

The Pension Plan of Seiko U.K. Limited

Statement of Investment Principles

Date prepared: September 2020

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Contents

1. Introduction	3
2. Choosing investments.....	3
3. Investment objectives	3
4. Kinds of investments to be held	4
5. The balance between different kinds of investments.....	4
6. Risks.....	4
7. Expected return on investments	6
8. Realisation of investments	6
9. Financially material considerations, the exercise of rights and engagement activities and non-financial matters	6
10. Policy on arrangements with asset managers	10
11. Agreement	10
Appendix 1 Note on investment policy of the Plan as at September 2020 in relation to the current Statement of Investment Principles	11
Appendix 2 Policy on arrangements with asset managers	14

1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the Pension Plan of Seiko U.K. Limited (the Plan), as prepared by the Trustees of the Plan (“the 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 and Disclosure) (Amendment and Modification) Regulations 2018; and
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted Seiko U.K. Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees’ investment consultants. 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 Clause 4 of the Trust Deed & Rules, dated 20 September 2007. 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 the Appendix to this Statement. 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 manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- 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, diversified growth funds, property, alternatives and annuity policies.
- 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 Plan's auditors.

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 within the Appendix to this Statement.
- 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 the Appendix to this Statement.
- 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 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 the Appendix to this Statement and is monitored on a regular basis by the Trustees.
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. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Plan and ESG factors as well as climate risk 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.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
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.
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.

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).

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 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, the exercise of rights and engagement activities and non-financial matters

Policy on financially material considerations

- 9.1. The Trustees consider that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material for the Plan over the length of time during which the benefits provided by the Plan for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of Investment Principles.
- 9.2. The Trustees have elected to invest the Plan's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

9.3. The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

- Selection of investments: assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.
- Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.
- Realisation of investments: The Trustees will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

9.4. The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Plan's investments.

9.5. A summary of the Trustees' view for each asset class in which the Plan invests is outlined below.

Passive equities

9.6. The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's passive equities over the Trustees' intended time horizon for the investment in question. The Trustees accept that fund managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passive gilts

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

Corporate bonds

9.8. The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's bond fund holding over the Trustees' intended time horizon for the investment in question. The Trustees therefore require the fund manager to consider ESG issues when selecting investments. The Trustees recognise that fixed income assets do not typically provide voting rights; 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.

Property

9.9. The Trustees believe that ESG issues can be financially material to the risk-adjusted returns achieved by the Plan's property manager over the Trustees' intended time horizon for the investment in question. Environmental issues are particularly important when selecting appropriate properties for the property portfolio, and so the Trustees look to the manager to incorporate environmental issues into their investment process.

Balanced and diversified growth funds

- 9.10. The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's balanced and diversified growth fund holdings over the Trustees' intended time horizon for the investment in question. The Trustees therefore require the fund managers to consider ESG issues when selecting investments. The Trustees recognise that the fund managers will hold a blend of underlying asset class and some of which, such as fixed income assets, do not typically provide voting rights; they support engagement with companies by the fund managers. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.
- 9.11. The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:
- The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;
 - As part of ongoing monitoring of the Plan's investment managers, the Trustees will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Plan's investment managers take account of ESG issues; and
 - Through their investment consultant the Trustees will request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.
- 9.12. The Trustees are comfortable that the funds currently invested in by the Plan are managed in accordance with their views on financially material factors, as set out above. This position is reviewed from time-to-time.

Policy on the exercise of voting rights

- 9.13. The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.
- 9.14. The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant.
- 9.15. Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Policy on engagement activities

- 9.16. 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.
- 9.17. 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.
- 9.18. 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.
- 9.19. 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.
- 9.20. Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.
- 9.21. 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.
- 9.22. 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.
- 9.23. 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.
- 9.24. In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

Policy for taking into account non-financial matters

- 9.25. The Trustees do not consider any non-financial matters, such as members' ethical views or social and environmental impact, when constructing the investment strategy and/or when selecting or reviewing fund managers.

10. Policy on arrangements with asset managers

10.1. The Trustees have set a policy in relation to arrangements with asset managers. This is set out in Appendix 2.

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.

AGREED BY THE TRUSTEE ON 29 SEPTEMBER 2020

On behalf of the Pension Plan of Seiko U.K. Limited

Appendix 1 Note on investment policy of the Plan as at September 2020 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Plan held the asset allocation outlined below, based on 30 June 2020 asset values.

Asset class	Allocation (%)
Diversified growth funds	10.5%
Balanced funds	52.2%
Equity funds	2.6%
Property funds	9.6%
Corporate bond fund	9.8%
Index-linked gilt fund	15.3%

The diversified growth funds and balanced funds may also allocate to equities, property, bonds and gilts but we have not itemised those allocations above as such allocations within those funds will be actively managed by those fund managers.

2. Choosing investments

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

- AXA Investment Managers UK Limited
- Baillie Gifford
- BNY Mellon Fund Managers Limited
- Invesco
- Legal & General Assurance Society Limited (L&G)
- Legal & General Investment Management (LGIM)
- Vanguard Investments U.K. Limited (Vanguard)

The Trustees also have Additional Voluntary Contribution (AVC) contracts with Aviva and Equitable Life but only Aviva remains open for the receipt of members' AVCs.

The investment managers are authorised and regulated by the Financial Conduct Authority (FCA) with the exception of Legal & General Assurance Society Limited, which is authorised by the Prudential Regulation Authority (PRA) and regulated by the FCA and PRA.

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

Investment manager	Fund	Benchmark	Objective
AXA Framlington	Managed Balanced Fund	IA Mixed Investment 40-85% Shares Sector Median	To provide long-term capital growth
Baillie Gifford	Managed Fund	IA Mixed Investment 40-85% Shares Sector Average	To produce capital growth, over the long-term
	Multi Asset Growth Fund	UK Base rate + 3.5%	To outperform the benchmark net of fees with annualised volatility of less than 10% over rolling 5-year periods
	Worldwide Global Credit Fund	Bloomberg Barclays Global Credit Index	To outperform the benchmark by 2% p.a. before fees
BNY Mellon	Global Balanced Fund	37.5% FTSE All-Share, 37.5% FTSE World (ex UK), 20% FTSE Government All Stocks, 5% LIBID 7 day cash	To outperform the benchmark by 1% to 2% p.a. over rolling 5 year periods
	Multi-Asset Diversified Return Fund	1-Month GBP LIBOR + 3%	To achieve long-term capital growth in excess of the benchmark over 5 years before fees

Investment manager	Fund	Benchmark	Objective
Invesco	Global Targeted Returns Pension Fund	UK 3-month LIBOR + 5%	To achieve the benchmark return gross of fees, with less than half the volatility of global equities over rolling three year periods
L&G	Property Fund	ABI UK Direct Property Sector Average	To provide a combination of income and growth through investing generally in commercial property
LGIM	Multi-Asset (formerly Consensus) Fund	ABI UK Mixed Investment 40%-85% Shares Sector	To provide long-term investment growth through exposure to a diversified range of asset classes
	Over 15 Year Index-Linked Gilt Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index	To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three
Vanguard	FTSE UK Equity Income Index Fund	FTSE UK Equity Income Index in GBP	To track the benchmark index

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 AVC arrangement is reviewed from time to time.

3. Investments and disinvestments

If investments or disinvestments are required, the Trustees will seek advice from the Plan's investment adviser.

Appendix 2 Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

Prior to appointing an investment manager, the Trustees 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.

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 consider using another manager for the mandate.

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.

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 have been informed of this by the Trustees.

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

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.

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.

The Trustees expect investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors 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

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.

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.

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 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

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.

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

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

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 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.