Statement of Investment Principles

For the Ultra Electronics Pension Scheme

Effective from: 29 October 2024

1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustee of the Ultra Electronics Pension Scheme.

It sets out our policies on various matters governing investment decisions for the Ultra Electronics Pension Scheme ("the Scheme"), which has Defined Benefit ("DB") and Defined Contribution ("DC") sections. This SIP also covers the Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated 19 June 2024.

This SIP has been prepared after obtaining and considering written advice from LCP, our independent investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted the sponsoring employer, Ultra Electronics Limited ("the Company") in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy or in the demographic profile of the DC membership, and at least once every three years.

This SIP contains the information required by legislation and considers the Pensions Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme's investments that are not required to be included in the SIP.

2. Investment objectives

The primary objective of the DB Section of the Scheme is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have agreed the following objectives:

- To invest the Scheme's assets to maintain full funding on a low dependency basis, with a secondary target of achieving full funding on a buy-out basis in the longer term;
- To limit the risk of the assets failing to meet the liabilities over the long-term, by considering the liability profile of the Scheme;
- To ensure that there will be sufficient liquid assets available to meet benefit payments as they fall due; and
- To reduce the overall volatility of the funding level.

Our investment objective for the DC Section is to provide:

- members with access to an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement; and
- a suitable default lifestyle investment option for those members previously invested in the Equitable Life With Profits Fund (which was closed on 1 January 2020). The objective for the default option is to generate returns above inflation whilst members are far from retirement, and then gradually reduce risk by switching investments over a 10-year period up to retirement.

All policies relating to the DC default option are covered in this SIP, rather than in a separate SIP, so all of our investment policies are in one document.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members' risk / return objectives.

The ultimate responsibility for the investment policies, and the setting of investment objectives, lies with the Trustee. The Trustee has, however, delegated responsibility for matters such as recommending and implementing an investment policy to achieve these objectives, to an Investment Sub-Committee ("ISC"). The terms of reference of the ISC have been set out in a separate document which is available to members upon request.

3. Investment strategy

With input from LCP, and in consultation with the employer, we reviewed the investment strategy for the DB Section in December 2023, having regard for the objectives described in Section 2.

The result of that review was that the investment strategy for the **DB Section** should be based on the long-term strategic allocation set out in the following table.

<table>
<tr><th>Asset class</th><th>Long-Term Strategic Allocation</th></tr>
<tr><td>Return-seeking assets</td><td>4.0%</td></tr>
<tr><td>Equities</td><td>4.0%</td></tr>
<tr><td>Long-lease property</td><td>-</td></tr>
<tr><td>Private market assets</td><td>-</td></tr>
<tr><td>Liability-matching assets</td><td>96.0%</td></tr>
<tr><td>Buy and maintain credit</td><td>37.0%</td></tr>
<tr><td>Asset backed securities (“ABS”)</td><td>4.0%</td></tr>
<tr><td>Short duration credit</td><td>12.5%</td></tr>
<tr><td>Liability driven investment</td><td rowspan="2">42.5%</td></tr>
<tr><td>Cash / Money market</td></tr>
<tr><td>Total</td><td><u>100.0%</u></td></tr>
<tr><td colspan="2">Target interest rate and inflation hedging aims to be the lower of:
• 100% of Technical Provisions; or
• 100% of assets (ie the funding level of the Scheme)</td></tr>
</table>

The Trustee intends to transition the current asset allocation towards this long-term strategic asset allocation over time as its existing allocations to long-lease property and private market assets return capital to the Scheme. As a result the Scheme's assets may deviate from this long-term strategic allocation.

There is no formal rebalancing policy for the DB Section. The ISC, on behalf of the Trustee, will monitor the asset allocation over time. If material deviations from the strategic allocation occur, the ISC will consider with our advisers, whether it is appropriate to rebalance the assets in line with the investment strategy, taking into account factors such as market conditions and anticipated future cashflows. In particular, the actual allocations to long-lease property and private market assets are expected to deviate from the strategic allocation over time, given the illiquid nature of these investments.

For the **DC Section**, we make available a range of investment funds for members with different levels of expected return. These include customised “lifestyle” strategies and a range of individual equity and bond-based funds as well as a money market fund. Each member is responsible for specifying one or more funds for the investment of their account.

For those members who were affected by the closure of the Equitable Life With Profits fund in 2020, their assets have been invested into a new default option, the Legal & General 50:50 Global Equity 10 Year CPS Lifestyle. This is managed as a lifestyle strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age). The default option initially invests to target a high expected return (making use of equity-based funds) and then gradually switches to investments with a lower expected return and risk (such as government bonds and cash) as members get close to retirement. The default option was selected as the most suitable replacement option available for these members given the at-retirement options previously available to them through the Equitable Life With Profits arrangement.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the funding objectives, expected returns and risks associated with those asset classes. We also take account of our beliefs about investment markets and which factors are most likely to impact the investment outcomes. The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

For the DB Section investment risk is measured using “Value at Risk”. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in the separate SIP addendum.

In setting the strategy for the **DB Section**, it is our policy to consider:

- Our investment objectives, including the target return required to meet them;
- The circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to

medium term), the funding level, and the strength of the employer covenant; and

- The need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the **DC Section, including the default option,** and for the AVCs it is our policy to consider:

- The overall best interests of members and beneficiaries;
- The profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- The need for appropriate diversification to manage investment risk within the options made available to DC members (including the default option), and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate;
- The need for appropriate diversification between and, where appropriate, within the investment options offered to members.
- The balance between investing in illiquid assets, which may improve long-term net risk-adjusted returns, versus providing liquidity to members to allow them to readily access their benefits and/or make changes to their investment arrangements.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the funding of the DB, DC and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- Asset allocation is the primary driver of long-term returns;
- Costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- There is a role for both passive and active management - passive management may be used for a number of reasons, including:
    - to reduce costs as ongoing monitoring requirements and management fees are significantly lower for passive management than for active management
    - to invest in markets deemed efficient where the scope for active management to add value is limited
- To help diversify manager specific risk, multiple manager appointments are preferred to the extent that this is practical and desirable;
- Risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified;
- Responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns;
- ESG factors (including but not limited to climate change) should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this.

5. Implementation of investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser, LCP, in relation to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers and a platform provider in respect of the DC Section and AVCs setting out the terms on which the portfolios are to be managed. The DC platform provider makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying managers of the DC investment funds.

Details of the investment managers are set out in the separate SIP addendum.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to

those policies. We expect investment managers to make decisions based on assessments of the longer-term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter- and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment adviser to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

For the DB Section, we instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation, and to receive income from some of the portfolios where appropriate.

The activities carried out by the Investment Managers are governed by the appointment documentation between the Trustee and the Investment Managers. These are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

For the DC Section (including the default option) and AVCs, our policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments. As a result, investments in the DC default option do not include illiquid assets. We will keep this under review as the marketplace for illiquid DC investment options develops.

7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the setting of the Scheme's investment strategy and in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We expect all our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice, including engaging with managers on this topic at regular ISC meetings.

All the Scheme's assets are invested in pooled funds. We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of their funds.

We do not explicitly consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments. However, we review, from time to time, whether and how the managers are taking account of non-financial matters, such as by engaging with managers on this topic at ISC meetings.

Within the DC Section and AVCs we recognise that some members may wish for ethical matters to be considered in their investments and therefore have made available an ethical equity fund as an investment option to members.

We will continue to review our policies on financially material and non-financial matters, including as advice is received from our professional advisors and further guidance is released on these matters by the Pension's Regulator and other industry bodies.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

As all of our investments are held through pooled funds we do not monitor or engage directly with issuers or other holders of debt or equity. However we monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our managers and also confirm our more general expectations in relation to ESG factors, voting and engagement. If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.