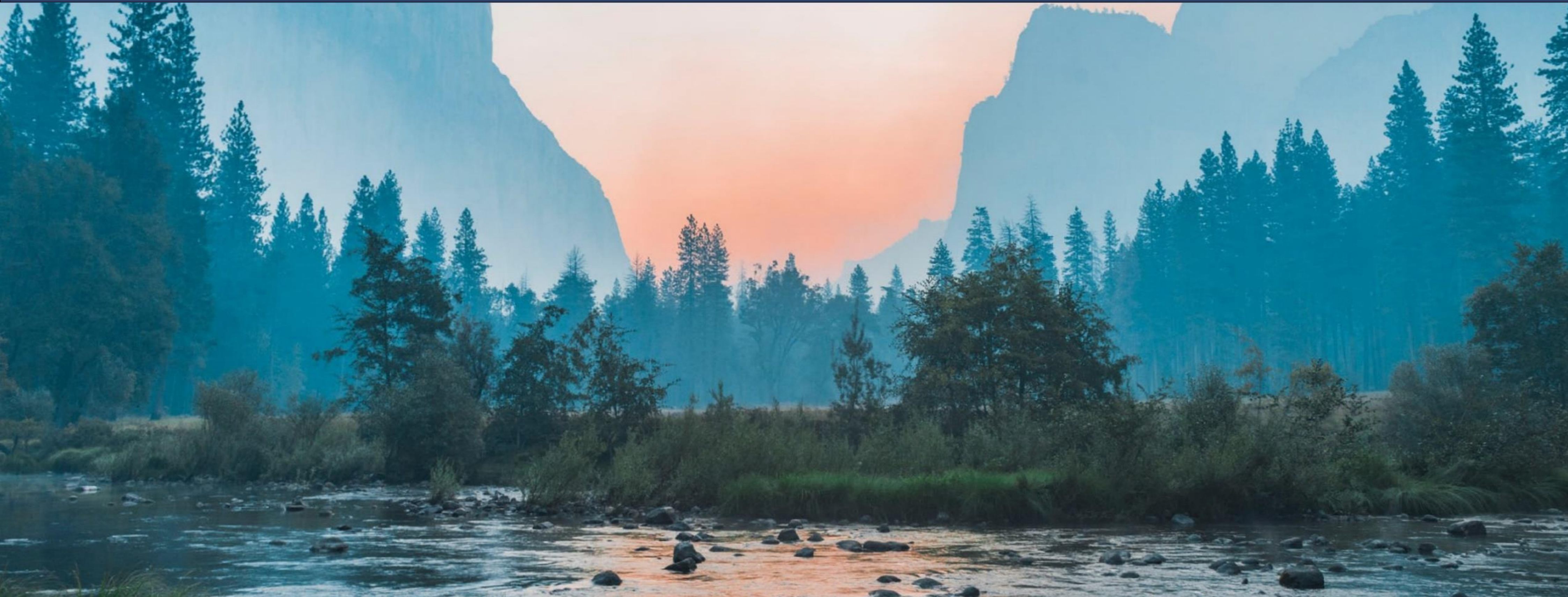
Statement of Investment Principles

SPX UK Pension Scheme

Effective from: 12 April 2024



1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the SPX UK Pension Scheme.

It sets out our policies on various matters governing investment decisions for the SPX UK Pension Scheme (“the Scheme”), which has Defined Benefit (“DB”) and Defined Contribution (“DC”) sections. This SIP covers the DB Section and DC Section. This SIP also covers the Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated September 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy or in the demographic profile of the members invested in the DC default investment option, and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the Scheme achieves full funding on a self-sufficiency basis by 31 December 2025. Progress against this long-term journey plan is reviewed on a regular basis via reporting from our advisers; and
- that the expected return on the Scheme assets is maximised whilst managing and maintaining risk at an appropriate level.

Our objective for the **DC Section** is 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 we believe to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default is to generate returns significantly above inflation whilst members are far from retirement, and to switch automatically and gradually to lower risk and expected return investments as members move closer to retirement.

All policies relating to the **DC default option** are covered in this SIP, rather than in a separate SIP, so all of our investment policies are in one document.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members’ risk / return objectives.

3. Investment strategy

With input from our advisers and in consultation with the employer, we last reviewed the investment strategy for the DB Section in December 2023 considering the objectives described in Section 2.

The investment strategy is shown in the following table.

Asset class	Strategic allocation
Equity	8.0%
Diversified risk premia	10.0%
Mult-asset credit ("MAC")	20.0%
Long-dated corporate bonds	8.0%
Short duration credit	14.0%
Liability driven investment / cash	40.0%

The Trustee targets an interest rate and inflation hedge ratio within 5% of funding level on the self-sufficiency basis.

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to the Scheme's circumstances. We believe that the strategy above meets this objective.

There is a formal rebalancing policy in place with Legal and General Investment Management ("LGIM") for the Scheme's growth portfolio. If material deviations from the strategic allocation occur within the Scheme's growth portfolio, LGIM will rebalance the assets accordingly.

As the Scheme matures over time, we intend to de-risk the investment strategy to reflect the change in the liability profile (ie switching from growth to matching assets).

We have a collateral management process in place which sets out the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. We review and update the process periodically.

For the **DC Section**, we make available a range of investment funds for members with different levels of expected return, including equity and bond based funds as well as a cash fund. Each member is responsible for specifying one or more funds for the investment of their assets.

If a member does not choose an investment option, their assets will be invested into the **default option**, which is managed as a lifestyle strategy (ie. it automatically combines investments in proportions that vary according to the time to retirement age). The default initially invests to target a high expected return (making use of equity-based funds) and then gradually switches to investments with a lower expected return and risk (such as a cash fund) as members get close to retirement.

The default option was designed to be in the best interests of the majority of the members based on analysis of the demographics of the membership. The default option targets a catch-all approach (agnostic of any specific retirement outcome) at retirement, since, based on analysis of the membership, we believe that most members will wish to take their benefits in this manner.

We monitor member 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, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of: the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. For the DB Section investment risk is measured using "Value at Risk". For the DC Section investment risk is measured as standard deviation. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy for the **DB Section** it is our policy to consider:

- our investment objectives, including the target return required to meet these
- 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 need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate

In determining the investment arrangements for the **DC Section, including the default option,** and for the AVCs it is our policy to consider:

- the overall best interests of 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 need for appropriate diversification to manage investment risk within the **default option** made available to DC members, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the DB, DC and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our policy regarding investments in illiquid assets in the DC default arrangement is set out below. Illiquid assets means assets that can't be easily or quickly be sold or exchanged for cash, and where assets are invested in a collective investment scheme this includes any such assets held by the collective investment scheme.

We believe that long-term net risk-adjusted investment returns may be improved by investing in illiquid assets. However, illiquid assets in DC pension schemes is a relatively new and developing area. Because of this we wish to see the further performance track record of illiquid funds available to DC schemes before we invest member assets in them. Therefore, at this time, it is our policy not to invest the DC default in illiquid assets. However, with the support of our investment advisers, we intend to consider investment in illiquid assets as part of our regular reviews of the default arrangements.

Our key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified
- ESG factors will be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short-, medium- and long-term
- our ambition is aligning the Scheme with net zero greenhouse gas emissions by 2050 where practicable is expected to help reduce the risks to the Scheme from climate change
- collaborative investor action can help address systemic risks, for example we believe net zero alignment, if implemented well, could be an effective approach to addressing climate risk
- to be effective, a net zero program needs to be consistent with climate science, with both short-term and long-term targets and a focus on real world impacts
- voting and engagement are important and can create long-term value, which is in the best interest of Scheme members and, therefore, we encourage managers to improve their voting and engagement practices

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers and platform providers setting out the terms on which the portfolios are to be managed. The DC platform provider makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying managers of the DC investment funds. The DB platform enables external mandates to be held in the same place for operational, governance and reporting purposes. There is also no direct relationship between the Scheme and the underlying managers for the investment funds on the DB platform.

Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the 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 their fund. However, 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 our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer-term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter-term 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. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our 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.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our 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

For the DB Section, we have a monthly standing order set up from the LGIM platform assets to support benefit payments and other outgoings. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation.

For the DC Section, including the default strategy, our policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice.

We encourage our managers to improve their ESG practices, although acknowledge that we have limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

Our ambition is to align our assets with net zero greenhouse gas emissions by 2050 through selecting managers, and investing in funds, with credible net zero targets.

Within each asset class, we considered investment options that give increased weight to ESG factors. We have chosen to invest part of the DB Section equity allocation in a passively managed fund that tracks an index with reduced exposure to climate-related risks and increased exposure to climate-related opportunities.

We do not consider matters that are purely non-financial in nature (eg 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. However, the line between financial and non-financial factors is not always clear keep and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. We keep this under review as part of our overall consideration of ESG considerations.

8. Voting and engagement

We recognise our 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 and is in the best interests of our members.

We seek to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of our investments are held through managers or pooled funds we do not monitor or engage directly with issuers or other holders of debt or equity.

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicated these stewardship priorities to our managers in May 2023.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.