Harris Systems Limited Pension Plan

Statement of Investment Principles

November 2023

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Section 1 : Introduction

Pensions Acts

1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustee of the Harris Systems Limited Pension Plan ("the Plan").

1.2 The Trustee has consulted L3Harris Communications Systems UK Limited ("the Employer") on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from WTW, the Plan's Actuary and Investment Consultants. The Trustee will review this document regularly, at least every three years, and without delay following a significant change in investment policy, although given the Plan has purchased a bulk annuity insurance policy covering the great majority of the Plan's liabilities, a significant change in investment policy is no longer anticipated.

Financial Services and Markets Act 2000

1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers and this may include insurance companies. The investment manager(s) or insurer shall provide the skill and expertise necessary to manage the investments of the Plan competently.

Plan details

1.5 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members").

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Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Trustee

2.2 The Trustee's responsibilities include:

- Reviewing the content of this Statement regularly, in conjunction with the investment consultants and the Scheme Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial or investment strategy review although given the Plan has purchased a bulk annuity insurance policy covering the great majority of the Plan's liabilities, any changes to the Trustees' current investment strategy are expected to be limited.
- Appointing (and dismissing) investment managers
- Monitoring the financial strength of the insurance company the Plan has contracted with by means of regular, but not less than annual reviews
- Consulting with the Employer when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis including an overview of the Plan's liquidity needs.

2.3 In line with the Myners Principles, the Trustee has reviewed the appointment of an investment committee. The Trustee has decided to retain all investment governance within the full Trustee group at the present time, although the suitability of this arrangement will be reviewed from time to time. To enhance governance, the Trustee agreed they may periodically rely on a named investment sub-committee to make decisions when extraordinary market conditions necessitate very urgent decisions to be made. The full Trustee board will retain the ultimate responsibility of ratifying these decisions. The Trustee recognises the need for expertise and appropriate, expert advice and they will seek further training, and issue-specific advice, as required.

Professional Advisors

2.4 The Trustee agrees with the Myners best practice of paying particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). However, the Trustee believes that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Plan. The Trustee will continue with the current arrangement until this ceases to be appropriate.

Investment Consultant

2.5 The investment consultant's responsibilities include:

- Participating with the Trustee in reviews of this statement.
- Advising the Trustee, as requested:
  - through consultation with the Scheme Actuary on how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested
  - on how any changes at the financial strength of the insurance company could affect the interests of the Plan
  - on how any changes in the investment environment could either present opportunities or problems for the Plan.
- Undertaking project work as requested, including:
  - reviews of asset allocation policy

Scheme Actuary

2.6 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future.
- Liaising with the investment consultant on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.

Section 3: Objectives and long term policy for the Defined Benefit section

Objectives and policy

3.1 The Trustee's primary objective is to manage the Plan so that members receive their benefits as and when they fall due, by maintaining an adequate level of funding for members' benefits with the eventual aim of buying out the benefits in the short to medium term and winding-up the Plan. The investment policy is reviewed periodically and particularly after each actuarial valuation of the Plan in conjunction with the actuary and investment consultant, and the Trustee consults with the principal employer on the resultant policy.

3.2 On 13 October 2023 (with effect from the 17th of October) the Trustee has purchased a bulk-annuity policy to secure the vast majority of the liabilities of the Plan with a reputable insurer (Aviva). As such, the Trustee's main policy is to hold an insurance policy that as closely as possible matches the benefits due to members. There is some residual liability that remains in relation to a small proportion of the residual premium payable, some data cleansing that is required and the Guaranteed Minimum Pension ("GMP") inequality. Assets remaining after the insurance premium was paid will be used to insure these residual liabilities as well as to meet the anticipated expenses that will be required until the point of wind-up and for the purchase of residual risk insurance. It is anticipated the residual assets will not suffice and the Company has agreed to provide additional funding, in the form of meeting future expenses and some additional contributions, to meet any remaining shortfall. Given the anticipated Company contributions which will be made shortly before any residual liabilities are due, the small amount of residual assets and liabilities relative to the Company's size, and the complexity and imperfection of any hedging the Trustees could employ given the nature of the residual liabilities, the Trustees' policy is to hold these residual assets in cash in the Trustees' bank account.

3.3 The Trustees will monitor the Plan's residual liabilities, including the liabilities that are expected to arise in the short-term on a regular basis and will liaise with the Company to ensure any additional contributions, if needed, are made in good time.

3.4 There are limited options to sell the insurance contract and the Trustees do not anticipate a need to ever do so.

Additional Voluntary Contributions ("AVCs")

3.5 The Plan historically provided a facility for active members to pay AVCs into the Plan to enhance their benefits at retirement. Members are not currently allowed to transfer their benefits accrued in other pension arrangements into the fund. The AVCs were invested separately from the assets backing the defined benefit promise. However, the Trustee understands the last member with AVCs asked to retire and receive their AVC benefits at the time of preparing this statement, at which point there will no longer be any AVCs in the Plan. There is therefore is no further monitoring or governance the Trustees are required to do in relation to AVCs.

Defined Benefit Expected Return on Investments

3.7 There is no market value available for the insurance contracts. Where a value is required the Scheme Actuary will provide an estimate based on the discounted value of the cashflows expected to be received from the insurer. This value will fluctuate with market conditions and insurer pricing, and the Trustees have not set an expected return for the insurance contracts as any change is expected to equal the corresponding change in value of the liability.

3.8 Based on 30 September 2023 market conditions, the 10 year return expected on any cash held by the Plan, if this was invested in a cash fund, based on Towers Watson's Investment Model is 1.4% pa relative to UK CPI. Broadly, this is expected to translate to a nominal return of 3.8% pa. However, the expected return of the cash held by the plan is expected to be lower than this given it is invested in a bank account. The current expected return as at 30 September 2023 based on the interest rate offered by the bank account is 1.9% pa.

Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

4.1 The Trustee has appointed investment managers or insurance companies who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustee has no control over how the insurance company will choose its investments.

4.2 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

Sustainable investments

4.3 The Trustee recognises that a company's long-term financial success is influenced by a range of factors including sustainable factors such as (but not limited to) those arising from Environmental, Social, and corporate Governance (ESG) considerations, including climate change, and have undertaken training to understand more about Sustainable Investments and how investors incorporate Sustainable Investments in their decision making.

4.4 Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interest of the members of the Plan and ensure it determines the appropriate risk-return balance to maximise the likelihood of the benefits to the beneficiaries are paid in full.

4.5 As the Trustee's focus is on financially material considerations, the Trustee's policy at this time is to not take into account non-financially material considerations.

4.6 Due to the type of investment the Fund holds, the extent to which environmental, social and corporate governance considerations issues may have a financial impact on the portfolio is extremely limited although the Trustee has taken such factors into account in selecting the insurance provider. The Trustee policy is therefore to consider these issues on a very light-touch basis acknowledging that limited actions can be taken.

4.7 These matters are kept under review by the Trustees, in consultation with their investment consultant.

4.8 The Trustee do not directly hold any funds to which ordinary shares are an underlying asset class or directly hold any assets that include voting rights.

Liquidity and realisation of investments

4.9 The Plan's administrator (currently Buck) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo by giving sufficient notice to the insurance provider about any increases in the usual pensioner payroll or benefit payments expected. The insurance provider (Aviva) make monthly payments to Buck to settle the ongoing individual member payroll obligations (transfers, retirement payments, commutation etc).

4.10 The Trustee's policy is that the residual assets should be maintained in cash, in the Trustees' bank account which, in combination with the contracted payments from Aviva means there should be sufficient secure investments in liquid assets to meet cashflow requirements in the majority of foreseeable circumstances. If additional funding is required, this will be sought from the Company and such a request will be made in good time to ensure the funds arrive well before they due to be paid, taking into account of the Company’s budgeting cycle.

Section 5: Investment manager arrangements

Investment manager structure

5.1 The only remaining assets of the Plan, in addition to the bulk annuity insurance are held with National Westminster Bank in the Trustees' bank account.

Manager monitoring and engagement

5.2 The Trustee ensures that, with the help of its advisors, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005) to the extent relevant, given the Plan's investment policy and residual assets and liabilities.

5.3 No investment manager is currently employed and therefore the Trustees do not currently carry out any engagement activity.

Fee structures

5.4 There is no ongoing or future fee anticipated in relation to the bulk annuity insurance held, on behalf of the insurer with any insurer fees incorporated by the insurer in the premium the Plan agreed to pay.

5.5 The Trustee reviews the costs incurred in managing the Trustees' bank account periodically, although these are very limited.

5.6 Given the assets held, the Trustees there is no portfolio turnover the Trustees can or need to monitor.

5.7 Advisors' fees are paid on either an hourly or a project basis.

Section 6: Risk management

6.1 The Plan is a Registered Pension Scheme for the purposes of the Finance Act 2004.

6.2 The Trustee recognises a number of risks involved in the investment of the assets of the Plan:

- Counterparty risk
  - The main Plan assets is the insurance policy held. The Plan is therefore exposed to the risk of the insurer defaulting on the payments into the Plan. This risk is managed through selecting a reputable insurer, an understanding of the protections offered by the UK insurance regime and the FCA prior to entering into the insurance policies, regular monitoring of the financial strength of the insurer by the investment consultant and looking to convert the bulk annuities into individual policies as soon as reasonably practicable.
  - The Plan is also exposed to the risk of the bank holding the bank account failing, resulting in losses to the Plan’s current cash on excess of what can be claimed from the Financial Services Compensation Scheme. The risk is managed by looking to minimise the cash held in the bank account by receiving additional Company contributions just before the additional payments they are intended to cover will be due, through periodic monitoring of the market developments impacting UK banking sector and relying on the sponsor covenant
- Sponsor risk
  - Unless the Plan is wound-up the sponsor remains ultimately responsible for member benefits.
  - Risk is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit and making the contributions required to cover any known residual liabilities
  - Risk is managed by assessing the interaction between the Plan and the sponsor’s business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor (by receiving regular financial updates from the Company (at least quarterly) and triennial independent covenant assessments)
- Mismatching risk
  - The main Plan assets are the insurance policies held which match the members benefits. Some mismatching risk exists in relation to the long-term interest rate and inflation characteristics of the residual liabilities that have such exposure (including the small residual premium that was not paid), in relation to cost inflation of the wind-up expenses and in relation to premium inflation on the residual insurance that would need to be purchased. Following consideration of inflation and interest risk analysis, any residual mismatching risk will be managed through the Trustee cash holding, looking to pay the residual liabilities as quickly as possible, and relying on the employer covenant.
- Liquidity risk
  - is measured by the level of cashflow required by the Plan over a specified period

- Is managed through the contractual cashflows from the insurers and the contractual provisions for increases to these cashflows in the event of additional member events (early retirement, transfer values) given the expectation this would suffice to meet member benefits as they fall due. Management of the cash received from the insurers will be undertaken by the Plan's administrators.

- The remaining risk on additional payment required will be managed by the administrations assessing the level and timing of cashflow requirements, and providing sufficient notice for the Company to make additional contributions.

- Political risk

  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention

  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

6.3 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

6.4 The Trustee continues to monitor these risks.

Authorised for and on behalf of the Trustee of the Plan

Signed by: ....

Print Name: ....

Print Title: ....

Date: ....