Statement of Investment Principles (SIP) – Thales UK Pension Scheme (September 2021)

Introduction

Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Thales Pension Trustees Limited (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 Thales UK Pension Scheme (the “Scheme”).

The Trustee has consulted Thales Group 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.

Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme's Investment Consultant. The Trustee will review this document regularly, at least every three years, and without delay following a significant change in investment policy.

Although the Scheme is comprised of two Sections, the current Investment Objective, Risk Management Policy and General Investment Policy adopted by the Trustee remain appropriate forboth Sections.

The SIP will be made available to members on request.

Scheme objectives

The funding objective of the Scheme is to be 100% funded on a technical provision basis. The Trustee has also set a clear ambition to be fully funded on a low-risk (gilts + 0.5% pa) basis by 2034.

The other major objective is to hold assets which generate cashflow, to be used in the payment of benefits.

The Trustee will review these objectives regularly and amend them as appropriate.

Investment strategy

The Trustee has received advice to determine an appropriate investment strategy for the Scheme consistent with achieving the objectives referred to above. The current strategy is to target a level of return consistent with achieving the longer-term ambition of being fully funded on a low-risk basis whilst seeking to limit the downside risks associated with the investment policy, with a particular focus on minimising price risk and fundamental risks.
The Investment Sub-Committee will review the aggregation of the return expectation and liquidity of each individual holding on a regular basis to ensure consistency with the overall desired outcome.

The guiding principles in managing the portfolio will be:

- The return expectations will be maintained at a level consistent with achieving the longer-term ambition (currently around gilts + 2% p.a.) using 10-year assumptions
- Major changes to the portfolio will not be expected to increase risk (as measured by funding level volatility)
- There is a desire to reduce the reliance on quoted equities. Diversifying the existing portfolio into a wider range of return-seeking assets, including higher yielding fixed income alternatives
- Alternative sources of return will include, for example, higher yielding less liquid assets like infrastructure and private debt. Private credit will have a focus on senior lending across a wide variety of underlying collateral types (corporates, real estate, infrastructure) and across different geographies.

- Risks will only be taken where it is considered that there will be a return benefit
- Changes will require consideration of cash generation, cost and complexity
- Assets which would be deemed desirable for the longer-term low-risk portfolio, should be considered for purchase subject to the bullets above

The investment strategy includes a currency hedging overlay to partially hedge the Scheme'sexposure to USD, Euro and Yen. Any exposure to emerging market currencies is unhedged.

The Trustee has delegated responsibility for all investment decisions to its Investment sub- Committee ("ISC"). All decisions of the ISC will be recorded in committee minutes and made availableto the full Trustee Board

The ISC is governed by a Terms of Reference document. These are reviewed and agreed with the Trustee from time to time. All aspects ofasset allocation strategy, liability hedging, manager structure and manager selection/de-selection will be decided by the ISC under its delegated powers.

The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction withthe Investment Consultant and the Scheme Actuary, the appropriateness of its investment objectives.

The expected return on investments and potential investments will be assessed regularly relative to the Scheme's investment objective.

The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets and/or sufficient distributable income generated by the investment policy to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme'sadministrators, will hold sufficient cash to meet benefit and other payment obligations.

The assets held must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole. Investments in assets issued by the same issuer or by issuers belonging to thesame group must not expose the Scheme to excessive risk concentration.

The assets must consist predominantly of investments admitted to trading on regulated markets and that investment in assets which are not admitted to trading on such markets must in any event be keptto a prudent level.

No class of financial instruments is excluded from investment consideration.

Gilt repo, futures, swaps, options and other derivatives may be used for risk and efficient portfolio managementpurposes. Some short-term borrowing for settlement is allowed but is strictly limited and for the purpose of trade settlement.

The Trustee's policy is to review its investments and to obtain written advice regarding their suitability for the Scheme in respect of the requirements set out in Section 36 of the Pensions Act at regular intervals. This will normally be annually but may be less frequent if there have been no significant changes. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to a fund manager.

Investment managers

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 investment manager or managers appointed by the ISC. The investment manager(s) shall provide theskill and expertise necessary to manage the investments of the Scheme competently.

The Trustee is not involved in the investment managers' day-to-day methods of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis by the ISC against a measurableobjective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk.

The ISC will regularly review the continuing suitability of the Scheme's investments, including the appointed managers. The ISC seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance. The ISC does not set duration expectations forits partnerships but will monitor their suitability on an ongoing basis.

To incentivise medium to long-term financial performance, the ISC will assess investment manager performance over various periods including 3-year and since inception of the mandate. The ISC heavily biases its review of ongoing suitability of the investment manager on the assessment of the future performance expectations and the portfolio's role in supporting the overall investment objectives.

The ISC will review the turnover and ongoing investment costs on an annual basis using the Industry standard templates and definitions developed by the Cost Transparency Initiative (CTI). Based on the guidance from its investment advisor, each portfolio has an expected investment turnover range. Deviations from that range will be reviewed with the investment manager.

The ISC also requires each of the investment managers to conform to the Scheme's Statement of Investment Principles. The ISC will formally confirm their compliance annually.

Environmental, Social, Governance (ESG) risks

The Trustee believes that environmental, social and corporate governance (ESG) issues including the impact of, and potential policy response to climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee delegates responsibility for the Scheme's policy on ESG risks to the ISC.

The ISC has given their investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The ISC believes that good active managers have considered how to best account for ESG factors, including climate change risks, in their investment process. The ISC will review how the active managers have identified and managed material ESG risks (including climate change) on a regular basis.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG considerations and climate changes risk are taken into accountis left to the discretion of the pooled investment manager and forms part of the ISC's monitoring and ongoing assessment of these investments.

The ISC take non-financial considerations into account in the selection of new asset classes and investment managers. 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 currently to act in the best financial interest of the members of the Scheme and at this stage, the Trustee and ISC do not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

Stewardship: Exercise of voting rights

The Trustee believes that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustee delegates responsibility for the Scheme's policy on stewardship including the exercise of voting rights and engagement activities to the ISC.

The ISC's policy is to delegate responsibility for the exercising of rights (including voting rights) and stewardship obligations related to the Scheme's investments to the investment managers and to encourage the managers to exercise those rights.

To incentivise the medium to long-term non-financial performance of its investments, the ISC will monitor the stewardship and engagement activities for each of its investment managers on an annualbasis. The ISC expects all their fund managers to monitor investee companies and directly engage with management on all relevant stewardship matters including performance, strategy, risks, social and environmental impact and corporate governance to improve the issuer's performance on a medium to long-term basis.

The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

The ISC encourages best practice in terms of engagement with investee companies and expects the Scheme's investment managers to discharge their responsibilities in accordance with the principles of the Financial Reporting Council's 2020 UK Stewardship Code ("the Code"). The managers are required to report on the extent of their adherence to the Code, alongside their broader stewardship activities on an annual basis.

The Trustee will provide an implementation statement within its annual report signed after 1 October 2021. The implementation statement will set out how it has acted on the principles within this Statement and will provide details of the stewardship, engagement and voting undertaken with regardsto the Scheme's investments.

Other matters

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

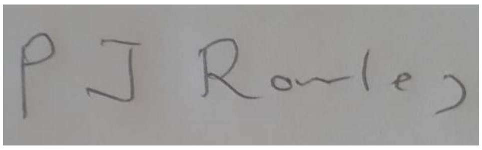
The Scheme's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

The Trustee recognises a number of risks involved in the investment of the Scheme's assets:

- Deficit risk:
  - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
  - is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk:
  - is measured by the expected deviation of the return relative to the benchmark set.
  - is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
- Liquidity risk:
  - is measured by the level of cashflow required by the Scheme over a specified period.
  - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
- Currency risk:
  - is measured by the level of exposure to non-Sterling denominated assets.
  - is managed by the implementation of a currency hedging programme (through a combination of a segregated currency hedging overlay and currency hedging carried out by some of the Scheme's investment managers) which reduces the impact of exchange rate movements on the Scheme's asset value.
- Interest rate and inflation risk:
  - is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
  - is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Scheme's assets to better-match movements in the valueof the liabilities due to inflation and interest rates.

- 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 the level of diversification within the existing policy.
- Sponsor risk:
  - is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments.
  - is managed through an agreed contribution and funding schedule.
- Counterparty risk:
  - is measured through a combination of market indicators (credit ratings and credit default swap spreads) and qualitative considerations.
  - is managed by having a diverse range of counterparties and through the negotiation of a suitable collateralisation process where appropriate. The Trustee has delegated the measurement and management of counterparty risk to the relevant investment managers.

Signed:



Name: Peter Rowley

Date: 8 Dec 2021

Authorised for and on behalf of the Trustee of the Scheme