Chair's DC Governance Statement, covering 1 April 2020 to 31 March 2021

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustees of the Harsco Pension Scheme (the "Scheme") are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the main default arrangement and other funds members can select or have assets in, such as "legacy" funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

2. Default arrangements

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes for monthly paid staff. This means that it is used as a pension savings scheme for employees who are eligible for automatic enrolment into a pension scheme.

The Trustees have made available a range of investment options for members. New members who join the Scheme and who do not choose an investment option are placed into the Lump Sum Strategy, (the "Default").

A number of other funds are also classified as defaults for some members, following past investment changes where members' funds have been transferred without the members expressing a choice. These legacy default arrangements are:

- the Cash Lifestyle;
- the Annuity Purchase Lifestyle; and
- the Annuity Targeting Strategy.

The Trustees recognise that most members do not make active investment decisions and instead invest in the Default (or are invested in a legacy default arrangement). After taking advice, the Trustees decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

The current Default was put in place in October 2018. The previous, main default arrangement was the "Cash Lifestyle". Members that were more than two years from retirement in October 2018 were transferred from the Cash Lifestyle to the Lump Sum Strategy. Members who were two years or less from retirement were not moved automatically, and hence some members remained in the Cash Lifestyle, which is now a legacy default arrangement.

The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangements.

Details of the objectives and the Trustees' policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP covering the default arrangements is attached to this Statement.

The objective of the Lump Sum Strategy and Cash Lifestyle, as stated in the SIP, is 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 assumption that members will take the whole of their pension savings as a cash lump sum at retirement.

The Default is reviewed at least every three years and was last reviewed by the Trustees, with the help of their investment adviser, on 14 December 2020; all the DC strategies and funds were covered as part of that review, and it was concluded that they remain appropriate. The Trustees concluded that a cash lump sum remains an appropriate retirement target. The Trustees reviewed the glidepath of the Default strategy and the underlying funds used (in other words, the changing mix of assets which members are invested in throughout their journey to their target retirement date). However, the Trustees are considering some refinements to the Default, including reducing the UK equity overweight in the growth phase, introducing a climate-tilted global equity fund to help mitigate climate change risk, replacing the current Diversified Growth Fund with a strategic multi-asset allocation (to reduce reliance on manager skill and reduce

fees), replacing the absolute return bond fund with a short duration credit fund (to reduce fees and complexity and mirror what was done in the DB Section) and amending the glidepath (as described above).

The performance and strategy of the Default were reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the aims and objectives of the Default as stated in the SIP, and to check that it continues to be suitable and appropriate given the Scheme's risk profiles and membership.

In addition to the strategy review, the Trustees also review the performance of the default arrangements against their objectives on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. The Trustees' reviews that took place during the Scheme year concluded that the default arrangements were performing broadly as expected given the market conditions.

3. Requirements for processing core financial transactions

DC arrangements

The processing of core financial transactions is carried out by the administrator of the Scheme's DC arrangements, Aegon. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The Trustees have received assurance from Aegon that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately. Aegon has also provided its Assurance Report on Controls report for the year to 30 September 2020 and provided confirmation the content has not changed materially for the period 1 October 2020 to 31 March 2021.

The Scheme has a service level agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core financial transactions. All processes including core financial transactions are conducted in accordance with a strict governance framework. The key processes adopted by Aegon to help it meet the SLA are as follows:

- The documentation received in support of all financial transactions requested on a member's account is fully reviewed for completeness before processing may commence.
- Checklists are in place to help ensure that all necessary information for financial transactions has been received and that all regulatory and service level requirements have been met. Checklists are reviewed by a senior administrator.
- A senior administrator will also review the financial transactions that have been keyed into the record keeping system for completeness and accuracy. Financial transactions include contributions, switches, refunds, transfer out payments, deaths and retirements.
- All requests for financial transactions are scanned into Aegon's work management system and tracked to ensure that they are actioned on a timely basis and completed in accordance with agreed service standards.
- A daily report is run to verify that the dealing deadline is met (ie that transactions are conducted in a timely and accurate manner). This report identifies members with a partially processed transaction and identified cases are investigated and actioned appropriately. Two further reports are run regularly to ensure that accounts are maintained in accordance with all relevant regulatory and scheme requirements.
- All contributions are submitted through Aegon's online portal. The contributions are checked against expected contributions due and any variances by plus or minus 10% are investigated and the appropriate action taken to resolve any issues. Before single contributions are invested, an "Authority to Bank" form is completed to confirm that the relevant Know Your Client/Anti Money Laundering checks have been performed and this form is checked by a senior administrator.
- A daily checklist is run by the administrator's dealing team to verify that all dealing activities are completed accurately and on a timely basis (eg that subscriptions, redemptions and switches are processed on time). The checklists cover the dealing, pricing and reconciliation functions of the team. Dealing activities with third-party managers include authorisation by two approved signatories. Aegon carries out daily holdings reconciliations between its recordkeeping system and its dealing system to highlight any differences. Any exceptions are investigated and resolved and reviewed by a senior administrator at Aegon.

To help the Trustees monitor whether service levels are being met, the Trustees receive and review quarterly reports about Aegon's performance, as well as ongoing member cases, membership and movement statistics and high level accounting. The reporting includes activity reports which allow the Trustees to verify whether specified transactions (eg retirement quotations, transfer quotations) are performed within the agreed target turnaround performance standards for different activities specified under the SLA. Furthermore, Aegon

conducts a data review exercise on an annual basis, to assess whether the Scheme data it holds is materially accurate and complete (eg financial data and personal data).

Additionally, on behalf of the Trustees, the Harsco Pensions Team holds periodic calls and meetings with Aegon to ensure that work is correctly prioritised and visible to the Trustees outside of quarterly reporting. Aegon will meet with the Harsco Pensions Team at least annually, as well as attend at least one Trustees' meeting each year.

Aegon's performance against the SLA over the year to 31 March 2021 is shown below. The target for SLA performance was 95%; however, that target was changed to 90% with effect from 1 April 2020 and is still at 90%, due to the difficulties that the Covid-19 pandemic has caused. Relative to the lower target of 90%, SLA performance has been good over 2020 but slightly below this target over Q1 2021. SLA performance over Q1 2021 was below the target due to higher than forecasted work volumes for transfer, drawdown and retirement work items, as well as due to the extension of a recruitment programme, training of new staff and cross-training.

- Q2 2020 93%
- Q3 2020 95%
- Q4 2020 93%
- Q1 2021 86%

Based on its review processes, the Trustees, are satisfied that over the period covered by this Statement:

- Aegon was operating appropriate procedures, checks and controls;
- there have been no material administration issues in relation to processing core financial transactions; and
- given the circumstances, core financial transactions on the whole have been processed promptly and accurately to an acceptable level during the Scheme year.

AVC arrangements

Utmost Life and Pensions ("Utmost", formerly Equitable Life), Prudential and Equiniti were the Scheme's Additional Voluntary Contribution ("AVC") providers during the Scheme year.

The Trustees review the Scheme's AVC arrangements on a triennial basis and the last review took place on 26 February 2021. The Trustees concluded that the current AVC arrangements remain appropriate for members however decided to close one of the policies (which is administered by Prudential) to future contributions following it being reopened for a one-off transfer-in payment in 2019.

The AVC providers have provided the following information in relation to the controls they have in place to ensure core financial transactions are processed promptly and accurately. Given that the AVC arrangements have a very small number of members and assets invested relative to the overall DC arrangements, the Trustees monitor the AVC providers administrative performance less frequently than they do Aegon's performance and do not currently require quarterly reports from them.

Utmost

All of the Scheme's AVC assets held with Utmost were transferred to the existing Aegon DC arrangements on 19 May 2020. In the circumstances, Utmost only provided administrative services to Scheme members for a limited period of time during the Scheme year. Therefore, the Trustees took a proportional approach to reviewing Utmost's administrative performance during this period.

Utmost has a set of service level standards, rather than targets at product or scheme level. Generally, they aim to reply to most requests within 10 days, with payments completed within 5 where possible. The Trustees received no reports that Utmost failed to meet its own service level standards or any related member complaints during that time. In the circumstances, the Trustees were satisfied that any core financial transactions relating to the Scheme for which Utmost were responsible were processed promptly and accurately.

Prudential

There is one policy administered by Prudential. Prudential uses 'End to End' ("E2E") reporting rather than reporting against an SLA, which means that performance is measured against the total time taken to deal with a work item, from the day of receiving it through to the closure date of the work item. The aim of this reporting system, which was introduced on 1 July 2019, is that queries will be dealt with in a smaller number of days. Some examples of transactions that are covered by this new reporting are complaints, contributions, retirement claims, and transfers in and out. The Trustee's investment advisor has contacted Prudential to obtain further details on the E2E reporting process and Prudential's performance against it over the period. However, at the time of writing, Prudential has not provided a response. The Trustees' investment advisor will continue to

request a response from Prudential and have lodged a formal complaint regarding general lack of responsiveness as a step to try and obtain the information.

Prudential is aware that the Trustees expect Prudential to report any material administration errors in relation to processing core financial transactions. Having received no reports of such errors or any related member complaints, the Trustees are satisfied that Prudential processed Scheme core financial transactions promptly and accurately during the Scheme year.

Equiniti

There are two policies administered by Equiniti but held by Prudential. Prudential work with Equiniti to ensure investments are completed correctly. There is no SLA in place for the Scheme and so the Trustees' investment advisers are also seeking further details from Equiniti about its processes and performance standards. This has not been received in time to include in this Statement; the steps taken to obtain the information are for the Trustees adviser to continue to request this. However, the Trustees have received assurance from Equiniti that it has appropriate internal controls to ensure that core financial transactions in respect of the Scheme are processed promptly and accurately. Equiniti is aware that the Trustees expect Equiniti to report any material administration errors in relation to processing core financial transactions and Equiniti has confirmed that there have been no material administration issues, errors or unreasonable delays. Therefore, the Trustees are satisfied that Equiniti processed Scheme core financial transactions promptly and accurately during the Scheme year.

4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("**TER**"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges also include a portion of the administration costs. However, in order to maintain lower fees for members, the Company pays an annual per member amount to Aegon, effectively covering part of the cost members would otherwise have to pay.

The Trustees are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds, but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by Aegon as the Scheme's platform provider, and Utmost and Prudential as the Scheme's AVC providers. Aegon has provided TERs as at 31 March 2021 and transaction costs for the year to 31 March 2021. At the time of writing, Prudential has been unable to supply TERs as at 31 March 2021 and transaction costs over the year to 31 March 2021. Therefore, figures have been shown over the closest period available, which is as at August 2020 for the TERs and over the year to 31 December 2020 for the transaction costs. The Trustees' investment advisor has requested these figures over the Scheme year from Prudential and continues to request as response from Prudential. The Trustees' investment advisor has also lodged a formal complaint with Prudential for their lack of response. When preparing this section of the Statement the Trustees have taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustees have shown any negative figure as zero.

Default arrangements

The Default arrangement for new joiners is the "Lump Sum Strategy". The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested. In addition to the Default, members also have the option to invest in a lifestyle designed to be appropriate for members wishing to opt for drawdown in retirement; members can also select a lifestyle designed to be appropriate for members wishing to purchase an annuity at retirement (or may already be invested in such a lifestyle under a legacy default arrangement). Some of these alternative options are also considered defaults for legislative purposes.

For the period covered by this Statement, annualised charges and transaction costs for the current and legacy default arrangements are set out in the following tables. In 2018, as part of implementing the changes agreed from a detailed review of the DC investment arrangements, the Trustees closed the existing lifestyles and only members that were within two years of their target retirement date were permitted to remain in these legacy arrangements. Therefore, for these legacy arrangements, charges and transaction costs are only shown below and in the self-select options section for two years to target retirement date and at-retirement.

Lump Sum Strategy (current default arrangement)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
15 or more years to retirement	0.23	0.07
10 years to retirement	0.27	0.12
5 years to retirement	0.39	0.36
At retirement	0.39	0.48

Cash Lifestyle (legacy default arrangement)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
2 years to retirement	0.32	0.14
At retirement	0.18	0.01

Annuity Purchase Lifestyle (legacy default arrangement)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
2 years to retirement	0.21	0.06
At retirement	0.14	0.00

Annuity Targeting Strategy (legacy default arrangement and self-select option)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
15 or more years to retirement	0.23	0.07
10 years to retirement	0.27	0.12
5 years to retirement	0.26	0.08
At retirement	0.24	0.03

Self-select options

The annual charges during the period covered by this Statement for the alternative options which are not considered default arrangements are set out in the tables below.

Flexible Income Strategy (current self-select option)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
15 or more years to retirement	0.23	0.07
10 years to retirement	0.27	0.12
5 years to retirement	0.33	0.24
At retirement	0.33	0.30

Drawdown Lifestyle A (legacy arrangement)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
2 years or less to retirement	0.54	0.32

Old Lifestyle (legacy arrangement)

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
2 years or less to retirement	0.14	0.00

There are also a number of 'self-select' funds available to members, which are not structured as lifestyle approaches. These funds are available for members who want to have more control over their investments (ie create their own strategy rather than using a lifestyle approach).

The level of charges for each self-select fund and the transaction costs over the period covered by this Statement are set out in the following table.

Self-select fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (% pa)
Harsco Scheme Active UK Equity Fund	0.46	0.17
Harsco Scheme Active Global Equity Fund	0.78	0.07
Harsco Scheme Passive UK Equity Fund	0.11	0.00
Harsco Scheme Passive Overseas Developed Equity Fund[1]	0.14	0.00
Harsco Scheme Passive 70:30 UK:Overseas Equity Index Fund	0.14	0.00

Fund name	TER (% pa)	Transaction costs (% pa)
Harsco Scheme Passive Emerging Market Equity Fund	0.31	0.00
Harsco Scheme Diversified Growth Fund	0.41	0.25
Harsco Scheme Passive Corporate Bond Fund	0.15	0.05
Harsco Scheme Passive Long Dated Gilt Fund	0.11	-0.04[2]
Harsco Scheme Passive Index-Linked Gilt Fund	0.11	-0.01[2]
Harsco Scheme Cash Fund	0.18	0.01

[1]The Harsco Scheme Passive 70:30 UK:Overseas Equity Index Fund is closed to new members, but existing members in that fund may still contribute to it.
[2]Due to the way in which transaction costs have been calculated it is possible for figures to be negative. Any negative figures are shown in the table as provided, but since transaction costs are unlikely to be negative over the long term, the Trustees have shown any negative figure as zero for the cost and charges illustration.

AVC options

The Scheme has legacy AVC policies with Prudential and Equiniti. As previously mentioned, the Scheme also had AVC assets held with Utmost during the period covered by this Statement; these assets were invested in Utmost's Secure Cash Fund.

Self-select fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (% pa)
Prudential With-Profits Cash Accumulation Fund	N/A[1]	0.13
Prudential Discretionary Fund	0.78	0.17
Prudential Deposit Fund	0.00	0.00
Utmost Secure Cash Fund	0.00[2]	0.00

Source: Prudential, Utmost. Prudential TERs as at August 2020. At the time of writing, Prudential has been unable to provide TERs or transaction costs to 31 March 2021. Therefore, TERs and transaction costs have been shown as at the latest date available, which is over the year to 31 December 2020. Utmost was unable to provide transaction costs over the year to 31 March 2021, however Utmost has confirmed that the Secure Cash Fund had marginal transaction costs less than 0.01% over the period 1 January 2020 to 31 December 2020.

[1]Charges on the Prudential With-Profits Fund depend on the performance of the Fund and, in particular, the investment returns achieved, and expenses incurred. Over time, if investment returns are higher, then the charges would be expected to be higher, and if investment returns are lower, the charges would be expected to be lower. The annual charge, further costs, and charges to cover the cost of these guarantees, are already taken into account when the bonus rates for the with-profits fund is calculated.

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, the Trustees have had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past two years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past two years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Scheme year.
- The illustration is shown for the Default (the Lump Sum Strategy) since this is the arrangement with the most members invested in it, as well as four funds from the Scheme's current self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the Harsco Scheme Passive Emerging Market Equity Fund
  - the fund with the lowest before costs expected return – this is the Harsco Scheme Cash Fund
  - the fund with highest annual member borne costs – this is the Harsco Scheme Active Global Equity Fund
  - the fund with lowest annual member borne costs – this is the Harsco Scheme Passive Long Dated Gilt Fund

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £3,400. This is the approximate median pot size for members aged 30 years and younger (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection).
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £35,000. This is the approximate median salary for active members aged 30 or younger.
- Total contributions (employee plus employer) are assumed to be 9.0% of salary per year. This is the approximate median total (employee plus employer) contribution rate for members aged 30 years old or younger.
- The projected annual returns used are as follows:
  - Default option: 2.7% above inflation for the initial years, gradually reducing to a return of 1.3% below inflation at the ending point of the lifestyle.
  - Harsco Scheme Passive Emerging Market Equity Fund: 3.5% above inflation
  - Harsco Scheme Cash Fund: 1.8% below inflation
  - Harsco Scheme Active Global Equity Fund: 3.5% above inflation
  - Harsco Scheme Passive Long Dated Gilt Fund: 1.7% below inflation
- No allowance for active management outperformance has been made.

Projected pension pot in today's money

	Default option		Harsco Scheme Passive Emerging Market Equity Fund		Harsco Scheme Cash Fund		Harsco Scheme Active Global Equity Fund		Harsco Scheme Passive Long Dated Gilt Fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£6,700	£6,700	£6,700	£6,700	£6,500	£6,500	£6,700	£6,700	£6,500	£6,500
3	£13,500	£13,400	£13,700	£13,600	£12,400	£12,400	£13,700	£13,500	£12,400	£12,400
5	£20,700	£20,500	£21,200	£21,000	£18,200	£18,100	£21,200	£20,700	£18,200	£18,200
10	£40,500	£39,800	£42,400	£41,700	£31,600	£31,300	£42,400	£40,500	£31,800	£31,600
15	£63,000	£61,500	£67,500	£65,800	£43,900	£43,300	£67,500	£63,100	£44,300	£43,900
20	£88,800	£85,900	£97,400	£94,000	£55,200	£54,100	£97,400	£88,900	£55,700	£55,100
25	£118,200	£113,300	£132,900	£127,100	£65,500	£63,900	£132,900	£118,300	£66,300	£65,400
30	£148,400	£140,800	£175,000	£165,700	£74,800	£72,800	£175,000	£151,900	£75,900	£74,700
35	£174,200	£161,700	£225,000	£211,000	£83,400	£80,800	£225,000	£190,300	£84,800	£83,200
40	£187,300	£167,600	£284,400	£263,900	£91,200	£88,100	£284,400	£234,100	£92,900	£91,000

5. Value for members assessment

The Trustees are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustees in relation to value for member considerations is set out below.

The Trustees review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was 3 June 2021. The Trustees note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustees' investment advisers have benchmarked the Scheme's member borne charges against other similar schemes, and have confirmed that the fund charges are broadly competitive for the types of fund available to members.

The Trustees' assessment included a review of the performance of the Scheme's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives given the market conditions and there are no material concerns. However, the Trustee is considering changing some of the funds as part of the strategy review that was conducted over the Scheme Year. The Trustees note that the Default strategy objective of gradually reducing the volatility of returns for members closer to retirement has been achieved. The Trustees continue to monitor the performance of the Scheme's investments on a quarterly basis via detailed reporting provided by the Trustees' investment advisers.

In carrying out the assessment, the Trustees also consider the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustees, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Scheme website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustees believe the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expect this to lead to greater investment returns net of costs over time.

Overall, the Trustees believe that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustees also note that members benefit from Harsco paying a per member amount to the DC bundled provider, Aegon, which significantly reduces the charges that members would otherwise incur on their investments.

6. Trustee knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustees have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. This helps the Trustees to develop their understanding and knowledge of the principles relating to the funding and investment of DC arrangements.

The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the training received by the Trustees included:

- Climate risk and climate tilted equity funds

- Impact of the coronavirus pandemic on the market

Additionally, the Trustees receive quarterly updates on topical pension issues from their investment advisers and quarterly legal updates from their legal advisers concerning the law relating to pensions and trusts.

All the Trustees are familiar with the Scheme's governing documentation and documentation setting out the Trustees' policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments.

Further, the Trustees believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. Additionally, the Scheme has in place a structured induction process for new trustees. All new Trustees receive a full day's inhouse "one to one" training, usually conducted by the Pensions Manager and the Scheme Actuary. This is followed up by ensuring the new Trustee has access to all Scheme documentation and to the Regulator's website to fully take on board the knowledge and understanding requirements and access the Toolkit. All Trustees are encouraged to undertake the Pensions Regulator's Trustee Toolkit.

The evaluation of Trustees' knowledge and training needs is not formalised by completion of questionnaires but rather the Trustees are encouraged to highlight at each meeting any area they perceive to be a gap in their knowledge and understanding so that the appropriate training can then be arranged.

There is not a formal process in place to evaluate the performance and effectiveness of the Trustee Board but rather the Trustees rely on their advisers to highlight any areas for improvement, either specifically perceived in their dealings with the Trustees or by comparison with areas of good practice displayed by other clients. All Trustees have completed Trustee fitness and propriety questionnaires, based on the Regulator's own questionnaire for those wishing to be included on its register of independent Trustees.

In addition to the above, some Trustees bring with them wider experience of trusteeship and the financial sector through other appointments that they have held or continue to hold.

Considering the knowledge and experience of the Trustees and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

C Whistler Date: 02.10.2021

Signed by the Chair of Trustees of the Harsco Pension Scheme

Statement of Investment Principles for the Harsco Pension Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Harsco Pension Scheme ("the Trustees") on various matters governing decisions about the investments of the Harsco Pension Scheme ("the Scheme"), a Scheme with Defined Benefit ("DB") and Defined Contribution ("DC") sections. This SIP replaces the previous SIP dated December 2018.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, the Pension Regulator's guidance for defined benefit pension schemes (March 2017), and the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the circumstances of the Scheme, and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustees' primary objectives for the DB Section are:

- to seek to ensure that the obligations to the beneficiaries of the Scheme can be met in the long term;

- to invest the funds to achieve additional returns on the Scheme's assets relative to the Scheme's liabilities without excessive risk. What the Trustees determine to be an appropriate level of risk is set out in Appendix 2; and
- to 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. The Trustees have taken into account how the Scheme is expected to develop over time. In particular, the Trustees recognise that the Scheme has a finite lifespan (since it is closed to future accrual).

The Trustees' primary objectives for the DC Section are 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 the Trustees 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 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 take the whole of their pension savings as a cash lump sum at retirement.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, have reviewed the investment strategy for the DB and DC Sections, considering the objectives described in Section 2 above.

3.1. DB investment strategy

The result of the review for the DB Section was that the Trustees agreed that the investment strategy of the Scheme should be based on the allocation below.

Asset class	Strategic allocation
UK equities	11.5
Overseas equities (hedged)	7.0
Global equities (unhedged)	6.5
Emerging market equities	4.0
Total equities	**29.0**
Diversified growth funds ("DGF")	10.0
Infrastructure	7.5

Asset class	Strategic allocation
Long-lease UK property	3.5
Total alternatives	**21.0**
Corporate bonds	22.0
Index-linked gilts	8.5
Liability driven investment ("LDI") and money market cash collateral	15.5
Short duration buy & maintain credit	4.0
Total matching portfolio	**50.0**
Grand total	**100.0**

There is no formal rebalancing policy. The Trustees monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, the Trustees will consider with their advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

As the Scheme matures, the Trustees 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 gradually as the Scheme matures.

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

The Trustees 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 the Trustees will engage with the Company about potential actions the Trustees should take, including reviewing the trigger mechanism.

The required return triggers are set out in the following table:

Required return trigger	Action
1.7% pa over gilts	De-risk investment strategy to target an expected return of 2.3% pa over gilts
1.5% pa over gilts	De-risk investment strategy to target an expected return of 2.0% pa over gilts
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.

The Trustees have also agreed to implement time-based de-risking triggers. These triggers are in place alongside the required return triggers. The time-based triggers are designed to reduce the investment risk of the Scheme without impacting the expected return, by moving between different types of matching assets to target a higher level of liability hedging (on a Technical Provisions basis). Because the timing of implementing liability hedging is important, the Trustees believe it is appropriate to have these triggers to implement matching and risk reduction in a gradual way.

The time-based hedging triggers are set out in the table below:

Time-based hedging triggers	Target liability matching
Q1 2020	60%
Q1 2021	65%
Q1 2022	70%

As at the time of producing this SIP, the Scheme's matching portfolio was hedging approximately 55% of the Technical Provisions. The percentages refer to both interest rate risk and inflation risk hedging.

The amount that ultimately needs to be invested in the different asset types in the matching portfolio (eg gilts versus LDI) is not precisely known at outset, as this will depend on market conditions and the amount of leverage within the LDI funds (which are subject to change). Due to this uncertainty and the fact that the time-based switches may occur after one or more required return triggers are hit, the Trustees' investment advisers will confirm the appropriate split between the matching portfolios at the time a change is due to occur.

3.2. DC investment arrangements

For the DC Section of the Scheme, the Trustees have made available to members a range of investment funds. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, their contributions will be invested into the default arrangement, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to a member's retirement age). The default arrangement for new contributions is called the "Lump Sum Strategy".

The default arrangement is designed to be reasonable for the majority of the members based on the demographics of the Scheme's membership. The default arrangement (both Lump Sum Strategy and legacy Cash lifestyle) targets cash withdrawal at retirement, since the Trustees believe that most members retiring in the next few years at least will wish to take their benefits in this form. In the initial growth phase, the default arrangement is invested to target a return significantly above inflation, and then in the 15 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members wishing to take their DC assets entirely as a cash lump sum.

To help manage the volatility that members' assets experience in the growth phase of the default strategy from investing in equities, the Trustees have included an allocation to diversified growth funds; over the long term such funds are expected to return above inflation but with lower volatility than equities. The growth allocation is also diversified with small allocations to infrastructure and property funds.

The Trustees will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

In setting the strategy for the DB Section, the Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

The key financial assumptions made by the Trustees in determining the investment arrangements are set out in the following table (assumptions are as at 31 March 2019 when the strategy was agreed):

Asset class or investment	Long-term expected return over gilts (% pa)	Standard deviation of returns (% pa)
UK equities	5.0	18.0
Overseas developed market equities (currency hedged)	4.9	20.0
Global equities	5.0	18.0
Emerging market equities	6.0	30.0
Diversified growth funds	3.0	7.0
Infrastructure	3.9	12.0
Long-lease UK property	3.4	8.0
Short dated buy & maintain credit	1.0	2.1
Corporate bonds	0.9	7.0
LDI	1.0	14.3
Money market cash	0.0	1.0

As at the date of the latest investment strategy review the assumed expected return of gilts was 1.5% pa.

In setting the strategy for the DB Section, the Trustees considered:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- 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 risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- the views of the Employer;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about investment markets and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the DC Section, the Trustees considered:

- the best interests of all 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 risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategy and other lifestyle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members; and
- the Trustees' investment beliefs about investment markets and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity and credit are the primary rewarded risks;
- risks that are typically not rewarded should generally be avoided, hedged or diversified;
- the DB investment strategy should be de-risked as the funding level improves and the required return reduces;
- investment markets are not always efficient and there may be opportunities for active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that the Trustees should consider when making investment decisions; and
- costs can have significant impact on long-term performance and therefore obtaining value for money from the investments is important.

The Trustees' key investment beliefs and understanding of the Scheme's membership are reflected in the design of the default and other lifestyle options, and in the range of other funds made available to members.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

In respect of the DC Section, the Trustees have entered into a contract with a "bundled" provider, who makes available a range of investment options to members and also undertakes the administration. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

The Trustees have signed agreements with the DB investment managers, and the bundled provider in respect of the DC Section, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that 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 the fund. 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 the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. The Trustees assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering 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. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its

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.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their 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

The investment managers have discretion over the timing of realisation of investments within the portfolios that they manage, and in considerations relating to the liquidity of investments.

For the DB Section, when appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. The Trustees' preference is that all assets are readily realisable, but the Trustees recognise that ensuring appropriate diversification may mean holding some investments that are not readily realisable (eg property). Overall, however, the Trustees believe that the Scheme's assets are sufficiently liquid to meet the cashflow needs of the Scheme.

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

7. Financially material considerations and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments since they recognise that these factors can be relevant to investment performance.

All Scheme assets are invested in pooled funds. The Trustees 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.

The Trustees consider that it is necessary in all circumstances to act in the best financial interests of the Scheme's members, and they expect their 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 the Trustees review how their managers are taking account of these issues in practice. The Trustees encourage their managers to improve their practices where appropriate.

The Trustees 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, the Trustees will consider how ESG factors are addressed by the manager.

The Trustees 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

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

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.

The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

SIP signed for and on behalf of the Trustees of the Scheme:

Signed: C Whistler

Investment governance, responsibilities, decision-making and fees

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

1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- developing a mutual understanding of investment and risk issues with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing, monitoring, reviewing and dismissing investment managers, custodians, investment advisers, actuary and other advisers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

The Trustees have delegated consideration of certain investment matters to an Investment Committee, although any decisions remain the responsibility of the Trustees.

2. Bundled provider

The bundled provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustees with regular information concerning the management and performance of the assets.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- 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 the Trustees, and for the DC Section's managers the bundled provider where relevant, with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The investment managers for each fund are responsible for appointing custodians to hold the underlying assets of each fund. The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustees or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- within 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 and the asset allocation policy;
- within the DC Section, advising on a suitable fund range and default strategy 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. Such advice takes account of the adviser's assessment of the nature and effectiveness of the

managers' approaches to financially material considerations (including climate change and other ESG considerations); and

- participating with the Trustees in reviews of this SIP.

5. Fee structures

The Trustees recognise that 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.

The Trustees have agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and bundled 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 are considered by the Trustees 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 the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

6. Performance assessment

The Trustees are satisfied, considering the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance process and will decide how this may then be reported to members.

9. Working with the Scheme's employer

When reviewing the Scheme's investment arrangements, the Trustees seek to give due consideration to the employer's perspective. Whilst the Trustees recognise that the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees' are willing to bear within the Scheme in order to meet their investment objectives. Taking more risk is expected to mean that those objectives may be achieved more quickly, but it may also mean that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long-term objectives before attainment of those objectives is seriously impaired. The Trustees aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- 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; and
- 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 Section 3 of the main body of this SIP), as at 31 March 2019, had a three-year 95% Value at Risk of £136m. This means that there was a 1 in 20 chance that the Scheme's funding position will worsen by £136m or more, compared to the expected position, over a three-year period due to investment factors alone. When deciding on the current investment strategy as at this date, the Trustees believed this level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

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

2.1. Risk of inadequate returns

For the DB Section, a key objective of the Trustees 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. The Trustees therefore invest the assets of the Scheme

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 the Trustees 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 strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustees have made the default arrangement a "lifestyle" strategy.

2.2. 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. The Trustees believe that the Scheme's DB assets and DC default strategy are adequately diversified between different asset classes and within each asset class, and the DC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustees on a regular basis.

2.3. Investment manager risk

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

The Trustees 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 a loss of invested asset for the Scheme.

2.4. 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 in order to meet benefit payments. The Trustees 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. The Trustees manage this risk by only using pooled funds with daily dealing within the DC section.

2.5. 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. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

2.6. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations (by broadly matching the assets impact of these factors with the liability impact).

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 the Trustees when requested to do so will not be able to post additional cash to the LDI fund 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, the Trustees 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.

2.7. Risk from 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.

The Trustees 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.

2.8. 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 with Legal & General Investment Management ("L&G"), Aberdeen Standard Investments ("Aberdeen Standard") and BMO Global Asset Management ("BMO"). The Trustees manage credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and by satisfying themselves that the managers are taking into account credit risk when making investment decisions for their respective funds.

2.9. 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. The Trustees 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, the Trustees manage the amount of currency risk to some extent by investing in pooled funds that hedge currency exposure.

The Trustees currently hedge around 50% of the Scheme's developed market overseas equity exposure to foreign currency back to Sterling.

2.10. Interest rate and inflation risk

The DB Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and swaps, via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustees consider interest rate and inflation risks to be generally unrewarded investment risks. As a result, the Trustees aim to hedge around 55% (increasing over time in line with the trigger mechanisms) of the Scheme's exposure to interest rate risk and inflation risk, by investing in bonds and leveraged LDI arrangements.

The net effect of the Trustees' approach to interest rate and inflation risk is to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to manage exposures to these risks in this manner, and to review them on a regular basis.

2.11. Other non-investment risks

The Trustees 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 as part of their assessment of other aspects of the Scheme's Integrated Risk Management framework.

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. The Trustees 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, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Details of the investment managers, their objectives and investment guidelines are set out below.

The Defined Benefit Section

1. L&G – UK equities, overseas equities, corporate bonds, index-linked gilts

The Trustees have allocated:

- 11.5% of the Scheme's assets 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.
- 7.0% of the Scheme's assets 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.
- 10.0% of the Scheme's assets to the L&G's 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 the deduction of fees, over rolling three-year periods. The expected risk relative to the benchmark is +/- 1.5% pa.
- 8.5% of the Scheme's assets to the L&G Over 5 Year Index-Linked Gilts Index Fund. The objective of this fund is to perform in line with the return of the FTSE A Index-Linked (Over 5 Year) Index Fund. The target tracking error is +/- 0.25% pa, before the deduction of fees, for two years out of three.

The hedged overseas equity portfolio comprises of four pooled hedged regional overseas equity funds. The Trustees have a formal target allocation with rebalancing for the funds, as follows:

Fund name	Benchmark index	Tracking error	Target allocation	Rebalancing tolerance
North America Equity Index Fund – GBP Hedged	FTSE World North America Index – GBP Hedged	+/- 0.50% pa	30%	+/- 2.0%
Europe (ex UK) Equity Index Fund – GBP Hedged	FTSE Developed Europe ex UK Index – GBP Hedged	+/- 0.50% pa	40%	+/- 2.5%
Japan Equity Index Fund – GBP Hedged	FTSE Japan Index – GBP Hedged	+/- 0.50% pa	15%	+/- 1.5%
Asia Pacific (ex Japan) Developed Equity Index Fund – GBP Hedged	FTSE Developed Asia Pacific ex Japan Index – GBP Hedged	+/- 0.75% pa	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

The Trustees have allocated:

- 3.5% of the Scheme's assets to Aberdeen Standard's 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 manager does not have a tracking error target.
- 12.0% of the Scheme's assets to Aberdeen Standard's 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 Aberdeen Standard funds the Scheme invests in are priced daily and are open ended and unlisted.

3. Fundsmith – Global equities

The Trustees have allocated 6.5% of the Scheme's assets 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 the deduction of fees, over a full business cycle. There is no specific risk target for this fund. This fund is priced daily, is open ended and unlisted.

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

The Trustees have allocated 4.0% of the Scheme's assets 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. This fund is priced daily, and is open ended and unlisted.

5. Ruffer LLP ("Ruffer") – Diversified growth

The Trustees have allocated 10.0% of the Scheme's assets to the Ruffer Absolute Return Fund. The objectives of this fund are, after the deduction of fees are to:

- not lose money in any rolling twelve-month period; and
- generate returns significantly greater than the Bank of England Base Rate.

The expected risk of the fund (standard deviation of returns) is about 7% pa. The fund is priced weekly and is open ended and unlisted.

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

The Trustees have allocated 7.5% of the Scheme's assets 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 fund is priced daily, and is open ended and unlisted.

7. BMO Global Asset Management Limited ("BMO") – LDI

The Trustees have allocated:

- 14.5% of the Scheme's assets to the BMO's pooled dynamic LDI funds. The objective of the funds are 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.
- 4.0% of the Scheme's assets 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.
- 1.0% of the Scheme's assets to the BMO Sterling Liquidity Fund. The objective of the 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 Defined Contribution Section

The Trustees make available a range of passively and actively managed self-select funds and lifestyle strategies to members of the DC Section. The default arrangement is a lifestyle strategy. Details of the options are set out below. Members are provided with information on the investment options and their characteristics that will allow the members to make an informed choice.

The fund options are provided to members via a bundled policy with Aegon governed by an agreement signed between Aegon Workplace Investing and the Scheme.

The funds are priced daily. The funds are open ended unless otherwise specified and are unlisted.

8. Passively managed self-select fund options

The Trustees make available the following passively managed funds, with the objective of tracking their benchmark return to within the specified tolerance before the deduction of fees.

Passive fund name	Benchmark index	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 Market Equity Fund	MSCI Emerging Markets Index	+/- 1.0% pa
Harsco Scheme Passive 70:30 UK:Overseas Equity Index Fund	Composite index – see below*	+/- 0.4% 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

*Prior to 30 September 2016, the passive global equities benchmark consisted of 70% FTSE All-Share Index and 30% split between developed economies according to the CAPS Consensus weightings (ie a measure of the allocation adopted by the "average" pension scheme based on the CAPS Survey). Since 30 September 2016, the CAPS Consensus weightings has been replaced by the ABI 40-85 Sector Index[1]. This fund is closed to members not already invested, but existing members may remain invested and can continue to contribute to the fund.

9. Actively managed self-select fund options

The Trustees make available the following actively managed pooled funds as self-select options:

Active Fund Name	Objective
Harsco Scheme Active UK Equity Fund	To outperform the FTSE All-Share Index by 1.5% pa to 2.0% pa, before the deduction of fees, over rolling three-year periods. There is no specific risk target for this fund.
Harsco Scheme Active Global Equity Fund	To outperform the MSCI World Index by 2.0% pa, before the deduction of fees, over a market cycle. The expected tracking error risk relative to the benchmark is 3% pa.

[1] 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.

Active Fund Name	Objective
Harsco Scheme Cash Fund	To outperform the return of 7 Day Sterling LIBID, before the deduction of fees. There is no specific risk target for this fund.
Harsco Scheme Diversified Growth Fund	To outperform the three-month Sterling LIBOR return by 3.5% pa, before the deduction of fees, over a market cycle. There is no specific risk target for this fund.

10. Additional Voluntary Contributions ("AVCs")

The Trustees have made available to members a range of AVC funds offered by Aegon, and Prudential Assurance Company Limited ("Prudential"). The Aegon funds are those made available to members of the DC Section.

The Prudential funds invested in as at 30 May 2018 are the:

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

The Prudential Discretionary, Deposit and With-Profits Cash Accumulation funds are closed to contributions from existing members, and to new members. No other Prudential funds are available to existing or new members.

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

11. Lifestyle strategies

The Trustees' offer members three lifestyle strategies, as set out in the charts in this Section. The strategies are all a combination of the funds available as self-select options, as well as the following funds:

- Harsco Scheme Global Property Fund;
- Harsco Scheme Infrastructure Fund;
- Harsco Scheme Absolute Return Bond Fund; and
- Harsco Scheme Pre-Retirement Fund

The asset allocation for all three lifestyle strategies is the same until 10 years from retirement. Before 15 years from retirement, the asset allocation is static as set out

below. Between 15 years and 10 years from retirement, the asset allocation for all three lifestyle strategies gradually changes to increase the allocation to diversified growth and reduce the allocation to equities, infrastructure and property.

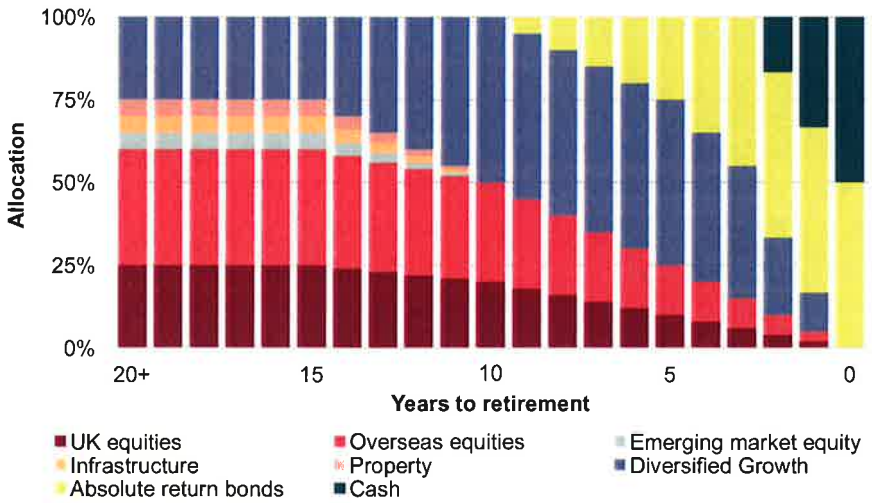
	Before 15 years from retirement	At 10 years from retirement
Passive UK equities	25%	20%
Passive overseas equities	35%	30%
Passive emerging market equities	5%	-
Diversified growth	25%	50%
Infrastructure	5%	-
Property	5%	-
Total	**100%**	**100%**

The strategies then de-risk to various amounts depending on the particular lifestyle fund so as to reduce risk as a member approaches retirement.

The following graphs show how the asset allocation changes in the run up to the member's selected retirement age.

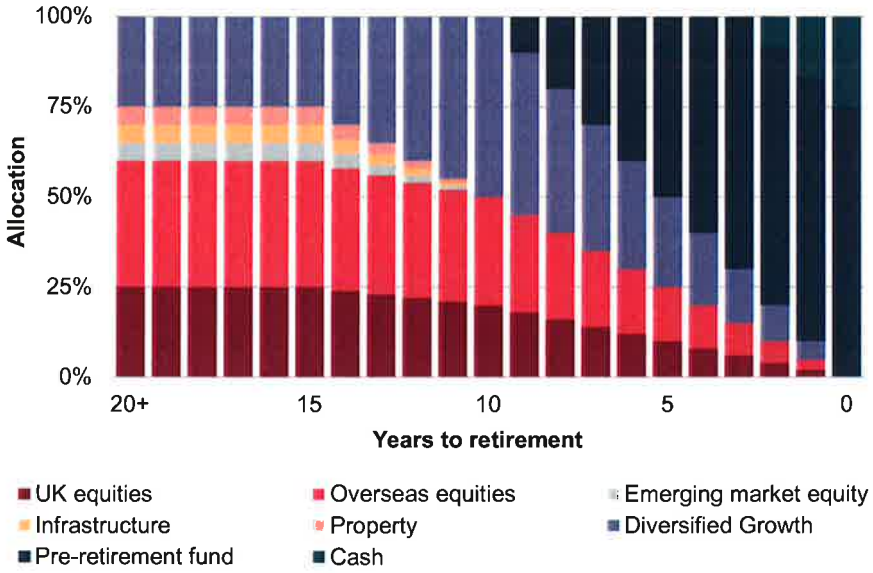
Lump sum strategy (default arrangement)

Objective: The objective of the default option is 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 take the whole of their pension savings as a cash lump sum at retirement.



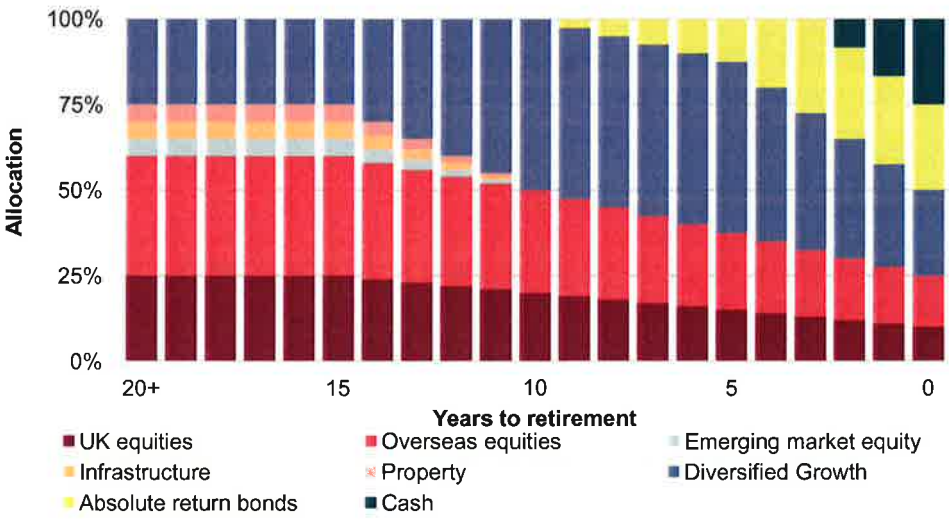
Annuity targeting strategy

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 that move in line with annuity prices as members near retirement, on the basis that members will use 75% of their pension savings and take the remaining 25% as a cash lump sum to buy a guaranteed lifetime annual income (known as an annuity) at retirement.



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 and take the remaining 25% as a cash lump sum.

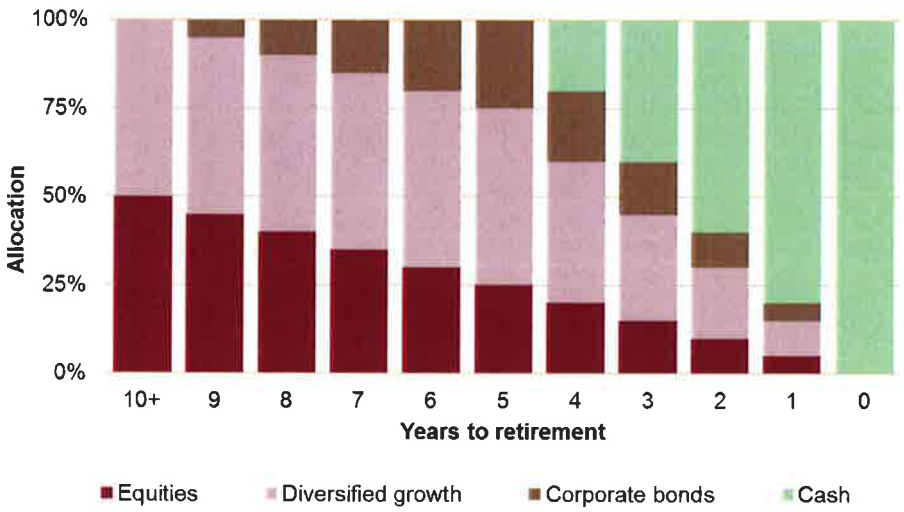


12. Legacy lifestyles

Members that were more than two years from retirement when the new lifestyles were put in place in October 2018 were mapped from the legacy lifestyles to the new lifestyles automatically. Members that were two years or less from retirement were not moved automatically; these members could remain in the legacy lifestyles. The asset allocation and objectives of the legacy lifestyles are shown on the overleaf. These lifestyles are closed to new members.

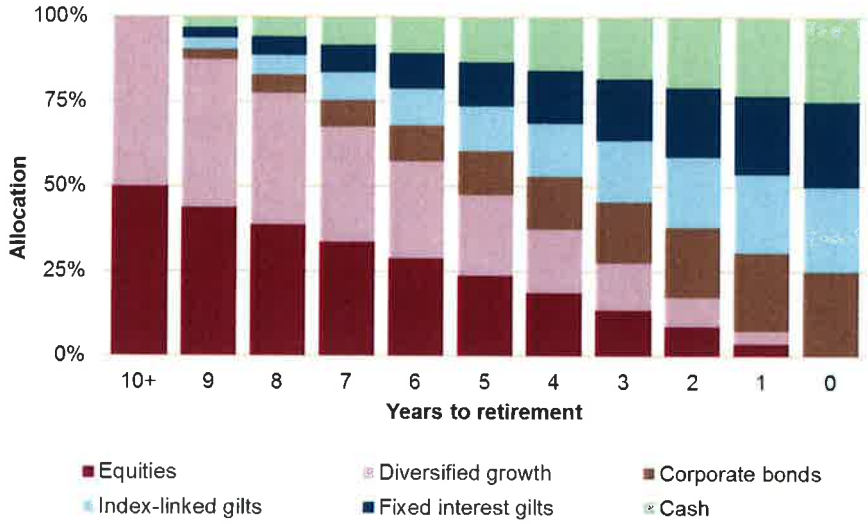
Cash Lifestyle (legacy default arrangement)

Objective: The objective of the default option is 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 take the whole of their pension savings as a cash lump sum at retirement.



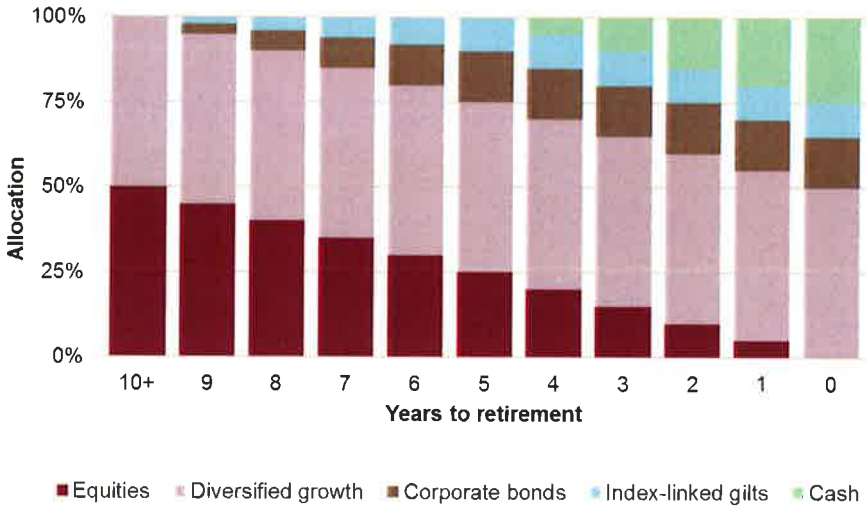
Annuity Purchase Lifestyle

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 move in line with annuity prices as members near retirement, on the basis that members will use 75% of their pension savings and take the remaining 25% as a cash lump sum to buy a guaranteed lifetime annual income (known as an annuity) at retirement.



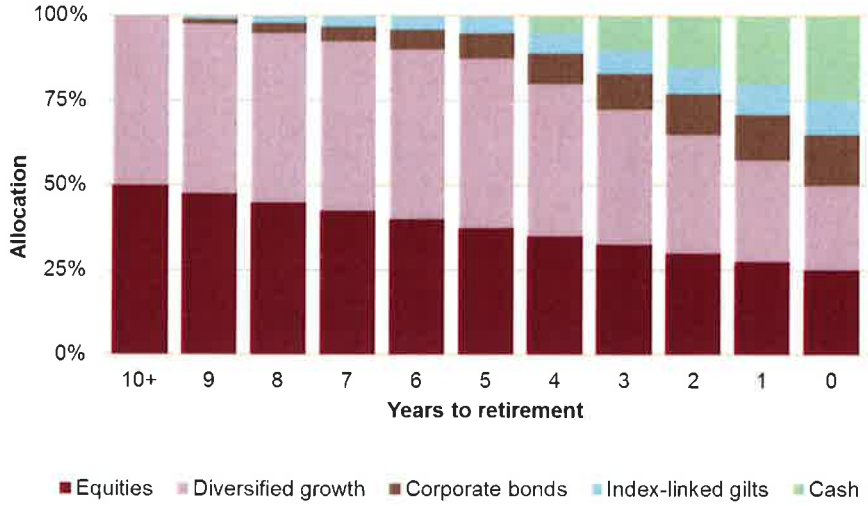
Drawdown Lifestyle A

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 and take the remaining 25% as a cash lump sum.



Drawdown Lifestyle B

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 and take the remaining 25% as a cash lump sum.



Old Lifestyle

Objective: The objective of the default option is 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 take 25% of their savings as a cash lump sum and use the remainder to purchase an annuity.