Spirent Staff Pension & Life Assurance Plan ("the Plan")
Statement of Investment Principles

As at September 2019

Investment Objective

Defined Benefit ("DB") assets

The Trustees aim to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Plan's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan's liabilities.

Defined Contribution ("DC") assets

The Trustees' primary objective for the DC assets is to deliver long-term growth of the members' funds.

STRATEGY

DB assets

The Trustees of the Plan have determined an asset allocation strategy for the Plan taking into account the Plan's current circumstances and advice from their advisors. The strategic asset allocation for the asset portfolio as at September 2019 is shown in the table below:

Asset class	Weighting (%)
World Equities	20.0
Diversified Growth Funds	20.0
Cash-benchmarked bond portfolio	40.0
LDI funds	20.0
Total	**100.0**

The actual asset allocation will vary relative to the target weightings due to market movements, manager performance, cash flow requirements and other factors.

The asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position and the liability profile. The Trustees' policy is to make the assumption that equities will outperform gilts over the long term. However, the Trustees recognise the potential volatility in equity returns, particularly relative to the Plan's liabilities. When choosing the Plan's asset allocation strategy the Trustees considered written advice from their investment advisers and, in doing so, addressed the following:

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Plans (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability to the Plan of each asset class and the appropriateness of each investment as an investment of that asset class.
- The need for appropriate diversification.

To reduce the volatility of the Plan's liability value relative to the value of the Plan's assets, the Trustees increased the Plan's level of interest rate hedging between June 2014 and the start of April 2015 to around 50% (on a Technical Provisions basis). Between April 2016 and January 2019 this was further increased to around 75%. The Plan's inflation exposure is broadly 100% hedged.

DC assets

Some members have transferred in benefits notionally invested within the Plan's investments. These members do not hold any actual investments in the Plan, but instead are assigned fund units based on the amount of benefits initially transferred in. The value of these units is determined by the underlying value of the Staff Plan assets.

Some members have transferred in benefits invested in a corporate investment account with Clerical Medical.

In determining the investment arrangements for members with DC assets 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 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 investment options;
- any other considerations which the Trustees consider financially material over the periods until members' retirement, or any other timeframe which the Trustees believe to be appropriate; and
- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

RISK

The Trustees consider that there are a number of different types of investment risk that are important for the Plan. These include, but are not limited to:

DB assets only

1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Plan should have adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Plan to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Plan's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

2. Liquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Plan's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments.

3. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Plan, and takes these into consideration as far as practical in setting the Plan's investment arrangements.

Examples 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 Plan as anticipated).
- operational risk (the risk of fraud, poor advice or acts of negligence).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

DC assets only

1. Risk of inadequate returns

For the DC assets, 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.

2. Liquidity/marketability risk

This is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustees manage this risk by diversifying the strategy across different types of investment.

3. Risk from excessive charges

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 Plan are in line with market practice.

DB and DC assets

1. 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 Plan's assets. The Trustees believe that the Plan's assets are adequately diversified between different asset classes and within each asset class. This was key consideration when determining the Plan's investment arrangements.

2. 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.

3. 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 Plan is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

4. Currency risk

Whilst the majority of the currency exposure of the Plan's assets is to Sterling, the Plan is subject to currency risk because some of the Plan'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 by investing in pooled equity funds that hedge currency exposure.

5. Interest rate and inflation risk

The Plan's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bonds and swaps, via pooled funds. However, the interest rate and inflation exposure of the Plan's assets hedges part of the corresponding risks associated with the Plan's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner.

6. Other non-investment risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan'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.

IMPLEMENTATION

Lane Clark & Peacock LLP has been selected as investment adviser to the Trustees. They operate under an agreement to provide a service which ensures the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. Lane Clark & Peacock LLP are paid an agreed annual fee which includes all services needed on a regular basis. Some one-off projects fall outside the annual fee and the fees for these are negotiated separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

DB assets

The fund manager structure and investment objectives for each fund manager ("mandates") are as follows:

Legal & General **World Equity Index Fund** To track the performance of the FTSE AW-World Index (less withholding tax if applicable) to within +/- 0.5% p.a. for two years out of three. **World Equity Index Fund – GBP Currency Hedged** To track the performance of the FTSE AW-World Index (less withholding tax if applicable) GBP Hedged (with the exception of Advanced Emerging Markets) to within +/- 0.5% p.a. for two years out of three. **Liquidity Fund** To produce a high degree of capital and liquidity preservation with an enhanced cash return over 7-Day LIBID Notice Rate. **Diversified Fund** To provide a substitute for developed equities with two-thirds of the volatility.
Insight Investment **Liability Matching Portfolio** To partially hedge the sensitivity of the Plans' technical provisions liabilities to interest rates and inflation expectations. **Cash Benchmarked Portfolio:** **Bonds Plus** To outperform 3-month LIBOR by 2% per annum over a rolling 3 year basis with a tracking error of 0-5% per annum. **Absolute Insight Credit** No formal target, but an investment objective to outperform 3-month LIBID by 4% per annum, with a tracking error of 0-10% per annum.

<u>Libor Plus</u>
No formal target, but an investment objective to outperform 3-month LIBOR by 2% per annum, with a tracking error of 0-5% per annum.

<u>Liquidity Plus</u>
No formal target, but an investment objective to outperform 3-month LIBOR by 0.125% per annum.

<u>Liquidity</u>
No formal target, but an investment objective to provide an income which is comparable to Sterling denominated short dated money market interest rates.

Aberdeen Standard

<u>Global Absolute Return Strategies (GARS)</u>
To outperform 6-month LIBOR by 5% per annum, gross of fees, over rolling three year periods.

The Legal & General appointment represents a direct investment in the form of an insurance policy with Legal & General Assurance (Pensions Management) Ltd, which in turn invests in units in a range of pooled funds managed by Legal & General Investment Management Limited.

The Trustees have entered into an investment management agreement with Insight Investment Management (Global) Limited, governing the investments in the Liability Matching portfolio and the Cash Benchmarked Portfolio.

The Aberdeen Standard GARS fund is structured as a direct investment in the form of an insurance policy and invested in underlying pooled funds managed by Aberdeen Standard Investments.

DC assets

The investment objectives for each mandate are outlined below:

Notionally invested assets

The value of the units assigned to members notionally invested within the Plan's investments is determined by the underlying value of the Staff Plan assets. The objectives of the underlying funds of the Staff Plan are outlined in the previous section.

Clerical Medical

Balanced Fund

The fund aims to achieve long-term capital growth by gaining exposure predominantly to UK and overseas equities with flexibility to gain a minority exposure to commercial property and fixed interest stocks.

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract.

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, given the time horizon of the Plan and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

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

The Trustees 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.

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, 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, taking into account the long-term financial interests of the beneficiaries. Where relevant, 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.

INVESTMENT BELIEFS

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, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good 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;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

GOVERNANCE

The Trustees are responsible for the investment of the Plan's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

<table>
<tr><td colspan="2">Trustees
• Monitor actual returns versus Plan investment objective.
• Set structures and processes for carrying out their role.
• Select and monitor planned asset allocation strategy.
• Select direct investments (see below).
• Selection of investment advisers and fund managers.
• Structure for implementing investment strategy.
• Monitor investment advisers and fund managers.
• Monitor direct investments.
• Formulate a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change).</td></tr>
<tr><td>Investment Adviser
• Advise on all aspects of the investment of the Plan assets, including implementation.
• Advise on this statement.
• Provide required training.</td><td>Fund Managers
• Operate within the terms of this statement and their written contracts.
• Select individual investments with regard to their suitability and diversification.
• Advise Trustees on suitability of the indices in its benchmark.</td></tr>
</table>

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s). Further, they should consider whether the investment is satisfactory having regard to suitability, diversification and the principles contained in this SIP.

The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on an ad valorem basis. The level of remuneration paid to fund managers is reviewed by the Trustees against market rates to ensure the fund managers' interests are aligned with those of the Plan.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. Before revising the SIP, the Trustees will obtain and consider professional investment advice from Lane Clark & Peacock LLP, who the Trustees believe to be suitably qualified and experienced to provide such advice and the Trustees will also consult with the Sponsoring Employer over any changes to the SIP.

for and on behalf of
The Trustees of the Spirent Staff Pension & Life Assurance Plan

SIGNED ...JK Fryer...........

NAME ...JANE FRYER...........

DATE ...30 Sept 2019...........

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