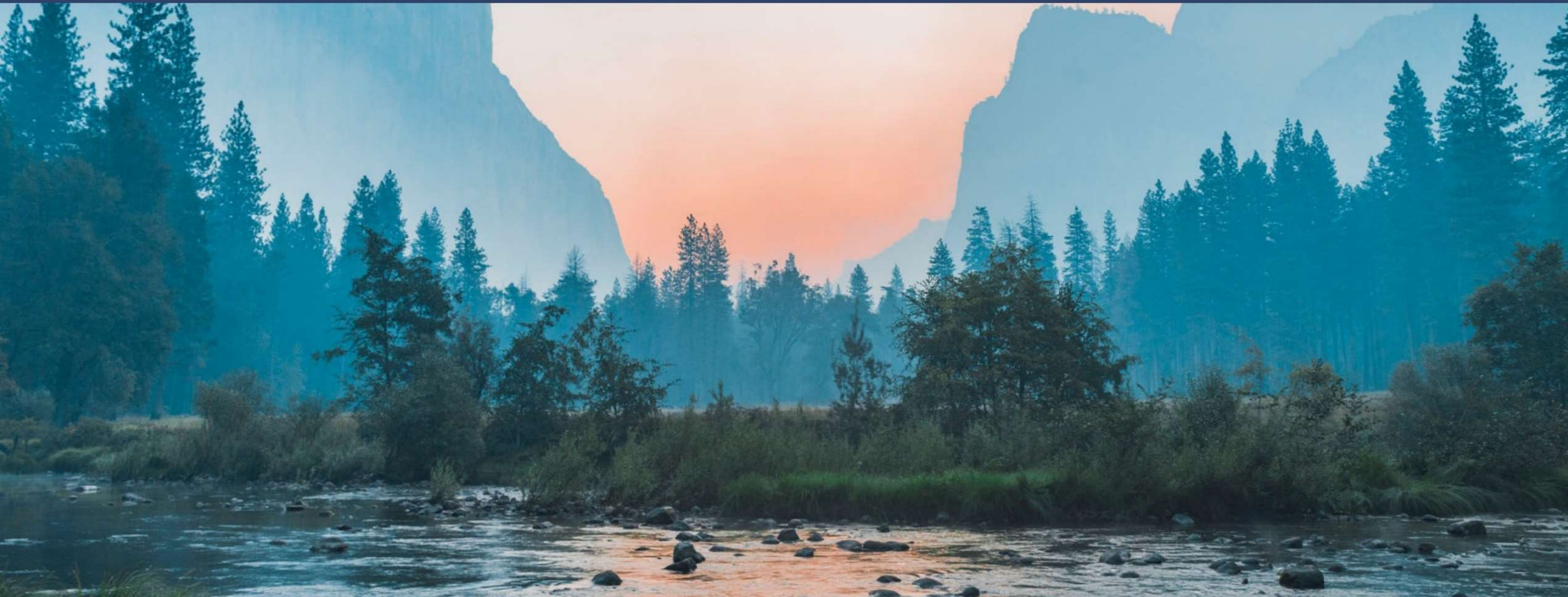
Statement of Investment Principles

For the Harsco Pension Scheme

Effective from: 20 October 2021



1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustees of the Harsco Pension Scheme.

It sets out our policies on various matters governing investment decisions for the Harsco Pension Scheme ("the Scheme"), which has Defined Benefit ("DB") and Defined Contribution ("DC") Sections. This SIP covers both the DB and DC Sections, and also covers the Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated 13 September 2019.

This SIP has been prepared after obtaining and considering written advice from Lane Clark & Peacock ("LCP"), our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy or in the demographic profile of the members invested in the DC default investment option, and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme's investments, but which are not required to be included in the SIP.

2. Investment objectives for the DB and DC Sections

The primary objective for the **DB Section** is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the Scheme should be fully funded on a Technical Provisions basis;
- that the Scheme has a long-term journey plan in place to help it achieve full funding by 31 August 2025 on the Technical Provisions basis. Progress against this long-term journey plan is reviewed on a regular basis via reporting from our advisers; and
- that the expected return on the Scheme's assets is maximised whilst managing and maintaining risk at an appropriate level.

We also pay due regard to the interests of the sponsoring employer on the size and incidence of its contributions. Given the ongoing commitment of the relevant employer to the Scheme, a degree of mismatching risk can be accepted, having consulted on the level of risk with the employer. We have considered how the Scheme is expected to develop over time. In particular, we recognise that the Scheme has a finite lifespan (since it is closed to accrual of future pension liabilities).

Our objective for the **DC Section** is to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement; and
- a **default investment option** that we believe to be reasonable for those members that do not wish to make their own investment decisions. The objective of the Default Option is to generate returns significantly above inflation whilst members are far from retirement, and to switch automatically and gradually to lower risk and expected return investments as members become relatively close to retirement, with the asset allocation at retirement being designed to be appropriate for members taking a cash lump sum.

All policies relating to the **DC Default Option** are covered in this SIP, rather than in a separate SIP, so all our policies on the Scheme's investments are in one document. Our investment objective for the AVCs is to make available a suitable range of investment options to meet members' risk / return objectives.

3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy for the DB and DC Sections in April 2021 and December 2020 respectively, considering the objectives described in Section 2.

The investment strategy for the **DB Section** is shown in the following table.

Asset class	Strategic allocation
UK equities	6.0%
Overseas climate-tilted equities (hedged)	7.0%
Global equities (unhedged)	7.0%
Emerging market equities	6.5%
Total equities	**26.5%**
Listed infrastructure	5.0%
Long-lease UK property	3.0%
Total alternatives	**8.0%**
Corporate bonds	21.0%
Liability driven investment ("LDI") and money market cash	30.0%
Short duration credit	14.5%
Total matching portfolio	**65.5%**
Grand total	**100.0%**

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Scheme's circumstances. We believe that the strategy above meets this objective.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets, considering factors such as market conditions and anticipated future cash flows.

As the Scheme matures, we will seek to de-risk the investment strategy in line with changes in the liability profile of the Scheme. This means that the investment strategy is expected to target a higher allocation to lower risk assets over time.

As part of agreeing the 31 March 2018 triennial actuarial valuation, a schedule of contributions was put in place, with contributions to be paid to the Scheme until 31 August 2025. Therefore, our target is to achieve full funding on a Technical Provisions basis by 31 August 2025 or sooner.

We have put in place a "required return" de-risking trigger mechanism, designed to reduce the risk of the investment strategy as appropriate given the above target. If the required return to be fully funded on a Technical Provisions basis by 31 August 2025 falls to a pre-determined level (ie there is good news, such as better than expected returns on the Scheme's assets), then the Scheme's assets will be moved to a new lower risk investment strategy. If there is bad news and the required return increases (meaning the de-risking triggers are now far from being reached), then we will engage with the Company about potential actions that we should take, including reviewing the trigger mechanism.

There were originally four de-risking triggers, but two triggers were hit in 2021 and the investment strategy was de-risked accordingly, resulting in the allocation in the prior table. The target expected return of the current strategy is around 2% pa above gilts. The remaining required return triggers are set out in the following table:

Required return trigger	Action
1.2% pa over gilts	De-risk investment strategy to target an expected return of 1.7% pa over gilts
0.9% pa over gilts	De-risk investment strategy to target an expected return of 1.4% pa over gilts
1% above expected return of current strategy	Trustees and Company to discuss next steps. Review other triggers. Re-consider trigger levels given they are now less likely to be reached.

As at the time of producing this SIP, the Scheme's matching portfolio was hedging approximately 80% of the Technical Provisions. The percentage refers to both interest rate risk and inflation risk hedging.

For the **DC Section** of the Scheme, we make available a range of investment funds for members with different levels of expected return, including equity and bond based funds, infrastructure and property fund and a cash fund. Each member is responsible for specifying one or more funds for the investment of their account.

If members do not choose an investment option, their account will be invested into the **Default Option**, the “Lump Sum Strategy” which is managed as a “lifestyle” strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age for that member). The Default Option initially invests to target a high expected return (making use of equity based funds) and then gradually switches to investments with a lower expected return and risk (such as bond and cash funds) as the member gets closer to retirement.

The Default Option was designed to be in the best interests of the majority of the members based on analysis of the demographics of the membership. The Default Option targets a large cash withdrawal at retirement, since from analysis of the membership, we believe that most members will wish to take their benefits in this form. We monitor member behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

Our policy is to review the Default Option at least every three years and we last reviewed this, with the help of our advisers, on 30 November 2020. We concluded that a large cash lump sum target remains an appropriate retirement target.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme’s assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes. We recognise that the Scheme is exposed to several risks, including for example: equity risk; credit risk; currency risk; interest rate and inflation risk; investment manager risk; ESG risks; liquidity risk; counterparty risk; collateral adequacy risk; excessive charges risk; valuation risk; longevity risk; and sponsor covenant risk. How we measure and manage those risks is detailed in Part 2 of SIP addendum.

The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. For the DB Section investment risk is measured using “Value at Risk”, and for the DC Section investment risk is measured using standard deviation.

In setting the strategy for the **DB Section** it is our policy to consider:

- our investment objectives, including the target return required to meet these
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the **DC Section including the Default Option** and for the AVCs it is our policy to consider:

- the overall best interests of members and beneficiaries
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement
- the need for appropriate diversification to manage investment risk within the **Default Option** made available to DC members, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the funding of the DB, DC and AVC benefits, including environmental, social and governance (“ESG”) factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important
- investment markets are not always efficient and there may be opportunities for active managers to add value
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified

- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers, and a platform provider in respect of the DC Section setting out the terms on which the portfolios are to be managed. The DC platform provider makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying managers of the DC investment funds.

Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. The Trustees' Investment Committee receives and discusses investment performance reports from its investment consultants on a quarterly basis. Those reports present information about individual investment funds' performance over shorter and longer term periods, against the relevant fund's performance objectives or target. If an investment manager is not meeting its performance objectives or targets, the Investment Committee will review the relevant appointment or investment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives. If it is no longer appropriate, the Trustees will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

For the DB Section, we instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

For the DC Section including the Default Option, our policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Financially material considerations and non-financial matters

We consider how environmental, social, governance ("ESG") considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given we recognise that these factors can be relevant to investment performance.

All Scheme assets are invested in pooled funds. We cannot usually influence investment managers' policies directly on ESG and ethical factors where assets are held in pooled funds; this is due to the nature of these investments.

We consider that it is necessary in all circumstances to act in the best financial interests of the Scheme's members, and expect our investment managers to take account of financially material considerations (including climate change and other ESG considerations) to the appropriate extent. However, from time to time we review how their managers are taking account of these issues in practice. We encourage our managers to improve their practices where appropriate.

We seek to appoint managers that have appropriate skills and processes to manage ESG risks appropriately. As part of any decision as to whether to invest with a manager, we will consider how ESG factors are addressed by the manager.

We currently do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

We do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with current and prospective investment managers on matters including ESG and stewardship. The Investment Committee (as representatives of the Trustees) regularly meet with the investment managers, and cover ESG and stewardship matters as part of receiving updates from them. We expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with their policies on stewardship, considering the long-term financial interests of the beneficiaries. We expect the managers to communicate their policies on stewardship to us from time to time, and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year.

We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.

Addendum to the Statement of Investment Principles

For the Harsco Pension Scheme

Effective from: 31 March 2022

This addendum to the Statement of Investment Principles ("SIP") for the Harsco Pension Scheme (the "Scheme") has been produced by the Trustees of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme's investment arrangements.

Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustees

Our responsibilities include:

- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pension Act 1995 (as amended)
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.

We have delegated consideration of certain investment matters to an investment committee ("IC"), although any decisions remain the responsibility of the Trustees.

2. DC platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers
- providing us with regular information concerning the management and performance of the assets
- performing administration functions in respect of the DC Section, such as processing transfers in or out.

3. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios. All of the Scheme's investments are via pooled funds, and therefore there is no direct relationship between the Scheme and the custodians.

4. Investment adviser

The investment adviser's responsibilities include:

- for the DB Section, advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested
- for the DC Section, advising on a suitable self-select range and Default Option for the Scheme, and how material changes to legislation or within the Scheme's benefits and membership may impact this
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- assisting us with reviews of this SIP.

5. Fee structures

The provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. We have agreed terms with the Scheme's actuarial and investment advisers, under which tasks undertaken are charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and DC platform provider receive fees calculated by reference to the market value of assets under management, and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and we consider them to be reasonable when compared with those of other similar providers.

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

6. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

7. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Our aim is to strike the right balance between risk appetite and risk capacity.

When assessing risk and reviewing the investment strategy, we consider:

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

The Scheme's investment strategy as set out in the SIP has a three-year 95% Value at Risk of approximately £115m[1]. This means that there is estimated to be a 1 in 20 chance that the Scheme's funding position will worsen by £115m or more, compared to the expected position, over a three-year period. When deciding on the current investment strategy, we believe this level of risk to be appropriate given the Scheme's objectives.

2. Approach to managing and monitoring risks

We consider that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

Risk of inadequate returns

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

In the DC Section, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the Default Option. To reduce the chance of a sharp deterioration in members' benefits close to retirement, we have made the Default Option a "lifestyle" strategy.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. We believe that the Scheme's DB assets and DC Default Option are adequately diversified between different asset classes and within each asset class, and the DC investment options provide a suitably diversified range for

[1] Figure from 10 May 2021 investment consultant advice to the Trustees on the investment strategy, based on analysis of the funding position as at 6 May 2021

members to choose from. This was a key consideration when determining the Scheme's investment arrangements and is monitored by us on a regular basis.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds via pooled funds. We manage credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and by satisfying ourselves that the managers are taking into account credit risk when making investment decisions for their respective funds.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, we manage the amount of currency risk to some extent by investing in pooled funds that hedge currency exposure.

Within the DB Section we hedge back to Sterling around 50% of the Scheme's developed market overseas equity exposure to foreign currency.

Interest rate and inflation risk

The DB Section's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Scheme's assets hedge part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

We believe that interest rate and inflation risks are generally unrewarded investment risks. As a result, we aim to hedge around 80% of the Scheme's exposure to interest rate risk and inflation risk.

Investment manager risk

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

We use well established asset managers with well-known custodians in place. LCP regularly monitors the internal control procedures of each of the investment managers and custodians. The Scheme's cash deposits, which may suffer from a business failure, are spread across a number of accounts and deposit takers. Invested assets are ring-fenced from the investment managers' own assets, so that a bankruptcy event of either the fund management company or its parent should not result in an investment loss for the Scheme.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time-to-time review how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments, some of which could be financially material over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and from time to time review how these risks are being managed in practice.

Illiquidity/marketability risk

For the DB Section, this is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due or that the Scheme will become a forced seller of assets to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

For the DC Section, this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to a lack of liquidity in the investments. We manage this risk by only using pooled funds with daily dealing within the DC section.

Counterparty risk

This is the risk that one party to a contract (such as a hedging contract) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, the manager of our LDI investment strategy makes use of derivative and gilt repo contracts within its LDI funds, and they are used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within this fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that cash calls to the LDI fund are not met within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, we ensure that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice if required.

Risk of excessive charges

Within the DB Section, if the investment management charges are excessively high then this will mean lower returns (after fees), a lower funding level and therefore more reliance on employer contributions.

Within the DC Section, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily.

We are comfortable that the charges applicable to the DB and DC Section are in line with market practice and assess regularly whether these represent good value.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as property) prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

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

Examples for the DB Section include:

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

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. We regularly review progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level. By understanding, considering and monitoring the key risks that contribute to funding risk, we believe that we have appropriately addressed and are positioned to manage it.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below.

Defined Benefit Section

1. Legal & General Investment Management ("L&G") – UK equities, overseas equities, corporate bonds

On a strategic basis we have allocated:

- 9% of the DB Section's assets to the L&G Active Corporate Bond All Stocks Index Fund. The objective of this fund is to outperform the iBoxx £ Non-gilts (All Stocks) Index by 0.75% pa, before fees, over rolling three-year periods. The expected risk relative to the benchmark is +/- 1.5% pa. The Scheme first invested in this fund on 1 August 2014.
- 6% to the L&G UK Equity Index Fund. The objective of this fund is to perform in line with the return of the FTSE All Share Index, before fees. The target tracking error of the fund is +/-0.25% pa for two years out of three. The Scheme first invested in this fund on 26 February 2010.
- 7% to a currency hedged overseas equity portfolio. The objective of each underlying equity fund is to perform in line with the return of its respective FTSE benchmark index before the deduction of fees. The Scheme first invested in this portfolio on 15 August 2014. On 23 June 2021 the regional equity funds were switched to funds that aim to have significantly lower exposure to carbon emissions (by tilting away from high emitters), as a way to mitigate the impact of climate change on the investments.

The low carbon currency hedged overseas equity portfolio comprises of four pooled hedged regional overseas equity funds, with a formal target allocation with rebalancing for the funds, as follows:

Low Carbon Transition Regional Fund	Benchmark	Target allocation	Rebalancing tolerance
North America Equity Index Fund – GBP Hedged	Solactive L&G Low Carbon Transition North America Index – GBP Hedged	30%	+/- 2.0%
Europe (ex UK) Equity Index Fund – GBP Hedged	Solactive L&G Low Carbon Transition Europe ex UK Index – GBP Hedged	40%	+/- 2.5%
Japan Equity Index Fund – GBP Hedged	Solactive L&G Low Carbon Transition Japan Index – GBP Hedged	15%	+/- 1.5%
Asia Pacific (ex Japan) Developed Equity Index Fund – GBP Hedged	Solactive L&G Low Carbon Transition APAC ex Japan Index – GBP Hedged	15%	+/- 1.5%

The L&G funds the Scheme invests in are priced weekly and are open ended and unlisted.

2. Aberdeen Standard – Long-lease UK property, corporate bonds

We have allocated:

- 3% to the Aberdeen Standard Long Lease Property Fund. The objective of this fund is to outperform the return of the FTSE-A All Stocks Gilts Index by 2% pa, before the deduction of fees, over rolling five-year periods. The Scheme first invested in this fund on 27 April 2006.
- 12% to the Aberdeen Standard Corporate Bond Fund. The objective of this fund is to outperform the return of the Bank of America Merrill Lynch Sterling Non-Gilts All Stocks Index by 0.8% pa, before fees, over rolling one-year periods. The expected risk relative to the benchmark is 0.8% to 1.5% pa. The Scheme first invested in this fund on 18 May 2011.

The Aberdeen Standard funds the Scheme invests in are priced daily and are open ended and unlisted.

3. Fundsmith – Global equities

7% of the DB Section's strategy is allocated to the Fundsmith Equity Fund. The stated objective of the fund is to achieve long-term growth in value. However, Fundsmith confirmed that it aims to outperform the Sterling return of the MSCI World Index by 7% pa, before fees, over a full business cycle. There is no specific risk target for this fund. The Scheme first invested in this fund on 18 January 2018.

This fund is priced daily, is open ended and unlisted.

4. JP Morgan Asset Management ("JP Morgan") – Emerging market equities

6.5% is allocated to the JP Morgan Life All-Emerging Markets Equity Fund. The objective of the fund is to outperform the return of the MSCI Emerging Markets Index by 3% pa, before the deduction of fees, over rolling three-year periods. The expected tracking error risk relative to the benchmark is 4% pa. The Scheme first invested in this fund on 22 March 2012.

This fund is priced daily, is open ended and unlisted.

5. Lazard Asset Management Limited ("Lazard") – Listed infrastructure

5% is allocated to the Lazard Global Listed Infrastructure Fund. The objective of this fund is to achieve a return 5% pa in excess of inflation (as measured by the change in the UK Retail Prices Index), before the deduction of fees, over rolling five-year periods. The expected tracking error of the fund is around 6% pa. The Scheme first invested in this fund on 17 October 2014.

The fund is priced daily is open ended and unlisted.

6. BMO Global Asset Management ("BMO") – LDI

We have allocated:

- 30.0% to the BMO's pooled dynamic LDI funds and the BMO Sterling Liquidity Fund. The objective of the LDI fund is to provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme. This is no specific performance objective or risk target for the funds. The funds are priced weekly, are open ended and unlisted. The objective of the liquidity fund is to provide high levels of liquidity, preserve capital and generate a return in line with the GBP 7-Day LIBID. The fund is priced daily, open-ended and unlisted. The Scheme first invested in these funds on 20 April 2016.
- 14.5% to the BMO Global Low Duration Credit Fund. The fund does not have a formal benchmark, but the objective of the fund is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets. The fund is priced daily, open ended and unlisted. The Scheme first invested in this fund on 3 February 2020.

Additional Voluntary Contributions

We have made available to members a range of AVC funds offered by Aegon. The Aegon funds are those made available to members of the DC Section.

There are also two legacy AVC arrangements with Prudential Assurance Company Limited and Aviva. Some of the Prudential policies are administered by Equiniti. The Prudential policies are closed to new members and contributions from existing members. The Prudential funds available to members are the:

- Discretionary Fund;
- Deposit Fund; and
- With-Profits Cash Accumulation Fund.

The legacy Aviva policy only has two members remaining in it and both are invested in the Aviva Pension Managed Fund only.

We do not provide any advice to individual members concerning the members' choice of AVC funds. However, we are responsible for monitoring the AVC funds available to members and providing information to members from the AVC providers.

Defined Contribution Section

Members are provided with clear information on the investment options and their characteristics, so they can make an informed choice. Members can choose from a range of passively and actively managed self-select funds and three lifestyle strategies. The Default Option is the Lump Sum Strategy. Details of the options are set out below.

The fund options are provided to members via Aegon's DC bundled (investment and administration) platform. The funds are priced daily. The funds are open ended unless otherwise specified and are unlisted.

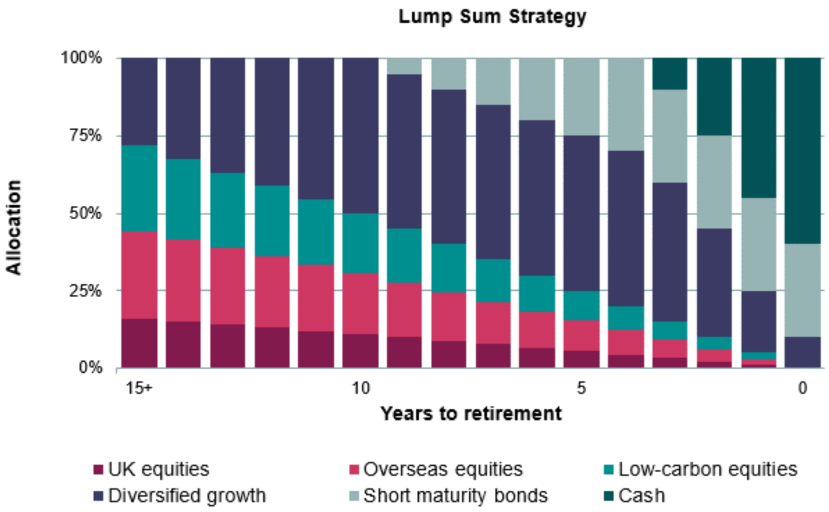
Default Option

For members that do not make an active choice regarding their investments, the Default Option is the Lump Sum Strategy.

The Default Option is structured as a lifestyle, which means it follows a pre-set investment strategy. In the strategy there is automated switching to move members' funds from higher risk/return investments into lower risk/return investments as retirement approaches.

The Default Option is reviewed at least every three years and was last reviewed on 30 November 2020. Based on analysis of the membership demographics, the Trustees concluded that a retirement target that includes a cash lump sum remains appropriate. The investments reflecting changes from the review are as follows.

Objective: To generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement, on the basis that members will withdraw 100% of their pension savings as a cash lump sum.

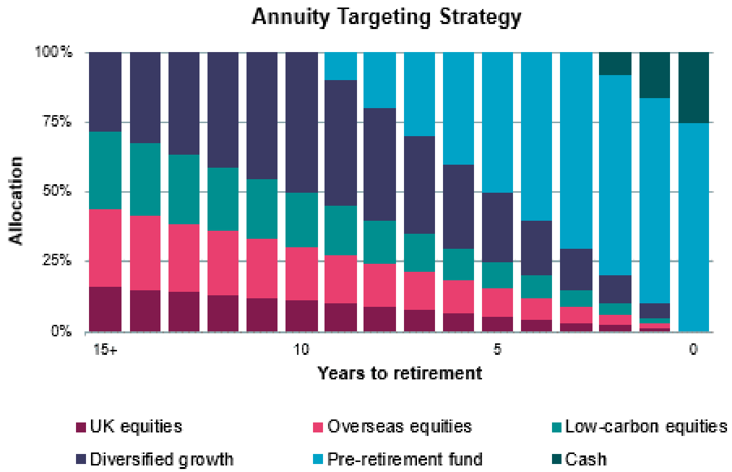


Lifestyle strategies

In addition to the default lifestyle, there are two other lifestyles that members can invest in, as detailed below.

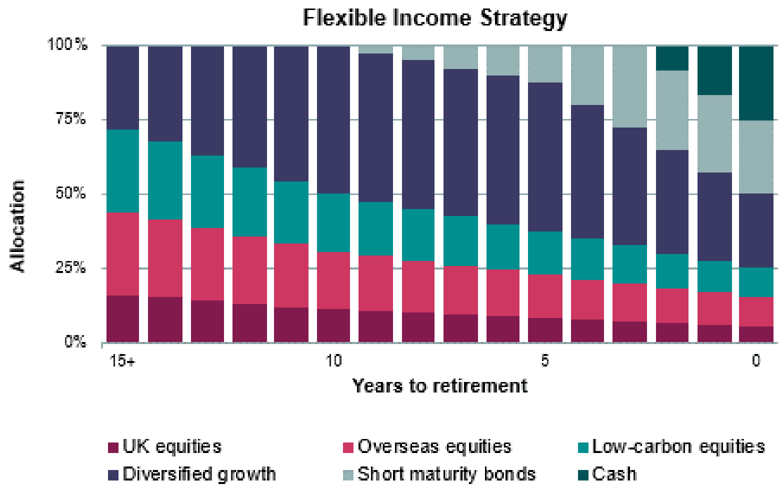
Annuity Targeting Strategy (legacy default arrangement)

Objective: To generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments that are expected to move broadly in line with annuity prices as members near retirement, on the basis that at retirement members will use 75% of their pension savings to buy an annuity and take the remaining 25% as a cash lump sum.



Flexible Income Strategy

Objective: To generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement, on the basis that members will re-invest 75% of their pension savings to draw down for income in retirement, and take the remaining 25% as a cash lump sum.



Passively managed self-select fund options

All of the passive funds are managed by BlackRock or L&G, with the objective of tracking their benchmark return to within the specified tracking error before the deduction of fees.

Fund	Benchmark	Tracking error
Harsco Scheme Passive UK Equity Fund	FTSE All-Share Index	+/- 0.2% pa
Harsco Scheme Passive Overseas Developed Equity Fund	FTSE All World-World (ex-UK) Index	+/- 0.4% pa
Harsco Scheme Passive Emerging Markets Equity Fund	MSCI Emerging Markets Index	+/- 1.0% pa
Harsco Scheme Passive 70:30 UK:Overseas Equity Index Fund[1]	Composite index[2]	+/- 0.4% pa
Harsco Scheme Low-Carbon Equity Fund	Solactive L&G Low Carbon Transition Developed Markets Index	+/- 0.6% pa
Harsco Scheme Passive Corporate Bond Fund	iBoxx £ Non-Gilt Index	+/- 0.3% pa
Harsco Scheme Passive Long Dated Gilt Fund	FTSE UK Gilts Over 15 Years Index	+/- 0.2% pa
Harsco Scheme Passive Index-Linked Gilt Fund	FTSE UK Gilts Index-Linked Over 5 Years Index	+/- 0.2% pa

[1]This fund is closed to members not already invested, but existing members may remain invested and can continue to contribute to the fund.

Actively managed self-select fund options

The following actively managed funds are available as self-select options:

White-labelled fund	Underlying fund(s)	Objective
Harsco Scheme Active UK Equity Fund	Lindsell Train UK Equity Fund	To achieve capital and income growth over the long term above the FTSE All-Share Index.
Harsco Scheme Active Global Equity Fund	MFS Global Equity Fund	To outperform the MSCI World Index by 2.0% pa, before the deduction of fees, over a market cycle.
Harsco Scheme Cash Fund	BlackRock Cash Fund	To outperform the return of SONIA, before the deduction of fees.
Harsco Scheme Diversified Growth Fund	Equal allocation (12.5%) to the following funds: • Harsco Scheme Passive Emerging Markets Equity Fund • Harsco Scheme Low-Carbon Equity Fund • Harsco Scheme Passive Overseas Developed Equity Fund • Harsco Scheme Global Property Fund • Harsco Scheme Infrastructure Fund • Harsco Scheme Passive Corporate Bond Fund • Harsco Scheme Passive Index-Linked Gilt Fund • Harsco Scheme Passive Long Dated Gilt Fund	To outperform the three-month SONIA by 3.5% pa, before the deduction of fees over the long-term, and to reduce volatility of returns over the long-term.

Both the Harsco Scheme Cash Fund and Harsco Scheme Diversified Growth Fund are considered to be default arrangements following changes to the DC Section made in March 2022 (transfer without consent of members into the Cash Fund, and material change to the investment objective of the Diversified Growth Fund).

[2] 70% FTSE All-Share Index and 30% split between developed economies according to the ABI 40-85 Sector Index. The ABI 40-85 Sector Index is a composite of funds that can hold a mixture of investments, but must hold between 40% and 85% in equities.