increase to the value of the Fund's assets and / or income received from those assets.
- The fund is priced daily. It is open ended and unlisted.

BlackRock - Asset Backed Securities (ABS)

The Scheme invests in asset backed securities via a pooled fund called BlackRock Senior Securitised Fund.

- This fund is benchmarked against 3-month SONIA but has no explicit performance target.
- The fund is priced daily. It is open ended and listed.

BlackRock – Liability Driven Investment (LDI)

The Scheme invests in dynamic LDI via pooled funds called the BlackRock Long Liability Nominal Profile Fund, BlackRock Long Liability Real Profile Fund, BlackRock Short Liability Nominal Profile Fund and BlackRock Short Liability Real Fund.

- The objective of these funds is to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme.
- The overall allocation to the LDI funds has been designed to have a similar sensitivity to changes in interest rates and inflation as that of the Scheme's liabilities.
- The funds are priced daily. They are open ended and unlisted.

BlackRock – Money Market

The Scheme can invest in Sterling money market instruments via a pooled fund called the BlackRock ICS Sterling Liquidity Fund.

- The objective of this fund is to maximise income consistent with maintaining and ensuring underlying assets can easily be bought or sold in the market. The performance of the fund is measured against a benchmark of the SONIA Overnight rate.
- The fund is daily priced. It is open ended and unlisted.

Insight – Buy and Maintain Credit

The Scheme invests in buy and maintain bonds via pooled funds called the Insight IIFIG Maturing Buy and Maintain Bond Funds.

- The objective of these funds is to generate a return investing primarily in a portfolio of debt securities.
- The maturity of investments will vary between each fund in line with the fund's target maturity profile.
- The funds are priced bi-monthly. They are open ended and unlisted.

Abrdn plc – Long Lease Property Fund

The Scheme invests in long lease property via a pooled fund with Abrdn called the Standard Life Long Lease Property Fund.

- The objective of this fund is to outperform its benchmark index of the FTSE A All-Stocks Gilts Index by 2% pa, after the deduction of fees, over a 3 year rolling period.
- The fund is priced daily (with monthly dealing). It is open ended and unlisted.

SL Capital Partners – Private Market Assets

The Scheme invests in private equity via a pooled fund called the Standard Life European Strategic Partners 2008 Fund.

- The objective of this fund is to maximise return subject to prudent diversification.
- The fund is priced quarterly. It is closed ended and unlisted.

BlueCrest Capital Management (UK) LLP – Private Market Assets

The Scheme invests in a hedge fund via a pooled fund called the BlueCrest Absolute Return Fund.

- The objective of this fund is to deliver an absolute return of 10% - 15% pa after the deduction of fees over a rolling 3 year period.
- The fund is now in the process of winding down following which, BlueCrest will cease to be an investment manager of the Scheme.

Arcmont Asset Management LLP – Private Market Assets

The Scheme invests in private credit via a pooled fund called the Arcmont Senior Loan Fund 1.

- The objective of this fund is to deliver an internal rate of return of 9% pa before the deduction of fees.
- The Fund is priced quarterly. It is closed ended and unlisted.

Barings Asset Management Limited – Private Market Assets

The Scheme invests in private credit via a pooled fund called the Barings Global Private Loan Fund 2.

- The objective of this fund is to deliver an absolute return of 7.5% -

8.5% pa after the deduction of fees.

- The fund is priced quarterly. It is closed ended and unlisted.

DRC Capital LLP – Private Market Assets

The Scheme invests in real estate debt via a pooled fund called the DRC UK Whole Loan Fund 2.

- The objective of this fund is to deliver an absolute return of 6% - 7% pa after the deduction of fees.
- The fund is priced quarterly. It is closed ended and unlisted.

Custody arrangements

We are not responsible for the appointment of the Custodian of the assets contained within the various pooled fund investments. The exception is for assets invested with BlackRock where we have a separate agreement in place with Bank of New York Mellon to act as custodian for these funds. We are comfortable that the Scheme's other investment managers have procedures in place for the appointment and monitoring of the relevant custodians.

Defined Contribution Section and AVC arrangements

We make available a range of self-selection funds and lifestyle strategies. Members are provided with clear information on the investment options and their characteristics, so they can make an informed choice. Members can choose from a range of passively managed self-select funds and three lifestyle strategies. There is no “default” fund available (ie members had to select their own funds). Details of the options are set out below.

The fund options are provided to members via investment only platform arrangements with ReAssure Limited and Clerical Medical. The funds are priced daily. The funds are open ended and are listed.

Lifestyle strategies

There are three lifestyles that members can invest in through the DC platform with ReAssure, as detailed below.

1. Ultra Electronics Annuity Lifestyle:

This is intended for those members who wish to draw 25% of their DC / AVC savings as a tax-free lump sum and use the balance to buy a pension. It is designed to gradually reduce investment risk over a 5-year period up to retirement.

2. Ultra Electronics Cash Lifestyle:

This is intended for those members who anticipate taking all of their DC / AVC savings as a tax-free lump sum. It is designed to gradually reduce investment risk over a 10-year period up to retirement.

3. The 50:50 Global Equity 10 Year CPS Lifestyle:

This lifestyle option was put in place for those members previously invested in the Equitable Life With-Profits Fund. It is designed to gradually reduce investment risk by switching investments over a 10-year period up to retirement.

Self-select fund options

Fund	Benchmark	Tracking error
ReAssure		
LG Global Equity Fixed Weights (50:50) Index Fund	Composite of 50/50 FTSE UK and overseas equity indices	+/- 0.5% pa for 2 out of 3 years
LG World (ex-UK) Equity Index Fund	FTSE World (ex UK) Index	+/- 0.5% pa for 2 out of 3 years
LG UK Equity Index Fund	FTSE All-Share Index	+/- 0.25% pa for 2 out of 3 years
LG Consensus Index Fund	ABI Mixed Investment 40-85 Shares	N/A
LG AAA-AA-A Corporate Bond All Stocks Index Fund	Markit iBoxx £ Non-Gilts (ex-BBB) Index	+/- 0.5% each year for 2 out of 3 years
LG Pre-Retirement Fund	Composite of gilts and corporate bond indices	N/A
LG All Stocks Index Linked Gilts Index Fund	FTSE-A Index Linked (All Stocks) Index	+/- 0.25% each year for 2 out of 3 years
LG Cash Fund	SONIA	N/A
LG Property Fund	AREF/IPD UK Quarterly All Balanced Property Funds Index	N/A
LG Ethical UK Equity Index Fund	FTSE4Good UK Equity Index	+/- 0.25% each year for 2 out of 3 years
Clerical Medical		
Clerical Medical With-Profits Fund	N/A	N/A
Clerical Medical UK Growth Fund	FTSE All Share Index	
Clerical Medical Balanced Fund	ABI Mixed Investment 40-85% Shares	N/A
Clerical Medical Cash Fund	ABI Money Market	N/A