Statement of Investment Principles

Atlas Elektronik UK Pension Scheme

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September 2020

Contents

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This Statement of Investment Principles (“SIP”) sets out the policy of the Trustees of the Atlas Elektronik UK Pension Scheme (the “Scheme”) on various matters governing decisions about the investments of the Scheme.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the “Act”) and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory (“Quantum”), the Trustees’ investment adviser, and consulting Atlas Elektronik UK Limited (the “Sponsoring Employer”) as required by the Act and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme’s investments.

2. What is the Trustees' overall investment objective?

2.1. Investment objective

Following a consideration of their objectives and other related matters, the Trustees, with the help of their advisers, last formally reviewed the current investment strategy in March 2019, but no changes were made.

The Trustees noted the need that the investment strategy selected should, as a minimum requirement, be simple to explain to existing members of the Scheme.

The Trustees' key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' potential circumstances, in particular members' attitudes to risk and how this might vary with the term to retirement.

The investment objective is implemented using the range of investment options set out in the Appendix to this SIP. The range is intentionally diverse, but not unduly so, as the Trustees are aware of the need for assets to be invested in the best and sole interest of the members and beneficiaries (this includes active and deferred members as well as members in the decumulation phase) and in a manner which helps ensure that the members' benefit aspirations are met.

The Trustees noted that the powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Since this is a defined contribution scheme, the Trustees can allow members to select their own investments from a range of funds selected by the Trustees. The Trustees also have to offer a default investment option. In formulating the default investment option, the Trustees will try to maximise expected long-term investment returns, but with greater capital protection as members near retirement.

2.2. What is the investment strategy?

The Scheme's investment strategy has been designed to afford members two retirement options: annuity purchase and income drawdown. The strategies are the same until five years before the member's target retirement date. The strategies are as follows:

- Annuity purchase strategy – member to purchase an annuity at retirement. The annuity purchase strategy seeks to gradually move members' retirement accounts during their last few years before target retirement date, into assets which are expected to rise or fall in value with annuity rates. The strategy is outlined in the Appendix to this SIP.

- Income drawdown strategy – member retains funds within the Scheme at retirement coupled with the ability to draw down cash and/or income (within defined limits).

  This is the default option i.e. if no choice is made by the member, this option will be actioned. The strategy is outlined in the Appendix to this SIP. Where members choose the

Scheme's *adapt* income drawdown solution, the post-retirement strategy is also predetermined and is outlined in the Appendix.

The Trustees also allow members to select their own funds (the 'Self-select strategy'). Under this arrangement, the pre-retirement investment strategy is determined by the member and the options available are outlined in the Appendix to this SIP. At retirement, the member may purchase an annuity, start income drawdown, transfer their retirement account elsewhere, or take their account as a lump sum, or series of lump sums. If the member chooses the *adapt* income drawdown option, their retirement account will be invested in line with the *adapt* post-retirement investment strategy. In any other circumstances, the member can choose their post-retirement investment strategy.

The Trustees have selected pooled investment vehicles which consist predominantly of investments that are admitted to trading on regulated markets. Any investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

Manager objectives and fund characteristics
These are outlined in the Appendix to this SIP.

2.3. What did the Trustees consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustees considered:

- the investment objective;
- the Scheme's characteristics;
- the Annual Management Charges ("AMC") and TERs;
- the risks and rewards of alternative asset classes and investment strategies;
- the expectation that, over the long-term, equities are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate member choice to be available between different asset classes;
- the investment processes/policies, terms and performance of the investment managers, including:
    - An assessment of the investment performance of the manager. This is measured against its objectives, performance of its peers, accounting for the volatility sustained relative to the performance achieved (for active managers) and tracking error (for passive managers).
    - An examination of all charges levied by the investment manager relating to the management of the fund and comparison of these charges against those levied by comparative managers.
    - The manager has sufficient processes in place to manage ESG and Stewardship in a manner that it consistent with the Trustees policies. This gives consideration to the managers' voting and engagement. The Trustees believe these factors can improve the medium to long-term performance of the investee companies.
- the difficulty for active managers to outperform stock markets, net of fees;

- the financial strength and reputation of the investment managers; and
- the financial strength of the investment manager's custodian.

2.4. What risks were considered and how are they managed?

The Trustees identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that the investment managers will not achieve the expected rate of return;
- the risk that the real value of members' funds will fall due to increased inflation;
- the risk that members' funds experience high levels of volatility at retirement;
- the risk that annuity prices are high at retirement;
- the risk of members' income dropping in retirement if they select the income drawdown option;
- the risk that members will invest too cautiously to achieve the return necessary to meet their benefit aspirations;
- the risk that members will invest too high a proportion of their funds in inappropriate asset classes;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of members' funds;
- the ways in which risks are to be measured and managed; and
- the risk that ESG factors; including climate change; could adversely impact the value of the Scheme's assets if this is not given due consideration and/or is misunderstood.

The Trustees recognise these different types of risk and seek to minimise them as far as possible by regular monitoring of investment performance.

For members the major component of risk is strategic risk, which arises from the asset allocation of each individual member's portfolio. In selecting the funds made available to members, the Trustees have provided a range of benchmark asset allocations which can be tailored to members' individual requirements at different ages and terms to retirement.

For the lifestyle approach, the Trustees are satisfied that the benchmark asset allocations of members' funds are appropriate for their ages and terms to retirement.

3. Implementation solution

The Scheme's assets are invested via an implementation solution. Further details on this, and the appointed provider are set out below.

3.1 Implementation solutions

An implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place. This allows greater flexibility and efficiency when switching investments as the Scheme's strategy changes or fund managers have to be replaced.

The centralisation of funds allows consolidated reporting to be obtained more easily and more regularly, assisting in ensuring that an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

3.2 The implementation solution provider

The Scheme appointed Mobius Life Limited ("Mobius Life") as its implementation solution provider in September 2015.

The Scheme has entered into a unit linked life policy through a Trustee Investment Policy (TIP). The policy's value is linked to the underlying investments, which Mobius Life has been directed to purchase. Mobius Life are responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance.

3.4 Protections and safeguards

There are a number of layers of protection that are afforded to the assets invested with Mobius Life's. These are as follows:

- The assets are held in a pooled life fund (the legal name for which is the Long Term Business Fund) which is held separate from Mobius Life Limited's shareholder funds and other Company assets.
- Regular regulatory submissions are made to the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) who monitor the implementation solution's business.
- The PRA and FCA regulations require that the Mobius Life Board in conjunction with advice from a professionally qualified person, the Actuarial Function Holder, takes responsibility for the monitoring the regulatory solvency of the business in relation to regulatory capital requirements. Mobius Life has appointed an independent qualified Actuary to carry out this function.

Furthermore, no single unit-linked investment can affect other unit linked investments i.e. there is no cross subsidy of recovery or losses across the underlying funds.

4. Appointment of investment managers

4.1. How many investment managers are there?

The Scheme currently offers funds managed by three investment managers through Mobius Life (the chosen implementation solution provider). Details of the appointed investment managers, including the date of appointment are outlined in the Appendix.

4.2. What formal agreements are there with the investment managers?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed policy documents and application forms with Mobius Life.

The Trustees keep the appointment of all investment managers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme’s investment strategy.

4.3. What are the investment managers’ responsibilities?

The investment managers are responsible for the day-to-day investment management of the investments and are responsible for appointing custodians if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Mobius Life will invest and manage the assets of each fund at its discretion, subject to compliance with the investment objective of that fund.

4.4. Custodians and administrators

The custodians provide safekeeping for all the Scheme's assets and perform the relevant administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

The investments with all the managers are through pooled investment vehicles. There is, therefore, no need for the Trustees to formally appoint a custodian as the investments comprise units held in investment vehicles rather than the underlying stocks and shares. However, the investment managers have appointed third parties for the safe custody of assets and these are outlined in the Appendix.

Note that as assets are held through the implementation solution, the custody of assets is in the name of Mobius Life Limited.

4.5. What is the Trustees’ policy on investment in Atlas Elektronik UK Limited (the “Sponsoring Employer”)?

The Trustees do not hold any direct investment in the Sponsoring Employer, nor the participating employer, Atlas UAE.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

The Scheme's assets are held in pooled funds, most of which can be realised easily if the Trustees so require.

5.2. What is the Trustees' policy on Environmental, Social & Governance (ESG), the exercising of investment rights, and non-financially material factors?

5.2.1 Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme's investments and members arising from financially material matters. The Trustees define these as including, but not limited to ESG matters (including but not limited to climate change).

For the Scheme's investments that are implemented on an active basis, the Trustees have determined that ESG is built into the core of its investment managers' investment processes.

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustees acknowledge that some of the Scheme's investments are implemented on a passive basis. This restricts the ability of the manager to take active decisions on whether to hold securities based on the investment manager's consideration of ESG factors. The Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers, but may consider this in future.

5.2.2 Stewardship policy

The Trustees review their investment managers' policies on the exercise of voting rights and monitors their engagement practice and proxy voting activity via their annual reports.

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

5.2.3 Non-financial matters

The Trustees consider non-financial factors (where members have been forthcoming with their views) however the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.

5.3. How are the various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated by the Sponsoring Employer. Quantum does not receive commission from the investment managers, or implementation solution.

The Scheme invest in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers and Mobius Life are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management. This structure has been chosen to align the fund managers' and Mobius Life's interests with those of the Scheme. In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees obtain an annual statement from the investment managers setting out all the costs of the investments of the Scheme.

Details of the fees paid can be found in the Appendix to this SIP.

5.4. Do the Trustees take any investment decisions on their own?

The Trustees are responsible for the investments of the Scheme's assets. They take some decisions themselves and delegate others.

When deciding which decisions to make themselves, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision making structure:

Trustees:

- Set structures and processes for carrying out their role.
- Select direct investments (see below).
- Select investment advisers and investment managers.

- Agree structure for implementing investment strategy.
- Monitor investment advisers and investment managers.
- Monitor direct investments.
- Make ongoing decisions relevant to the operational principles of this Statement.
- Prepare and maintain the SIP.
- Report on compliance with this SIP annually.

Investment adviser:

- Advise on all aspects of the investment of the Scheme's assets, including implementation.
- Advise on this Statement.
- Provide required training.

Investment managers:

- Operate within the terms of the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Advise Trustees on the suitability of its benchmark.

Implementation solution provider:

- Operate within the terms of the written contracts and agreements.

5.5. Conflicts of interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of immateriality) at the start of each Trustees' meeting and document these in the minutes. Investment managers report on potential and actual conflicts of interest annually.

5.6. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

5.7. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly. The latter are known as direct investments.

The Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, they will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.8. Investment of Trustee Reserve

The Trustee Reserve holds assets which are not attributable to members of the Scheme. It is held by the Trustees in order to meet ad hoc expenses, as set out in the Scheme's Trust Deed & Rules, as agreed by the Trustees from time to time.

6. Review

6.1. How often are investments reviewed?

The Trustee reviews the default arrangement at least every three years and without delay following any significant change in investment policy, or the demographic profile of relevant members. The Trustees consider the extent to which the return on the investments relating to the default arrangement (after deduction of investment charges) is consistent with the Trustee's aims and objectives for the default arrangement.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum each quarter. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Scheme.

The Trustees also assess 'Value for Members' periodically.

6.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees report on transaction charges in the Chair's Statement annually.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

6.3. How often is this SIP reviewed?

The Trustees will, after significant changes in policy and at least every three years, review the appropriateness of this SIP with the help of their advisers and will amend the SIP as appropriate. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting with the Sponsoring Employer.

Signed: ………………………………………………………….(Trustee)

Date: ……………………………………………………………..

For and behalf of the Trustees of the Atlas Elektronik UK Pension Scheme

Appendix

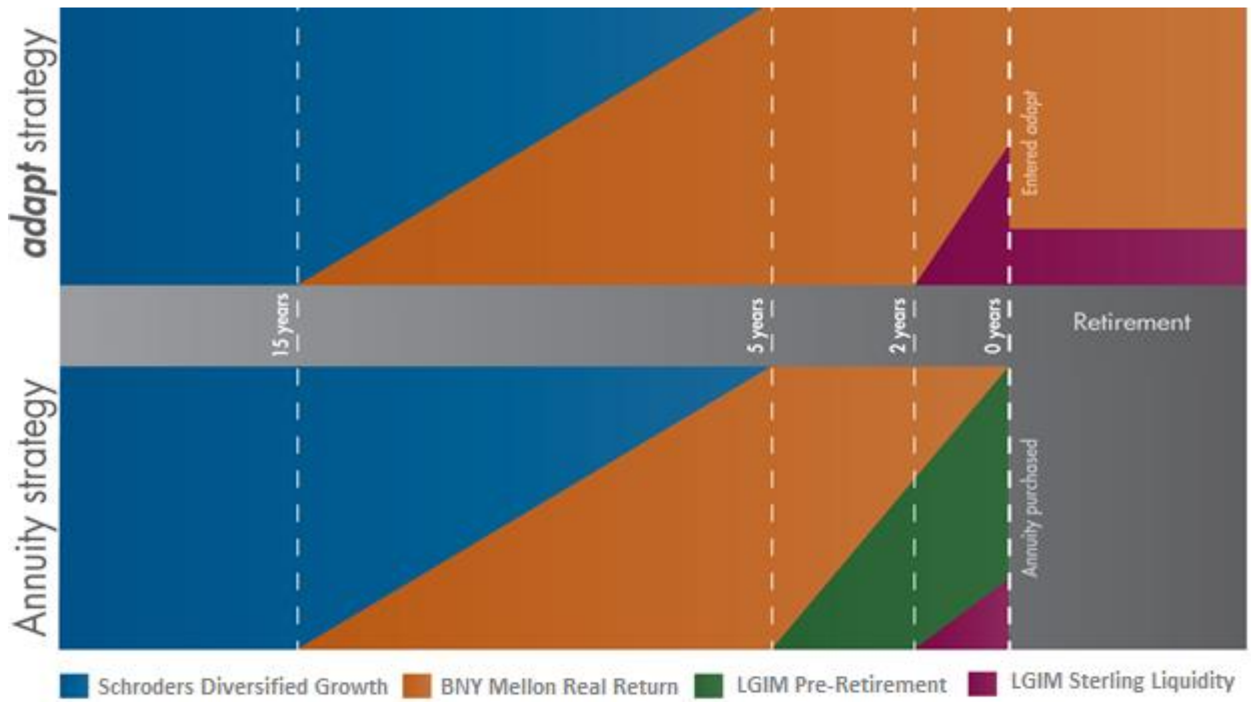
Manager	Fund	Annual management charge	Total Expense Ratio	Asset Class	Custodian	Date of appointment	Description
Legal & General	UK Equity Index Fund	0.090%	0.090%	Equity	HSBC	December 2009	The objective of the fund is to track the performance of the FTSE All-Share Index to within ± 0.25% p.a. for two years out of three.
Legal & General	World (ex-UK) Equity Index Fund	0.175%	0.175%	Equity	Citicorp	December 2009	The objective of the fund is to track the performance of the FTSE AW-World (ex-UK) Index (less withholding tax if applicable) to within ± 0.5% p.a. for two years out of three.
Legal & General	Cash Fund	0.100%	0.100%	Cash	Citicorp	December 2009	The fund aims to match the median return of similar funds as measured by the CAPS Pooled Pension Fund Update, without incurring excessive risk.
Legal & General	Pre-Retirement Fund	0.125%	0.125%	Bond	HSBC	August 2013	The objective of the fund is to provide diversified exposure to assets that reflect the investments underlying a typical traditional non-inflation linked pension annuity product.
Legal & General	Sterling Liquidity Fund	0.100%	0.113%	Cash	HSBC	February 2011	The objective of the fund is to provide capital stability, liquidity and diversification while providing a competitive level of return.
BNY Mellon	Real Return Fund	0.700%	0.750%	Diversified Growth Fund	BNY Mellon Asset Services	February 2011	The fund's aim is to outperform 1 month LIBOR by 4% pa (gross of fees) over rolling 3-5 year periods.
Schroders	Intermediated Diversified Growth Fund	0.700%	0.740%	Diversified Growth Fund	JP Morgan	March 2011[1]	The objective of the fund is to generate a return of RPI +5% pa (net of fees) over a 5-7 year period.
Schroders	All Maturities Corporate Bond Fund	0.300%	0.320%	Bond	JP Morgan	March 2011	The fund aims to outperform the Bank of America Merrill Lynch Non-Gilts All Stocks Index by 0.75% pa (gross of fees) over a market cycle.
Schroders	Global Equity Fund	0.550%	0.580%	Equity	JP Morgan	February 2017	The fund aim to outperform the MSCI World Index by 3.5% pa (gross of fees) over a rolling 3 year period.

[1] The Scheme invested in the Schroders Diversified Growth Fund held directly via Schroders, prior to investing in the Intermediated Diversified Growth Fund held via Mobius Life in September 2015.

Members who choose the self-select option (as detailed in section 2.2) may select from any of the funds in the above table. Investment in derivative instruments may be made only so far as it forms part of the investments in a particular fund which contributes to a reduction of risk, or facilitates efficient portfolio management.

Pre- and post-retirement strategies for annuity & *adapt* income drawdown retirement options

The diagram below outlines how each strategy changes as members approach retirement and how the funds are utilised to fulfil each strategy.



- Until 15 years from retirement members' funds are invested in the Schroder Diversified Growth Fund
- Between 15 years and 5 years from retirement, members' funds are switched gradually from the Schroder Diversified Growth Fund to the BNY Mellon Real Return Fund as the Trustees felt that this offered lower volatility and a greater emphasis on real returns over shorter time horizons.

The drawdown strategy continues to invest 100% in the BNY Mellon Real Return Fund until 2 years from retirement when 35% of the member's retirement account is gradually switched into Cash. This assumes that members will take some tax free cash at their Target Retirement Date but that they will choose to use some of their tax free allowance to provide tax free income.

As soon as the member draws any benefit from the Scheme, their account is then rebalanced so that 20% of their account is held in Cash and this is then used for disinvestments if the value of the BNY Mellon Real Return Fund has fallen in value. This avoids selling the growth assets when prices are depressed and covers disinvestments in the worst case scenario for more than three years.

The annuity strategy moves members' retirement accounts into the Legal & General Pre-Retirement Fund during the last 5 years before the member's Target Retirement Date and finally 25% into Cash during the final two years to target conventional annuity purchase and the tax free cash option.

Members who select income drawdown but do not use the *adapt* strategy are free to choose their own investments.