Statement of Investment Principles for the Sharp Electronics (UK) Ltd Pension Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Sharp Electronics (UK) Ltd Pension Scheme ("the Trustees") on various matters governing decisions about the investments of the Sharp Electronics (UK) Ltd Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP approved in August 2021.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles. The SIP also addresses the requirements of the 2019 SIP regulations which implement the European Union Shareholder Rights Directive.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustees' primary objective for the Scheme is to ensure that the Scheme should be able to meet benefit payments as they fall due. A secondary objective is that the Scheme should be fully funded (ie the asset value should be at least that of its liabilities). The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme.

The Trustees' investment objective is to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level, and taking into account the primary objective and the strength of the covenant of the sponsoring employers.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, reviewed the investment strategy in February 2021, taking into account the objectives described in Section 2 above.

The result of the most recent review for the Scheme was that the Trustees agreed that the investment strategy of the Scheme should be initially based on the allocation below.

Asset class	Strategic allocation
Return Seeking	**22%**
Global equities	15%
Long-lease property	7%
Matching Assets	**78%**
Corporate bonds	23%
Liability Driven Investment (“LDI”) / Liquidity	40%
Short duration credit	15%
Total	100%

The target level of interest rate and inflation hedging is to be broadly in line with the estimated funding level, on a Technical Provisions basis.

If before the end date of the current recovery plan (31 March 2023) the funding level of the Scheme is better than expected based on the method and assumptions in the Statement of Funding Principles, the Trustees aim to use this favourable experience to reduce risk in the Scheme’s investment strategy, on the basis that the contributions set out in the recovery plan are expected to be paid in full. The Trustees will consult with the employer on proposed changes to the Scheme’s investment strategy to reflect favourable experience.

The Trustees also intend to de-risk the Scheme’s assets beyond 31 March 2023 to broadly reflect the investment strategy underlying the technical provisions. The aim being that this will reduce the risk that the funding position will deteriorate in the future. The Trustees intend to achieve this by increasing the allocation to matching assets over time as and when de-risking opportunities arise. The Trustees will consult with the employer on proposed actions relating to the longer term plan.

There is no formal rebalancing policy. The Trustees monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, the Trustees will consider with their advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

Following unprecedented gilt yield volatility in 2022, higher levels of investment are needed within the LDI portfolio to support the same hedging levels, which has been sourced from the wider portfolio. This has resulted in the asset allocation since October 2022 being materially different to the strategic allocation above. This is expected to be a temporary position, and the Trustees will agree the appropriate long-term strategy going forwards as part of the 2023 actuarial valuation.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees consider a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. As at 31 March 2021 the key financial assumption made by the Trustees in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 4.8% pa. The other key assumptions for expected returns above gilts are as follows:

- average long-term return on long-lease property: 3.4% pa
- average long-term return on corporate bonds: 0.6% pa
- average long-term return on dynamic LDI: 0.7% pa

In setting the strategy the Trustees took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- 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;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken; and
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' 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 the 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 the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in any 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. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its 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.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees' 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 (eg property). In general, the Trustees' policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation.

7. Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds but expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate, and will from time to time review how their managers are taking account of these issues in practice.

The Trustees do not take into account 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.

8. Stewardship

The Trustees recognise their 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. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice.

Approved by the Trustees of the Sharp Electronics (UK) Ltd Pension Scheme on 2 March 2023

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- 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 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 the Trustees with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- 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 and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

4. Fee structures

The Trustees recognise that 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.

The Trustees have agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The Trustees have appointed a custodian in respect of the Scheme's matching assets managed by Insight Investment Management (Global) Limited. The Trustees have entered into an agreement with the custodian whereby the fees in relation to the ongoing custodial management of the Scheme's assets will be met by Insight Investment Management (Global) Limited.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also carry out periodically an assessment of their own effectiveness as a decision-making body and will decide how this may then be reported to members.

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet their 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. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long-term objectives before attainment of those objectives is seriously impaired. The Trustees aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

2.2. 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, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustees on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Liquidity/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. The Trustees 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.

2.5. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time 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 the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. 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, the Trustees ensure that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.6. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the custodian of those funds.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers, the regulatory environments in which the pooled fund managers operate and diversification of the Scheme's investments across a number of pooled funds. The Trustees, with the help of their advisers, carry out due diligence checks prior to the appointment of any new investment manager or fund, and monitor for changes to the operating environment of the existing pooled funds.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds. The indirect exposure to credit risk arises from the Scheme's investments in a corporate bond fund, LDI funds, a short duration buy and maintain credit fund and a money market fund.

The managers of these pooled funds manage credit risk by having a diversified exposure to issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

2.7. 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 or interest / inflation rate swaps via pooled funds. However, the interest rate and inflation risk to which the Scheme's assets are exposed serves to hedge part of the interest rate and inflation risk associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner.

The only assets the Scheme invests in with material exposure to changes in interest rates are the LDI funds and a corporate bond fund. The short duration buy and maintain credit fund may also have some sensitivity to changing interest rates, but this sensitivity will vary over time as the underlying investments change, and it is not expected to be a significant driver of returns due to the investment approaches of these funds.

2.8. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples include:

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

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Details of the investment managers, their objectives, investment guidelines and custody arrangements are set out below. Rebalancing between the different managers and asset classes will be considered by the Trustees from time to time taking into account market conditions and cash flows.

1. Legal & General Investment Management Limited ("L&G")

The Trustees have selected L&G as the investment manager for the Scheme's equity assets and a corporate bond fund.

The Scheme invests in equities by using the following passively managed pooled funds:

Asset class	Benchmark allocation (%)	Rebalancing range (+/- %)	Benchmark index
UK equities	15.0	1.25	FTSE All-Share
US equities	50.0	2.50	FTSE World North America
European (ex-UK) equities	15.0	1.25	FTSE Developed Europe (ex-UK)
Japanese equities	5.0	0.50	FTSE Japan
Asia Pacific (ex-Japan) equities	8.0	1.00	FTSE Developed Asia Pacific (ex-Japan)
Emerging market equities	7.0	0.50	FTSE Emerging
Total	100.0		

With the exception of emerging markets equities, each of the investments in overseas equities is currency hedged back to Sterling.

The objective of each equity fund is to perform in line with the respective benchmark index, before the deduction of fees, within certain specified tolerances for two years in three (between +/- 0.25% pa and +/- 1.5% pa, depending on the fund). The equities will be rebalanced, by L&G, at times when the asset allocation breaches pre-agreed control ranges.

The Scheme also invests in the Buy & Maintain Credit Fund managed by L&G. The objective of the fund is to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.

2. Insight Investment Management (Global) Limited ("Insight")

The Trustees have selected Insight to manage the Scheme's matching assets including dynamic LDI and money markets, utilising pooled funds.

The Scheme invests in the Shorter Real Enhanced LDI Fund, Long Real Enhanced LDI Fund and Long Nominal Enhanced LDI Fund. The objective of the mandate is to provide interest rate and inflation hedging of a portion of the Scheme's liabilities.

The Scheme also invests in Insight's Sterling Liquidity Plus Fund as part of the LDI mandate. The objective of the Liquidity Plus Fund is to provide investors with income together with stability of capital by investing in money market instruments and short-term fixed income and variable rate bonds.

The Scheme also invests in a short duration buy and maintain credit mandate with Insight called the Short Dated Buy and Maintain Bond Fund. The objective of the mandate is to seek to generate a return for investors by investing primarily in a portfolio of short dated debt securities.

3. Abrdn

The Scheme invests in a pooled property fund managed by Abrdn called the Long Lease Property Fund. The fund aims to outperform the FT BG All Stocks Index by 2% per annum over a rolling 5 year period.

4. Custodian

The role of a custodian is to ensure safe keeping of the assets and facilitate all transactions in respect of the portfolios for which it provides custody. The Trustees have appointed the Northern Trust Company to provide custody services for the pooled funds managed by Insight.

5. Additional Voluntary Contributions ("AVC"s)

The Trustees have selected Royal London as the Scheme's main AVC provider. There are some AVC assets from an earlier period invested in funds managed by Utmost Life and Pensions.