Chemring Group Staff Pension Scheme

Statement of Investment Principles
December 2023

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1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Chemring Group Staff Pension Scheme (the "Trustees" and the "Scheme", respectively). This statement sets out the principles which govern the decisions about investments that enable the Scheme 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 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

1.2. In preparing this statement the Trustees have consulted Chemring Group PLC (the "Principal Employer", and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultant. Barnett Waddingham LLP 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 the Trust Deed & Rules. 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, whom they consider to be suitably qualified and experienced for this role.

2.2. The Trustees have secured a bulk annuity policy with Pension Insurance Company ("PIC" and "the insurer").PIC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

2.3. The day-to-day management of the Scheme's remaining invested assets (if any) is delegated to Legal and General Assurance (Pensions Management) Limited ("LGIM"). The investment manager is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, and is responsible for stock selection and the exercise of voting rights, where applicable.

2.4. The Trustees review the appropriateness of the Scheme'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 Principal 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 Scheme'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 Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;

- to invest in assets of appropriate liquidity to meet, together with the participating employer, the cost of benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term.

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 Scheme's liabilities. The Trustees have secured a bulk annuity which covers the benefits due to all members, subject to final adjustments in due course.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. 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. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.

5.2. The Scheme holds a bulk annuity policy which is expected to meet the benefit entitlements of each of the Scheme's members, subject to final adjustment in due course. The remainder of the Scheme's invested assets (if any) are held in a liquidity fund with the Scheme's incumbent investment manager, LGIM.

5.3. 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 to this Statement.

5.4. The nature of the bulk annuity policy means that the insurer will meet cashflow requirements in respect of benefit payments. The Trustee expects any Scheme fees and other expenses (including any final benefit adjustments) to be met using the reserves held within bank account (and possible liquidity holding) and, where relevant, contributions from the Employer.

5.5. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The risk of the assets behaving differently from the Scheme's liabilities has largely been mitigated by purchasing an annuity policy that exactly matches the benefit payments due, subject to final adjustment in due course.
Covenant risk	The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal 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.
Asset allocation risk	The asset allocation is detailed in Appendix 1 to this Statement and is monitored by the Trustees.
Investment manager risk	The Trustees monitor the performance of their investment manager. The Trustees have a written agreement with their investment manager, which contains a number of restrictions on how they may operate. However, the Scheme's main asset is the annuity policy held with PIC.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. In relation to the bulk annuity policy, the trustees are satisfied that the level of concentration is appropriate given the highly-regulated nature of the insurance market and the fact that the trustees took professional advice on the financial strength of PIC prior to investing in the policy.
Liquidity risk	Responsibility for providing the monies to pay member benefits lies with the insurer as the provider of the bulk annuity policy, which mitigates the majority of the potential liquidity risk.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme 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	Given the nature of the insurance contract (which is expected to meet the benefit entitlements of each of the Scheme's members, subject to final adjustment in due course) the main remaining risk for the Scheme following the transaction is the solvency of the insurer. The Trustees have carried out due diligence on the insurer prior to investing in the contract. The ongoing solvency and prudent management of the insurer is monitored within the regulatory regime for UK insurance companies.

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.

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 Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate in order to review performance.

7.5. The Trustees have chosen to invest in a bulk annuity policy with the intention of achieving returns in line with movements in the value of the Scheme's liabilities. The expected income from the annuity contract will be that required to meet benefit payments (following any final adjustments). The Trustees' objective with any residual liquidity holding is for this to be relatively low-risk and highly liquid given its purpose within the Scheme's investment strategy.

8. Realisation of investments

8.1. The Scheme's main investment is an annuity policy which is not readily realisable but is structured so as to pay benefits to members as they fall due. The Trustees may choose to retain additional invested assets in a liquidity fund with LGIM, which can be used to meet short term cashflow needs. The Trustees have considered the risk of liquidity as referred to above.

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. Agreement

10.1. 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 Scheme auditor upon request.

Appendix 1 Note on investment policy of the Scheme as at December 2023 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Trustees have considered all asset classes and has decided to gain exposure to the following asset classes:

- Annuity policy and,
- Cash/Liquidity Fund.

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

Asset class	Strategic allocation
PIC bulk annuity policy	100%

The Scheme will also hold cash in the bank and any residual invested assets (if any) with LGIM in a liquidity fund. The purpose of this is to cover fees and other expenses, including any final benefit adjustments.

2. Choosing investments

The Trustees have secured an insurance contract in respect of the Scheme's liabilities with the insurer, PIC. The insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

The Trustees have also appointed the following investment manager to carry out the day-to-day investment of the Scheme's residual invested assets:

- LGIM

The investment benchmark of the liquidity fund is the SONIA rate, with an objective to provide diversified exposure and a competitive return in relation to SONIA.

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.

3. Fee agreements

There are no ongoing fees in respect of the bulk annuity policy. The Trustees have agreements in place with the investment manager and consultants.

The fee arrangements with the investment managers are covered in a separate document maintained by the Trustees.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are remunerated on a fixed fee or time-cost basis, as appropriate and agreed with the Trustees.

4. Investments and disinvestments

The expectation is that all benefit payments will be met by the insurer. The Trustees expect any fees and other expenses (including any final benefit adjustments) to be met using the existing cash and liquidity reserves and, where necessary, contributions from the Principal Employer.

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

The Trustees believe that Environmental, Social and Governance ("ESG") factors, including climate change (referred to together as "ESG issues"), are financially material – that is, they have the potential to impact the value of the Scheme's investments. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process may differ between asset classes.

The Trustees are also cognisant of the different investment timeframes that may apply to investments. The Trustees believe that ESG issues, including climate change issues, may have a greater impact over a longer timeframe, compared to investments that are held for a shorter timeframe.

A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Money Market funds

The Trustees believe there is limited scope for the consideration of ESG issues to improve risk-adjusted returns in this asset classes because of the fact that money market investments are short-term.

It is worth noting that when transacting in money market funds, the Trustees require due diligence is undertaken to assess the creditworthiness 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.

Bulk annuity contract

In terms of the bulk annuity contract with PIC, there is limited scope for the consideration of ESG issues from a financial materiality perspective given the investment is illiquid and its objective is to match member experience. Given the contract is fully illiquid and covers the Scheme's full liabilities, there is not any selection, or realisation of invested assets, and therefore there are no financially material considerations that are taken into account in relation to this, or indeed in relation to the retention of the contract. There are no voting rights attached to the bulk annuity contract and the Trustee does not carry out engagement activities with the insurer given these are not expected to have a material impact on the investment

Policy on the exercise of voting rights, engagement and stewardship activities

Following the purchase of the bulk annuity contract, the contract is fully illiquid and covers the Scheme's full liabilities (subject to any final adjustments). For this reason, except for a residual holding in cash and a possible liquidity holding, there is not any selection, or realisation of invested assets, and therefore there are no financially material considerations that are taken into account in relation to this, or indeed in relation to the retention of the contract.

There are no voting rights attached to the bulk annuity contract (and the Trustees do not carry out engagement activities with the insurer given these are not expected to have a material impact on the investment. This includes issues such as capital structure, management of actual or potential conflicts of interest. The Trustees would, however, expect the insurer to have (and follow) a conflict management policy given their regulated status.

At this time, the Trustees have decided not to set stewardship priorities / themes for the Scheme given the nature of the investment arrangements.

To the extent there are residual invested assets held in a pooled liquidity fund, responsibility for stewardship is delegated to the fund manager. Further information on other policies is provided below. Please note that much of this information will not be relevant if no residual invested assets are held (i.e. outside of cash in a bank account).

The Trustees are comfortable with the current fund manager's strategies and processes for conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

Capital structure and management of actual and potential conflicts of interest in relation to engagement

The Trustees acknowledge the importance of ESG and climate risk within their investment making 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 firmly 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 investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme 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 Scheme. Where the Trustees use pooled funds, the Trustees expect the investment manager to employ the same degree of scrutiny.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Trustees aim to avoid direct employer-related investments. However, the Scheme's pooled fund investment managers have full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business, subject to the remit of each fund. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustees have made the Sponsoring Employer aware of their attitude to 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 Scheme's investment consultants, Barnett Waddingham, are 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 conflicts 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.

Incentivisation of asset managers to align their investment strategy and decisions with the Trustees' investment policies

Prior to appointing the investment manager, the Trustees discuss the investment manager's benchmark and approach to the management of ESG and climate-related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

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 make the required investment returns, 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 use another manager for the mandate.

The Trustees carry out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the 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 have been informed of this by the Trustees.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager where relevant.

How the asset manager arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustees are mindful that the impact of ESG and climate change may have 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 have acknowledged this in their investment management arrangements.

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 an agreed predetermined 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 to be sufficient to ensure an appropriate alignment of interests.

The Trustees expect investment managers to be voting and engaging on behalf of the fund's holdings and the Trustees monitor this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

How the method (and time horizon) of the evaluation of the asset managers' performance and the remuneration for asset management services are in line with the Trustees' investment policies

Trustees monitor the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

The Scheme 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 managers, they receive more and as values fall, they receive less. In some instances, a performance fee may also be applied.

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.

The Trustees ask the Scheme's Investment Consultant to assess whether 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 every three years as part of the review of the Statement of Investment Principles.

Monitoring portfolio turnover costs

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustees consider both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with 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.

The duration of the arrangement with the asset manager

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed every three years, or when changes deem it 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.

The Scheme currently does not hold any closed-ended funds. If these funds are held in future, then the Trustees will review the appointment with the investment manager as the manager releases new iterations of the funds (which the Trustees may consider further investment into) and at, or just prior to, maturity of the closed-ended fund.

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.