Tomkins Retirement Benefits Plan

Statement of Investment Principles

September 2020

1. Introduction

1.1 The Trustee of the Tomkins Retirement Benefits Plan (“the Plan”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the Trustee’s decisions about the Plan’s investments.

1.2 A separate document, the Investment Policy Implementation Document (“IPID”), sets out specific details of the investment policy.

1.3 When making investment decisions the Trustee consults the Statement as required to ensure that, where possible, the decisions they make are consistent with the Statement.

2. Governance of the Plan

2.1 The Plan is governed by its Trust Deed and Rules which set out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement. The ultimate responsibility for deciding the Plan’s investment policy lies solely with the Trustee.

2.2 The Plan’s Principal Employer is Gates Worldwide Limited (formerly known as Tomkins Limited and also referred to in this document as “the Company”). There are no other Participating Employers of the Plan.

2.3 In considering the appropriate investments for the Plan, the Trustee obtains and considers the written advice of their investment consultant.

3. Objectives

3.1 The Trustee’s primary objective is to meet their obligations to the beneficiaries both in the short and long-term, by maximising the probability of the Plan paying accrued benefits as they become due using the funding assumptions under the ongoing funding basis applying to the Plan.

3.2 If there is a shortfall revealed by an actuarial valuation, the Trustee will agree with the Company the additional contributions projected to eliminate the shortfall over an appropriate period.

3.3 The Trustee has the following specific objectives for how this primary objective is to be met.

- To have regard to the likelihood of the Plan's insolvency.
- To have regard to the Statutory Funding Objective following the most recent actuarial valuation.
- To have regard to the long-term cost of benefit provision.
- To have regard to the factors which might contribute to the contribution rate rising.
- To have regard to the Company's investment preferences.
- To consider and implement as appropriate any revised controls deemed necessary in accordance with the Plan's risk register.
- To have regard to the extent to which the asset allocation policy in place results in an appropriately diversified portfolio.

3.4 The Trustee recognises the objectives above may conflict and that prioritising may be required if the primary objective is to be achieved in the desired manner.

Risk

3.5 The Trustee recognises that it would be possible to select gilts that replicate the broad characteristics of the liabilities (such as duration and sensitivity to inflation). In addition, following the development of modern financial instruments, it would be possible to select "matching" investments whose cashflows replicate the estimated liability cashflows, especially in their sensitivity to inflation and interest rates. The Trustee considers these issues when determining the investment strategy and has agreed to take a modest amount of investment risk to target some outperformance against the Plan's liabilities.

3.6 The Trustee has taken steps to reduce risk over time by removing the allocation to equities and securing a buy in policy in respect of the pensioner members during 2013 and extended the policy in 2014 and again in 2016 to cover some additional retirees (the Trustee may secure further benefits as appropriate in the future). In 2016, the Trustee reviewed the investment strategy further in order to better align the remaining assets (gilts and corporate bonds) to the characteristics of the liabilities not associated with the buy in. Following discussions with the Company, a further review of the investment strategy was undertaken in 2018, and in 2019 the allocation to the corporate bond assets was increased, and allocations to secured finance and leveraged liability driven investments introduced. This was agreed on the basis that it would better align the Plan's investment strategy with how an insurer might invest the assets.

3.7 Before deciding on the level of investment risk to take relative to the liabilities, the Trustee receives advice from the Investment Consultant and Scheme Actuary, and hold discussions with the Company. In particular, the Trustee carefully considers the following risks to be financially material over the expected life of the Plan:

- The assets might not achieve the excess return relative to the liabilities anticipated over the longer term. This would result in a deterioration in the Plan's financial position *(solvency risk)* and consequently may prompt a requirement for higher contributions from the Company than are currently expected.

- Volatility in the relative value of assets and liabilities may also increase the volatility of the Company's contribution rate set at successive actuarial valuations and annual funding reviews, depending on the approach to funding adopted.

- Changes in long term interest rates and inflation expectations have a significant impact on the value placed on the liabilities. The strategy aims to mitigate this *mismatching risk* by investing in a range of physical fixed and index-linked gilts, pooled liability driven investment funds and corporate bonds with similar overall characteristics to the liabilities (such as duration and sensitivity to inflation).

3.8 The Trustee's willingness to take a modest amount of investment risk is dependent on their understanding of the continuing financial strength of the Company and its willingness to contribute appropriately to the Plan. The financial strength of the Company and its perceived commitment to the Plan *(covenant risk)* is monitored and the Trustee will consider reducing investment risk relative to the liabilities should either of these factors have been considered to have deteriorated.

3.9 The degree of investment risk the Trustee is willing to take also depends on the financial health of the Plan and its liability profile. The Trustee will monitor these with a view to altering the investment objectives and risk tolerance should there be a significant change in either.

3.10 The documents governing the investment managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The managers are prevented from investing in asset classes outside their mandates without the Trustee's prior consent. These guidelines also set out restrictions to manage *counterparty risks* which arise from dealing with counterparties that may be unable to pay amounts due to the Plan as they fall due.

3.11 Arrangements are in place to monitor the Plan's investments to confirm to the Trustee that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives quarterly reports from the investment managers.

3.12 *Custodian risk* is the risk that a custodian misplaces Plan investments in its receiving, dealing or safe keeping. The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

3.13 The Trustee recognises that there is *liquidity risk* in holding assets that are not readily marketable and realisable. The majority of the Plan's assets (gilts, pooled liability driven investments and corporate bonds) are realisable at short notice.

3.14 The investment managers employ derivatives for the purposes of efficient portfolio management and subject to agreed restrictions. Aside from the *counterparty risks*, the risks of using derivatives are largely the same as those of investing in the underlying asset categories.

3.15 *Collateral sufficiency risk* refers to the risk that gilt yields rise such that additional capital needs to be invested within the liability hedging funds in order to maintain the target level of liability hedging. The Trustee has a process in place with the investment managers for managing this particular risk.

3.16 *Environmental, social and governance ("ESG") risk*, including climate change, may significantly affect the investment returns and risk of certain asset classes. The Trustee's policy on ESG risks are set out in Section 6.

3.17 The Trustee reviews the investment strategy for the Plan from time to time. These reviews will sometimes involve conducting a quantitative asset/liability review which focuses on the impact of varying asset allocations on expected future funding levels and contribution rates. The Trustee considers the variability of results through the use of stochastic modelling techniques and is able to measure and quantify these results by looking at statistics such as standard deviation of returns relative to the liabilities, value at risk and the estimated probability of achieving a given funding level over a given period. Consideration may also be given to the volatility of a number of parameters (e.g. items associated with Company accounting measures etc.) to further assess the potential risks associated with a particular investment strategy.

4. Asset Allocation Strategy

4.1 The Trustee regards the asset allocation as the decision which has most influence on the likelihood that they will achieve the primary objective in part through investment returns. The Trustee has direct responsibility for this decision which is made on the advice of its investment consultant and in consultation with the Company.

4.2 The Trustee has adopted a strategic asset allocation policy for the Plan, which is set out in the IPID.

Investment of Additional Voluntary Contributions (AVCs)

4.3 The AVC arrangements are outlined in the IPID.

5. Investment Management Structure

The Trustee has delegated certain investment decisions to external managers. The managers and the details of their mandates and performance targets are listed in the IPID.

The Trustee has signed and dated appointment documentation with each of the managers which sets out the terms and conditions by and under which the respective portfolios will be managed and reported.

5.1. *Aligning Manager Appointments with Investment Strategy*

The investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustee utilises forward-looking manager research ratings provided by their investment consultant in decisions around the selection, retention and realisation of manager appointments. These ratings are based on the investment consultant’s assessment of the manager’s idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular manager’s fund changes, the Trustee will review the fund appointment to ensure that it remains appropriate and consistent with the Trustee’s investment objectives.

Some mandates are actively managed and the managers are incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustees will review the appropriateness of using actively managed funds as part of the wider monitoring of the Plan’s managers.

The Plan's investments are made through pooled investment vehicles, and as such the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then they will consider replacing the manager.

An investment manager's appointment may also be terminated if the Trustee's strategic investment objectives change.

5.2. *Evaluating Investment Manager Performance*

The Trustee receives investment manager performance reports from the managers on a quarterly basis, which present performance information over various time periods. The Trustee reviews absolute and relative performance against a suitable index used as a benchmark (where relevant) and/or against the manager's stated performance target (over the relevant time period). The Trustee may also evaluate a manager's performance using risk metrics. The Trustee's focus is primarily on long term performance but short term performance is also reviewed. As noted above, the Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may initially ask the manager to review their fees instead of terminating the appointment.

5.3. *Portfolio Turnover Costs*

The Trustee does not currently actively monitor the portfolio turnover costs of the Plan's assets. Investment manager performance is generally reported net of transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some reporting in relation to the ongoing costs and charges from their investment managers, in line with regulatory requirements, but do not analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover costs explicitly. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or where relevant, relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

The Trustee does not currently actively monitor the portfolio turnover costs of the assets for members' Additional Voluntary Contributions.

5.4. ***Manager Turnover***

The Trustee is a long term investor and are not looking to change the investment arrangements on a frequent basis.

For open-ended funds, the Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

- The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate.

6. Responsible Investment and Corporate Governance

6.1 The Trustee believes that stewardship and ESG issues, including climate change, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

6.2 As the assets with the Investment Manager are managed in pooled funds, the Trustee accepts that the assets are subject to the investment manager's own policy when evaluating ESG issues, including climate change, and in exercising rights and stewardship obligations attached to the Plan's investments.

6.3 Similarly, the Trustee accepts that the Plan's voting rights are exercised by the investment manager in accordance with their own corporate governance policy and taking account of current best practice including the UK Corporate Governance Code and UK Stewardship Code. The Trustee reviews the managers' ESG and stewardship policies from time to time.

6.4 Equity managers who are authorised in the UK are expected to report to their adherence to the UK Stewardship Code on an annual basis.

6.5 The Plan invests solely in bond assets (gilts, secured finance and corporate bonds). Whilst ESG issues are still relevant to risk control, there is less opportunity to influence investee company behaviour compared to equity holdings, although where relevant managers are encouraged to use their position as lenders of capital to engage with companies.

6.6 The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The Trustee will consider the ESG ratings provided by their investment consultant and how each investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically. The Trustee will also consider ESG integration, climate change and stewardship when implementing future investment strategy decisions.

6.7 The Trustee does not take into account members' or beneficiaries' views on "non-financial matters" (such as their ethical views) in the selection, retention or realisation of investments.

7. **Investment Manager and Advisor Fees**

7.1 External investment manager fees are determined as a percentage of assets.

7.2 Investment consulting fees are based on the time spent. In addition, the investment consultant and the Trustee generally agree fees in advance for more substantial projects.

8. **Review of this Statement**

8.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed: Original signed by Christopher Clayton

Date: 25 September 2020