Harsco Pension Scheme
Chair's DC Governance Statement, covering the 12 months to 31 March 2019

1. Introduction

Governance requirements apply to pension arrangements which provide defined contribution ("DC") benefits, like the Harsco Pension Scheme (the "Scheme"), to help members achieve a good outcome from their pension savings. The Trustees 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 "default arrangements" and other funds members can select);
- 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.

This Statement covers the period from 1 April 2018 to 31 March 2019.

2. Default arrangements

The default investment arrangements (the "default arrangements") are designed for members who join the Scheme and do not choose an investment option. Assets representing these members' benefits have been allocated to investment funds under the default arrangements automatically. The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangements and selecting the investment funds used in those arrangements.

The Scheme's main default arrangement is the Lump Sum Strategy (and this is also where any new joiners who do not express an investment choice will have their funds allocated). Within this document, this is referred to as the "new" default arrangement. However, some existing members may be in one of the following default arrangements instead, depending on when they are due to retire:

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

When deciding on the Scheme's investment strategy, the Trustees recognise that most members do not make active investment decisions and instead are invested in one of the Scheme's default arrangements, as set out above. After taking advice, the Trustees decided to introduce the new default arrangement in 2018, and to make this a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

This change was implemented on 25 October 2018, and members that were more than two years from retirement were transferred from one of the legacy default arrangements, as part of this. Such members who were in the "Cash Lifestyle" transferred to the "Lump Sum Strategy" and such members who were in the "Annuity Purchase Lifestyle" transferred to the "Annuity Targeting Strategy". Members who were two years or less from retirement were not moved automatically and hence some members remained in their legacy default arrangement (as applicable).

Details of the objectives and the Trustees' policies regarding the new and legacy 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 Scheme's SIP also sets out the details of the objectives and the Trustees' policies for the "Annuity Purchase Lifestyle" arrangement.

The objective of the new default arrangement, 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.

In addition, there are also members invested in other legacy lifestyle arrangements. I have listed the aim of each of these legacy arrangements below:

- Cash Lifestyle (a legacy default arrangement) – 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 intend to take all of the pension pot as cash at retirement.
- Annuity Purchase Lifestyle (a legacy default arrangement) – 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 intend to buy a guaranteed lifetime annual income (known as an annuity) at retirement.
- Drawdown Lifestyle (A & B) – to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk and higher income-generating investments as members near retirement, on the assumption that members intend on drawing down an income during retirement by gradually selling investments.
- Old Lifestyle – 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 intend to buy a guaranteed lifetime annual income (known as an annuity) at retirement.

The Trustees regularly monitor the performance of the default arrangements and will formally review both these and their strategies at least every three years (the next review is intended to take place by the end of 2020) or immediately following any significant change in investment policy or the Scheme's member profile.

All of the Scheme's default arrangements were last reviewed on 11 December 2017. At that time, the performance and strategy of the legacy default arrangements were reviewed to ensure that investment returns (after deduction of any charges) were consistent with the aims and objectives of the arrangements, as stated in the SIP, and to check that they continued to be suitable and appropriate, given the Scheme's risk profiles and membership.

The Trustees concluded that it was appropriate to introduce a new default arrangement because, following advice from LCP, they agreed that some changes could be made to improve outcomes for members. The Trustees also concluded that a new range of investment options would be appropriate. Further details and rationale are set out below. As mentioned above, 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 and so the legacy default arrangements continue to be the default arrangements for those members (as applicable).

As part of the Trustees' last review, several other changes were agreed and took effect on 25 October 2018, including to:

- change the names of the lifestyle strategies replacing the word "lifestyle" with the word "strategy" which would make these strategies more understandable to members;
- transfer members from the "Cash Lifestyle" into the new default arrangement, the "Lump Sum Strategy", which has 50% allocation to absolute return bonds at retirement – the Trustees decided that this was more suitable than targeting 100% cash at the end of the lifestyle strategy (which is the case under the "Cash Lifestyle"). This is with the aim of enabling the portfolio at retirement to keep up with inflation in a low risk manner, which is particularly beneficial if members do not retire *exactly* at the end of the lifestyle strategy. This is because they would be likely to experience a decrease in real terms on the purchasing power of their DC pot the longer they stay 100% in cash;
- merge the "Drawdown Lifestyle A" and "Drawdown Lifestyle B" into a single new strategy, the "Flexible Income Strategy", to reflect that it is designed for members that want flexibility to withdraw their assets for income in retirement;
- transfer members from the "Annuity Purchase Lifestyle" to the new "Annuity Targeting Strategy". This change was made to ensure the growth phase was the same for these members, after they transferred to the Annuity Targeting Strategy, as it is for the Lump Sum Strategy and the Flexible Income Strategy. The Annuity Targeting Strategy incorporates a specialist annuity targeting fund (the L&G Pre-Retirement Fund) rather than individual gilts funds that are used in the Annuity Purchase Lifestyle;

- update the growth phase for all the lifestyles to invest 25% in passive UK equities, 35% in passive overseas equities, 5% in emerging market equities, 5% in infrastructure, 5% in UK property and 25% in diversified growth – the Trustees decided that this would be likely to generate greater capital growth for members;
- update the pre-retirement phase strategy for all the lifestyle arrangements. This includes replacing corporate bonds and gilts with absolute return bonds, delaying building up cash fund exposure, replacing bonds in the annuity lifestyle with a pre-retirement fund and reducing exposure to diversified growth funds in the drawdown lifestyle – the Trustees decided that this would increase diversification, reduce volatility and focus on capital preservation with the aim of protecting the pension pot in down markets;
- remove the Newton and Aberdeen Standard diversified growth funds from the lifestyles and the self-select fund range, with the BlackRock Aquila Life Market Advantage ("ALMA") Fund being the replacement; and
- remove four regional equity funds in the self-select fund range and switch the assets to the BlackRock DC Aquila World (Ex-UK) Equity Index Fund, to simplify the arrangements (noting that only a small proportion of members were invested in self-select funds).

The Trustees are satisfied that the default arrangements remain appropriate, following the changes made as part of the Trustees' last review.

3. Requirements for processing core financial transactions

Processing core financial transactions (such as the investment of contributions, processing transfers in and out of the Scheme, processing transfers of Scheme assets between different investments, and payments to members/beneficiaries) is carried out by the administrators of the Scheme, Aegon.

The Scheme's administrators have confirmed to the Trustees that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately.

The Scheme has a service level agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core transactions. All processes including core financial transactions are conducted in accordance with a strict governance framework. The key processes adopted by the administrator 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 (i.e. the deadline for trading investments). 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 (e.g. 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 (e.g. 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 (e.g. 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 the quarterly reporting. Aegon will meet face-to-face with the Harsco Pensions Team at least annually, as well as attend as least one Trustees' meeting each year.

Based on information provided by Aegon, the Trustees are satisfied that over the period covered by this Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

During the period covered by this Statement, the quality and efficiency of Aegon's administration processes were queried following several incidents, as noted below. The Trustees discussed the issues raised with their investment adviser and their understanding is that the issues are symptomatic of the large switch of administration from BlackRock to Aegon in 2018. As a result, the Trustees and adviser trust that such issues will be eliminated going forwards but will be monitoring Aegon's performance closely.

Aegon pricing error

In early September 2018, Aegon identified a number of funds where the price of the share classes was not moving in line with the underlying funds as expected. The error originated following the business transfer from BlackRock to Aegon (which included services to the Trustees in respect of the Scheme). Members who transferred into the affected share classes would transact using an incorrect unit price and receive the incorrect number of units, although the overall market value of their holdings was correct.

Aegon corrected the unit price errors on 20 December 2018, whilst the number of units allocated to each member was still incorrect. This meant:

- where the unit price was too low and had subsequently been increased, members who had taken benefits since the unit price correction will have gained; and
- where the unit price was too high and had subsequently been reduced, members who had taken benefits since the unit price correction will have experienced a loss.

Members who gained were allowed to retain the gain, whilst members who lost out were dealt with on a case by case basis and additional payments were made where appropriate.

For members still invested in the affected funds, the unit holdings were corrected in April 2019. For funds where members would experience a reduction of units, the Trustees requested that Aegon waive these unit reductions as a gesture of goodwill, which Aegon accepted.

However, although the correct unit adjustments were subsequently implemented by Aegon, the communication sent to members referred in error to potential unit reductions. Both the Harsco Pensions Team and LCP expressed their dismay to Aegon that this further error had occurred. As a result, Aegon agreed to include commentary, apologising for this oversight and confirming that no unit reductions had been made, in the covering letter to members enclosing their annual benefit statements.

Based on the information provided and the discussions with Aegon, the Trustees are confident that the necessary steps were taken to address the issues. The Trustees are satisfied that this is an isolated issue as a result of the business transfer from BlackRock and there is no reason to suspect it is part of a wider systemic issue with the management of the Aegon investment platform used by the Trustees.

Aegon performance reporting issues

Aegon identified an issue relating to the reporting of performance, which impacted around 10% of the funds on the Aegon investment platform used by the Trustees. Unexpected differences in the performance for the Aegon share classes and the underlying funds were found to be due to timing differences between the share class and underlying fund for the end of month closing prices. Aegon explained that it was unable to provide performance reporting for these funds until the pricing issue described above was rectified. These issues were still in the process of being rectified as at 31 March 2019.

Whilst we understand Aegon's commitment to making sure the reporting is correct, the lack of clarity around these performance reporting issues, and the time frame for reissuing the reports, has been disappointing.

4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any 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 additional administration fee of £43.77 per member per annum. This fee is increased annually in line with National Average Earnings.

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 charges and transaction costs have been supplied by Aegon, the Scheme's platform provider. 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.

4.1. New default arrangement – Lump Sum Strategy

The new default arrangement is the "Lump Sum Strategy". It 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 fund they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the table below.

Lump Sum Strategy (new default arrangement) – charges and transaction costs

Years to target retirement date	TER	Transaction costs
15 years or more to retirement	0.23%	0.06%
10 years to retirement	0.27%	0.09%
5 years to retirement	0.39%	0.28%
At retirement	0.40%	0.41%

4.2. Other arrangements – charges and transaction costs

In addition to the new default lifestyle arrangement, members also have the option to invest in two, self-select lifestyle arrangements, targeting annuity purchase and cash withdrawal.

Members who were less than two years to retirement were not switched automatically from the current to the updated lifestyle arrangements in 2018. As such, we have included the legacy lifestyle arrangements below: the "Cash Lifestyle" (a legacy default arrangement), "Annuity Purchase Lifestyle" (a legacy default arrangement), "Drawdown Lifestyle A", "Drawdown Lifestyle B" and the "Old Lifestyle".

The annual charges for these lifestyle arrangements during the period covered by this Statement are set out in the tables below:

Flexible Income Strategy (self-select)

Years to target retirement date	TER	Transaction costs
15 years or more to retirement	0.23%	0.06%
10 years to retirement	0.27%	0.09%
5 years to retirement	0.33%	0.19%
At retirement	0.34%	0.25%

Annuity Targeting Strategy (self-select & a default arrangement for some former members of the Annuity Purchase Lifestyle, depending on their normal retirement date)

Years to target retirement date	TER	Transaction costs
15 years or more to retirement	0.23%	0.06%
10 years to retirement	0.27%	0.09%
5 years to retirement	0.26%	0.06%
At retirement	0.23%	0.02%

Cash Lifestyle (legacy default arrangement)

Years to target retirement date	TER	Transaction costs
2 years to retirement	0.33%	0.05%
At retirement	0.18%	0.02%

Annuity Purchase Lifestyle (legacy default arrangement)

Years to target retirement date	TER	Transaction costs
2 years to retirement	0.21%	0.03%
At retirement	0.14%	0.01%

Drawdown Lifestyle A (legacy arrangement)

Years to target retirement date	TER	Transaction costs
2 years to retirement	0.55%	0.10%
At retirement	0.56%	0.10%

Drawdown Lifestyle B (legacy arrangement)

Years to target retirement date	TER	Transaction costs
2 years to retirement	0.43%	0.08%
At retirement	0.35%	0.06%

Old Lifestyle (legacy arrangement)

Years to target retirement date	TER	Transaction costs
2 years to retirement	0.14%	0.01%
At retirement	0.14%	0.01%

There are also several other 'Self-select' funds available to members, which are not structured as lifestyle approaches. These funds are targeted at members who want to have more control over their investment choices rather than using a lifestyle approach.

The level of charges for each self-select fund (including those used in the new default arrangement) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the new Lump Sum Strategy default arrangement are shown in **bold**.

Self-select fund charges and transaction costs

Manager – Fund name	TER	Transaction costs
Harsco Scheme Active UK Equity Fund	0.46%	0.17%
Harsco Scheme Active Global Equity Fund	0.78%	0.03%
Harsco Scheme Passive UK Equity Fund	0.11%	0.07%
Harsco Scheme Passive Overseas Developed Equity Fund	0.14%	0.00%
Harsco Scheme Passive Emerging Market Equity Fund	0.31%	0.00%
Harsco Scheme Passive 70:30 UK:Overseas Equity Index Fund[1]	0.14%	0.03%
Harsco Scheme Passive Corporate Bond Fund	0.15%	0.02%
Harsco Scheme Passive Index-Linked Gilt Fund	0.11%	0.02%
Harsco Scheme Passive Long Dated Gilt Fund	0.11%	0.00%
Harsco Scheme Cash Fund	0.18%	0.02%
Harsco Scheme Diversified Growth Fund	0.41%	0.15%

4.3. 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.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member-borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member-borne fees (i.e. the TER) and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the year to 31 March 2019, subject to a floor of zero (i.e. the illustration does not assume a negative cost over the long term). Ideally, we would have used an annualised average of the past five years' figures to better reflect the long-term transaction costs. However, Aegon was unable to provide this data.
- The illustration is shown for the new default arrangement (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 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 Overseas Developed 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

[1] The Harsco Scheme Passive 70:30 UK:Overseas Equity Fund is closed so any members not already invested may not invest; existing members can continue to contribute to this fund.

Projected pension pot in today's money

	Default option		Harsco Scheme Passive Overseas Developed 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	£8,400	£8,400	£8,500	£8,500	£8,200	£8,200	£8,500	£8,400	£8,300	£8,300
3	£15,500	£15,400	£15,700	£15,600	£14,500	£14,400	£15,700	£15,400	£14,800	£14,700
5	£22,900	£22,700	£23,200	£23,100	£20,500	£20,400	£23,200	£22,600	£21,200	£21,100
10	£42,800	£42,100	£43,800	£43,500	£34,900	£34,500	£43,800	£41,800	£36,900	£36,700
15	£64,800	£63,200	£67,200	£66,400	£48,300	£47,500	£67,200	£62,700	£52,300	£51,900
20	£89,200	£86,300	£93,500	£92,100	£60,700	£59,400	£93,500	£85,400	£67,300	£66,500
25	£116,200	£111,600	£123,400	£121,000	£72,100	£70,400	£123,400	£110,100	£82,000	£80,800
30	£144,800	£137,600	£157,200	£153,400	£82,800	£80,400	£157,200	£137,000	£96,200	£94,600
35	£172,000	£160,200	£195,400	£189,900	£92,600	£89,600	£195,400	£166,200	£110,100	£108,000
40	£190,100	£171,100	£238,600	£230,900	£101,800	£98,100	£238,600	£197,900	£123,700	£121,000

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.
- 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 £5,000. This is the approximate average pot size for members who were 30 years old or younger as at 31 March 2019.
- The starting salary is assumed to be £33,000. This is the average salary for members who were 30 years old or younger as at 31 March 2019.
- Total contributions (employee plus employer) are assumed to be 10% of salary per year. This is the average total (employee plus employer) contribution rate (%) for members who were 30 years old or younger as at 31 March 2019.
- The projected annual returns used are as follows:
    - Default option: 4.6% above inflation for the initial years, gradually reducing to a return of 1.8% above inflation at the ending point of the lifestyle.
    - Harsco Scheme Passive Overseas Developed Equity Fund: 5.0% above inflation
    - Harsco Scheme Cash Fund: 1.0% above inflation
    - Harsco Scheme Active Global Equity Fund: 5.0% above inflation
    - Harsco Scheme Passive Long Dated Gilt Fund: 2.0% above inflation
- No allowance for active management outperformance has been made.

5. Value for members assessment

The Trustees are required to assess the extent to which the investment options and the benefits offered by the Scheme represent good value for members, compared to other options available in the market. 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, including as part of reviews of the Scheme's defined contribution ("DC") arrangements, with the aim of ensuring that members are obtaining value for money. Charges were reviewed as part of the DC default strategy and fund range review carried out on 11 December 2017, and this review concluded that the charges are reasonable given the circumstances of the Scheme. The Trustees' investment advisers have confirmed that the fund charges are competitive for the types of fund available to members. The Trustees have reviewed member-borne charges again, when preparing this statement, and are satisfied that Scheme members continue to receive reasonable value for money.

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 reviewed the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives. The returns on the passive investment funds members can choose during the period covered by this Statement have been closely in line with their stated benchmark returns. The Newton and Aberdeen Standard Life diversified growth funds had been underperforming for some time, and the Trustees decided to remove them from the lifestyle strategies and the self-select fund range, with the BlackRock Aquila Life Market Advantage ("ALMA") Fund being the replacement (which has a much lower fee). This decision followed a loss of confidence in both managers on the back of disappointing investment performance, and concerns over the relatively high fees, compared to their peers. The Trustees ultimately believe that this change improved value for members.

The Trustees continue to monitor the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives on a quarterly basis via detailed reporting provided by the Trustees' investment advisers LCP.

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, such as the charge cap applicable to the default arrangements, 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 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 for the Scheme year.

As detailed in the previous section covering processing of financial transactions, the Trustees are reasonably comfortable with the quality and efficiency of the administration processes. Members also receive benefit from a portion of the administration charges being paid for by the Company. However, due to the complexities of administration, the Scheme does not offer the full range of retirement options itself.

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

Overall, for the reasons set out in this section, the Trustees believe that members of the Scheme are receiving reasonable value for money.

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 are committed to having high governance standards and have a dedicated Investment Committee (the "IC") which meets quarterly to monitor performance, and controls and processes in place in connection with the DC arrangements.

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 asset investment.

The Trustees' advisers would typically deliver training on such matters at Trustees' meetings if they were material. During the period covered by this Statement, the Trustees received training on the following topics relating to the funding of occupational pension schemes, and the law and regulation relating to pensions and trusts:

- 31 July 2018 – The Journey to Buying Out
- 29 October 2018 – The Pensions Regulator's "proactive engagement" programme
- 14 February 2019 – GMP Equalisation

Additionally, the Trustees receive quarterly updates on topical DC pension issues from their investment advisers and quarterly legal updates from their legal advisers.

All the Trustees are familiar with the Scheme governing documentation, including the Trust Deed & Rules and SIP. 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. The Trustees are familiar with policy documents relating to the administration of the Scheme generally. For example, this includes the Trustees' risk register, which the Trustees maintain to identify potential risks in relation to the Scheme (including its administration) and use to agree precautionary measures to reduce those risks.

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. There was a new Trustee appointed during the year covered by this Statement who followed this induction process.

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).

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

____________________ Date: 20/9/19.

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: ______________________

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.

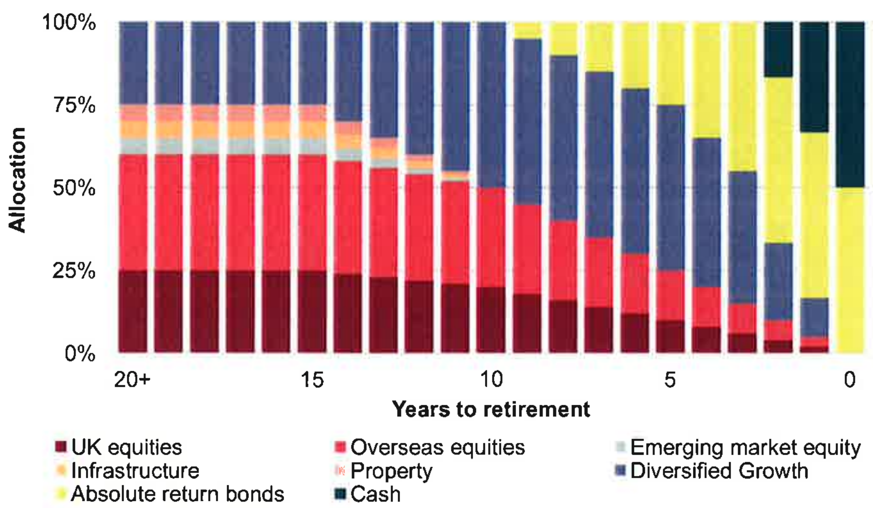
	Before 15 years from retirement	At 10 years from retirement
Passive UK equities	25%	20%
Passive overseas equities	35%	30%
Passive emerging market equities	5%	-
Diversified growth	25%	50%
Infrastructure	5%	-
Property	5%	-
Total	**100%**	**100%**

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.

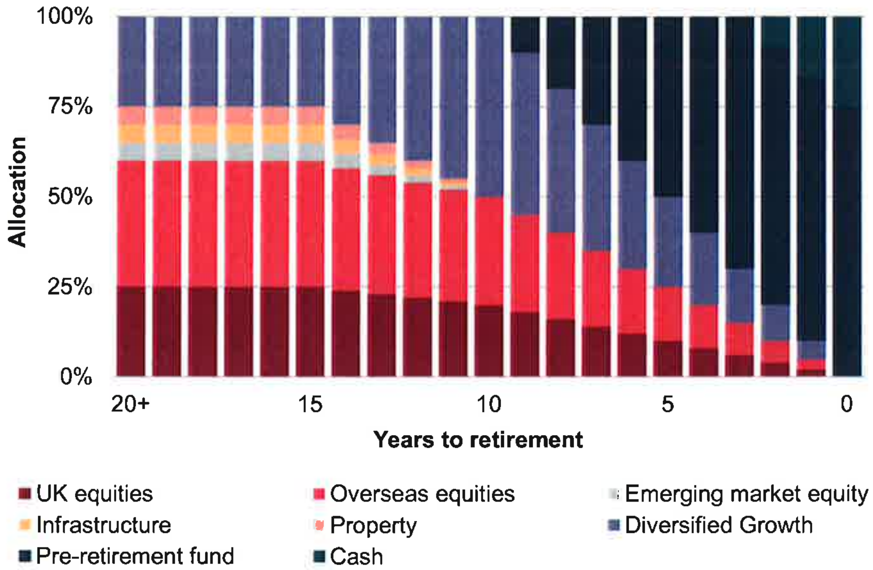
Lump sum strategy (default arrangement)

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.



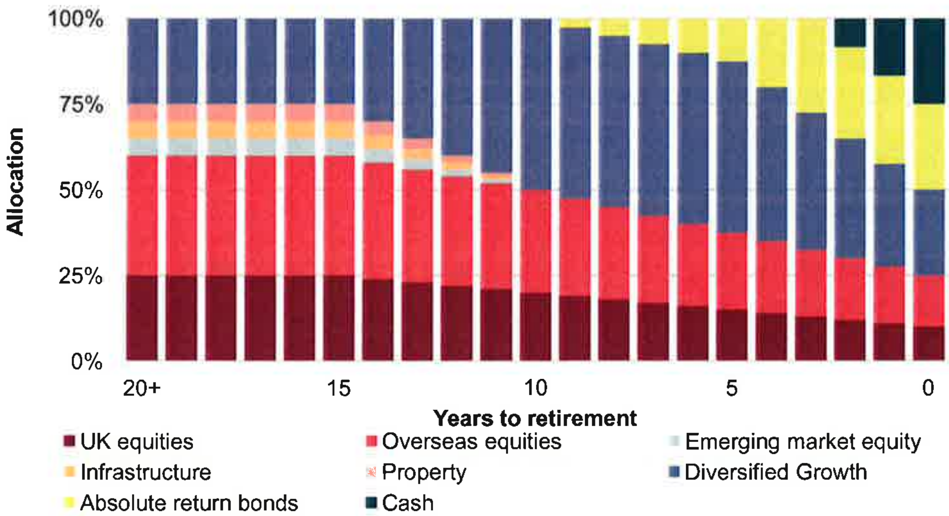
Annuity targeting strategy

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.

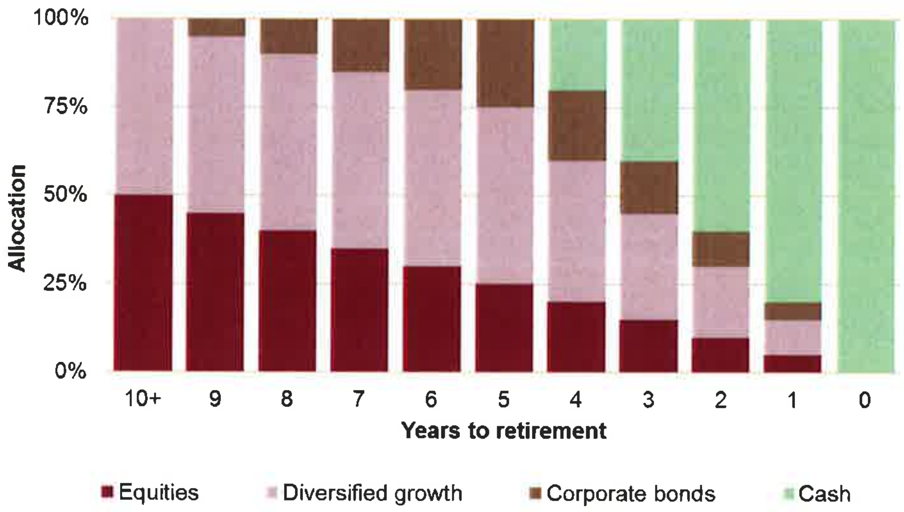


12. Legacy lifestyles

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.

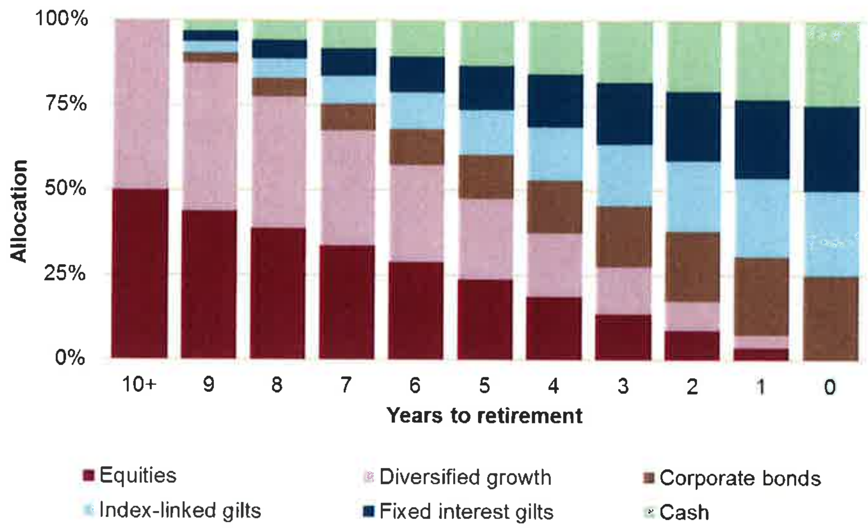
Cash Lifestyle (legacy default arrangement)

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.



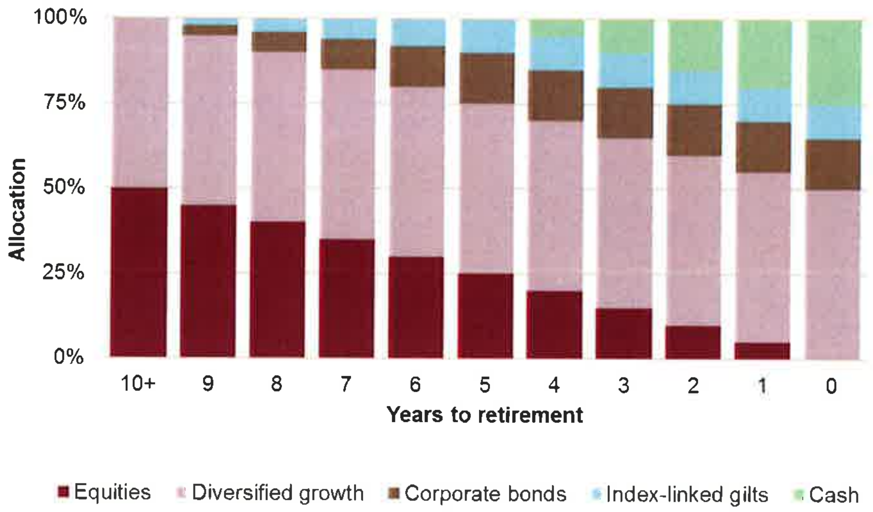
Annuity Purchase Lifestyle

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.



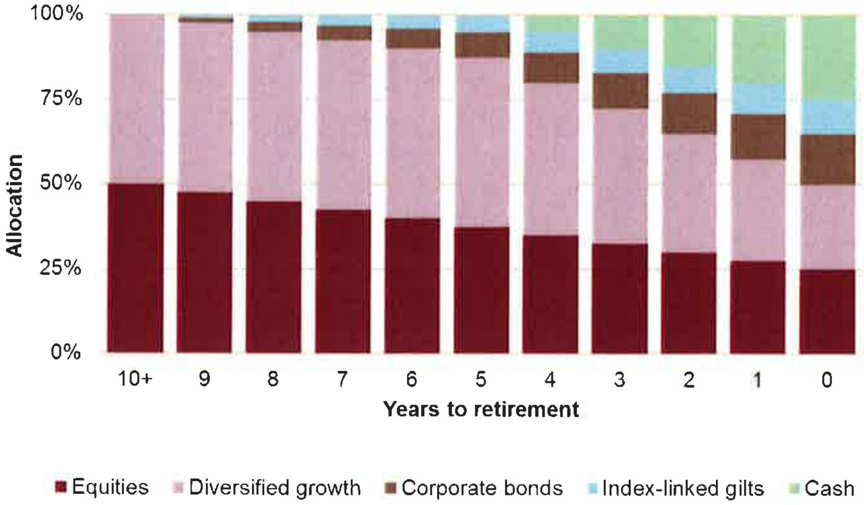
Drawdown Lifestyle A

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.