

Airtechnology Group Pension Plan

Statement of Investment Principles

September 2020

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1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the Airtechnology Group Pension Plan ("the Plan"), the directors of which we will refer to as "Trustees". This statement sets down the principles which govern the decisions about investments that enable the Plan 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) (Amendment) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted AMETEK Airtechnology Group Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 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 Trustees 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 Trustees are set out in Clause 6 of the Definitive Trust Deed & Rules, dated 18 May 2011. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider 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 investment managers. The Plan's investment managers are detailed in Appendix 1. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustees review the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustees have discussed key investment objectives in light of an analysis of the Plan's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' 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 achieve a long-term positive real return;

- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Plan provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term; 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 Trustees are 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 Trustees have 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, alternatives and annuity policies. Alternatives include property, private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives.
- 4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.
- 4.3. The Trustees monitor 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.

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 Appendix 1.
- 5.2. The Trustees consider 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 Appendix 1.
- 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 for any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are 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 Trustees have 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 versus the liabilities	The Trustees 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 employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are 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 Appendix 1 and is monitored on a regular basis by the Trustees.
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.
Investment manager risk	The Trustees monitor the performance of each of the Plan's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
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. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees consider changes to the internal controls and processes of each of the investment managers as part of regular monitoring.
Governance risk	Each asset 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.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Plan, including ESG factors and climate risk. The Trustee believes these are potentially financially material and 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.

7. Expected return on investments

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are 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 investment managers.
- 7.2. The Trustees recognise 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 Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities of the Plan.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustees meet the Plan's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have 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 Trustees are 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. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

- 9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

- 10.1. Prior to appointing an investment manager, the Trustees will discuss the investment manager's approach to the management of ESG and climate related risks with the Plan's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to invest according to their objectives, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.
- 10.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

- 10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers understand this.
- 10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

- 10.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.
- 10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe 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. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.8. The Trustees expect investment managers to be voting and engaging on behalf of the Plan's holdings and the Trustees monitor this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

- 10.9. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.
- 10.10. The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied.
- 10.11. The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 10.12. The Trustees ask the Plan's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

- 10.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer

group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

- 10.15. For the open-ended pooled funds in which the Plan invests, the duration of arrangement is not predetermined under the terms of agreement with the investment managers.
- 10.16. The suitability of the Plan's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes mean it is appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

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

On behalf of the Airtechnology Group Pension Plan

Keith Lewis
September 2020

Appendix 1 Note on the Plan's investment policy in relation to the current Statement of Investment Principles dated September 2020

1. The balance between different kinds of investment and rebalancing

The Plan has a strategic asset allocation as set out in the table below, which has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Trustees will, from time-to-time, review the balance between different asset classes and the need to rebalance to fall in line with the strategic asset allocation.

In the case of a re-leveraging event of the Integrated Liability Plus Solutions shares, Aberdeen Standard will call for additional funds from the Global Absolute Return Strategies Fund unless otherwise instructed. In the case of a de-leveraging event of the Integrated Liability Plus Solutions shares, Aberdeen Standard will invest the proceeds in the Global Absolute Return Strategies Fund unless otherwise instructed.

Portfolio	Asset class	Allocation (%)
	Multi Asset Funds	65.0
Growth portfolio	Aberdeen Standard Global Absolute Return Strategies Fund	32.50
	BlackRock Dynamic Diversified Fund	24.375
	BNY Mellon Real Return Fund	8.125
	Bonds and LDI	35.0
Protection portfolio	LGIM Over 15 Yr Index-Linked Gilts Index Fund*	7.75
	LGIM Active Global Corporate Bond Fund (GBP Hedged)*	12.25
	Aberdeen Standard Integrated Liability Plus Solutions	15.00
Total		100.0

2. Choosing investments

The Trustees have appointed the following investment managers to carry out the day-to-day investment of the Plan:

- Legal and General Assurance (Pensions Management) Limited (“Legal and General”)
- BlackRock Investment Management (UK) Limited (“BlackRock”)
- Aberdeen Standard Investments Limited (“Aberdeen Standard”)
- BNY Mellon Investment Management Limited (“BNYM”).

The Trustees also have an AVC contract with AEGON Scottish Equitable for the receipt of members’ Additional Voluntary Contributions (AVCs). The Trustees also have an AVC policy with Utmost Life and Pensions, which holds AVC funds in respect of certain members who transferred into the Plan. This policy is closed to new members.

The investment managers are authorised and/or regulated by the Financial Conduct Authority and Prudential Regulation Authority.

The investment benchmarks and objectives for each investment manager and AVC provider are given below:

Investment manager	Fund	Benchmark	Objective
Legal and General	Over 15 Yr Index-Linked Gilts Index Fund	FTSE A UK Index-Linked Gilts Over 15 Years Index	The Fund aims to track the sterling total return of the benchmark to within +/- 0.25% p.a. for two years in three
	Active Global Corporate Bond Fund (GBP Hedged)	Bloomberg Barclays USD/EUR/GBP Corporate 1% Issuer-Capped Index (GBP hedged)	The Fund aims to outperform the benchmark by 1.25% p.a. (gross of fees) over rolling 3 year periods
BlackRock	Dynamic Diversified Growth Fund	3-Month GBP LIBOR	The Fund aims to outperform the benchmark by 3% p.a. (after fees) over rolling 3 year periods
	Global Absolute Return Strategies Fund	6-Month GBP LIBOR	The Fund aims to outperform the benchmark by 5% p.a. (before fees) over rolling 3 year periods
Aberdeen Standard	Integrated Liability Plus Solutions Real Fund	6-Month GBP LIBOR	‘Growth Portfolio’: the Fund aims to outperform the benchmark by 5% p.a. (before fees) over rolling 3 year periods ‘Hedging Portfolio’: to hedge the real interest rate sensitivity of the Target Liability Profile.

BNY Mellon

Real Return Fund

1 month GBP LIBOR

The Fund aims to outperform the benchmark by 4% p.a. (before fees) over rolling 5 year periods

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The fee arrangements for the Plan are detailed in Appendix 3.

3. Investments and disinvestments

The Plan's cash flow requirements are expected to be met by the Principal Employer's contributions. Where this is insufficient, the Trustees may disinvest some of their investments, usually to move the overall asset allocation more in line with the long-term asset allocation. Investments of new money are usually made so as to move the actual asset allocation towards the strategic asset allocation.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

Policy on financially material considerations

The Trustees are currently undertaking a review of the investment strategy that is expected to lead to wholesale changes to the combination of funds invested in by the Plan. For instance, it is currently expected that all of the existing funds will be replaced. As such, the Trustees do not believe it is proportionate to consider in detail how well their current funds fit with their views on financially material factors, as set out below, including with regards to the selection, retention, and realisation of the underlying investments held.

The Trustees views will be considered when selecting new funds as part of the ongoing review of the Plan's investment strategy. Looking further ahead, the Trustees' comfort that the funds invested in by the Plan are managed in accordance with their views on financially material considerations will be monitored periodically, at least annually. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the managers and input from their investment advisors on Environmental, Social, and Governance (ESG) matters.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their fund managers given they are investing in pooled funds.

The Trustees believe that ESG factors are financially material – that is, they have the potential to impact the value of the Plan's investments from time-to-time over the Plan's investment horizon. This view includes an appreciation for climate risk to impact on the values of the Plan's investments. The Plan's investment horizon is considered to be long-term, noting the maturity of the liability profile and the Trustees' objective to pay benefits under the Trust Deed & Rules in full as they fall due.

The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Plan currently invests is outlined below.

The Trustees received training materials on financially material considerations from its investment advisor and considered the research included within those materials in order to form this policy.

Diversified growth funds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's diversified growth fund managers. The investment process for any diversified growth fund manager used by the Plan should take ESG issues into account. The Trustees also support engagement activities and, where relevant, the exercise of rights attaching the investments by the Plan's diversified growth fund manager. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Active corporate bonds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's active corporate bond holdings. The Trustees therefore require their fund managers to consider ESG issues within their investment process. The Trustees recognise that fixed income assets do not typically provide voting rights; however, they support engagement with companies by the fund manager. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive gilts

The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Fund's passive gilts. This is because gilts are considered "least risk" when constructing the investment strategy.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustees require due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustees believe this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

Policy on the exercise of voting rights and engagement activities

The Plan currently invests in pooled investment funds only. The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund managers. The Trustees also expect managers to engage with companies in relation to ESG matters.

As above, given the ongoing review of the Plan's investment strategy, the Trustees do not think it proportionate to consider the approaches taken by their existing funds in detail. The Trustees will ensure that they are comfortable with the fund managers' strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor, when selecting the new investment managers as part of this review.

Looking further ahead, the Trustees will review this position periodically, usually annually, and engage with the investment managers to the extent that any issues or questions are identified and the Trustees believe that remedial action is required to ensure their investments continue to be managed in line with this policy.

The Trustees acknowledge 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 Trustees are 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 Trustees also recognise 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 Trustees consider 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 Trustees 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 Trustees have 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 consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

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

Policy for taking into account non-financial matters

The Trustees do not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers. These non-financial matters include, without limitation, members' and beneficiaries' views on ethical considerations and social and environmental impact, and the present and future quality of life of the members and beneficiaries of the Plan.

Appendix 3 Fee arrangements dated September 2020

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Annual Management Charge (p.a.)
Legal and General	Over 15 Yr Index-Linked Gilts Index Fund	0.100% for the first £5m 0.075% for the next £5m 0.050% for the next £20m
	Active Global Corporate Bond Fund (GBP Hedged)	0.300%
BlackRock	Dynamic Diversified Growth Fund	0.550%
Aberdeen Standard	Global Absolute Return Strategies Fund	0.45% plus 10% of performance over LIBOR+2% (capped at 0.85% pa)
	Integrated Liability Plus Solutions	0.900%
BNY Mellon	Real Return Fund	0.750%

As well as the annual management charges given above, additional fund expenses will apply to each fund (covering legal, accounting and auditing fees). The additional fund expenses will vary from quarter to quarter.

It should be noted that BlackRock charge a minimum fee of £15,000, although this will be lower than the fees payable based on the AMC in the table above given the Plan's current strategic allocation to the BlackRock DDGF.

Barnett Waddingham is remunerated on a time cost or fixed fee basis as appropriate.