

The Rotork Pension and Life Assurance Scheme

Statement of Investment Principles

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Contents

The Rotork Pension and Life Assurance Scheme.....	1
1. Introduction	3
2. Choosing investments.....	3
3. Investment objectives	4
4. Kinds of investments to be held	4
5. The balance between different kinds of investments.....	5
6. Risks.....	5
7. Expected return on investments	6
8. Realisation of investments	7
9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities	7
10. Agreement.....	7
Appendix 1: The Scheme’s policies on Financially Material Considerations, Stewardship and investment manager arrangements.....	8

1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of The Rotork Pension and Life Assurance Scheme (“the Scheme”). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010; the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustee has consulted Rotork PLC, the Principal Employer, and obtained advice from Barnett Waddingham, the Trustee’s investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The Trustee’s investment powers are set out in Section 11 of the Definitive Trust Deed & Rules, dated 6 April 2006. This statement is consistent with those powers.
- 1.6. On 20 June 2023, the Trustee purchased a bulk annuity insurance contract with Aviva PLC (“Aviva”), which is expected to provide all the defined benefits due to the Scheme members who had retired by 27 January 2023.
- 1.7. This Statement is primarily concerned with the Scheme’s assets that support liabilities not already backed by bulk annuity contracts, i.e. the Scheme’s ‘non-insured’ liabilities.

2. Choosing investments

- 2.1. The Trustee’s policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme’s assets is delegated to one or more investment managers and insurers. The Scheme’s investment managers are detailed in the Scheme’s Statement of Investment Strategy. The investment managers are authorised and regulated by either the Financial Conduct Authority or the Prudential Regulation Authority, and are responsible for stock selection and the exercise of voting rights, where applicable.
- 2.3. The Trustee reviews the appropriateness of the Scheme’s investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the participating employer, the cost of current and future benefits, that are not already covered by a bulk annuity policy, which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to meet the long-term target agreed with the Employer of having sufficient assets to be able to invest entirely in low-risk assets.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt, and derivatives;
- Bulk annuity insurance contracts.

4.2. The Scheme's current investment strategy involves holding a portion of assets in a bulk annuity insurance contract.

4.3. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.4. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme’s objectives. The allocation between different asset classes is contained in the Scheme’s Statement of Investment Strategy.
- 5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Scheme’s Statement of Investment Strategy.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustee holds a bulk annuity contract insurance policy with Aviva that provides income to the Scheme, matching part of the liabilities due from it.
- 5.5. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme’s asset allocation will be expected to change as the Scheme’s liability profile matures.

6. Risks

- 6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme’s liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation or following significant changes in the Scheme’s liability profile. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer’s earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme’s funding basis.
Asset Allocation Risk	The asset allocation is detailed in the Scheme’s Statement of Investment Strategy and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Scheme’s investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.

Insurer counterparty risk	The risk of the insurer, with which the Scheme holds a bulk annuity contract for a portion of the liabilities, defaulting has been managed through the selection of a reputable UK regulated insurer and potentially supported by the insurance compensation scheme in place should an insurer fail.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations.
Governance risk	Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors this and will report on the managers' practices in their annual Implementation Statement.
Environmental, Social and Governance (ESG) Factors	The Trustee has considered the long-term financial risks to the Scheme and believes that ESG factors, including but not limited to climate change, have the potential to be financially material over the lifetime of the Scheme. The Trustee therefore has a practice of considering ESG, alongside other factors, when selecting, monitoring or reviewing the Scheme's investments.

7. Expected return on investments

- 7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities and arrangement with investment managers

Policy on financially material considerations

- 9.1. The Trustee's policy on financially material considerations is set out in Appendix 1 for ease of disclosure.

Policy on stewardship

- 9.2. The Trustee's policy on stewardship is set out in Appendix 1 for ease of disclosure.

Policy on arrangements with investment managers

The Trustee's policy on arrangements with investment managers is set out in Appendix 1 for ease of disclosure.

Policy for taking into account non-financial matters

- 9.3. The Trustee does not consider any Non-Financial Matters (as defined in the regulations as "*the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme*") when constructing the investment strategy and/or when selecting or reviewing fund managers. Furthermore, the Trustee does not require its investment managers to take into account Non-Financial Matters.

10. Agreement

- 10.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be published on a publicly accessible website and thereby available to the Principal Employer, the investment managers, the Scheme Auditor and Scheme members.

This Statement of Investment Principles was approved by the Trustee of the Rotork Pension and Life Assurance Scheme on 13 March 2024

Appendix 1: The Scheme's policies on Financially Material Considerations, Stewardship and investment manager arrangements

This note relates to the Statement of Investment Principles of the Rotork Pension and Life Assurance Scheme ("the Scheme") as at March 2024.

1. Policy on financially material considerations

The Trustee's policy on financially material considerations is as follows:

- The Trustee believes that ESG factors, including but not limited to climate change, have the potential to be financially material over the lifetime of the Scheme. The Trustee therefore has a practice of considering ESG, alongside other factors, when selecting, monitoring or reviewing the Scheme's investments.
- The Trustee will be reliant on the information presented by the investment manager and their investment advisors regarding the extent to which an investment manager allows for ESG factors in making their investment decisions.
- Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.
- ESG considerations are set by each of the investment managers. Each of the Scheme's investment managers will ultimately act in the best interest of the Scheme's assets to maximise returns for a given level of risk. The Trustee will monitor from time to time how ESG factors are integrated within the funds they invest in.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them. This includes taking ESG factors into account in the selection, retention, and realisation of investments as follows:

- Continue to receive training to understand the key issues around ESG factors and latest developments;
- Consider an investment manager's approach to ESG as part of any new investment manager selection exercises ("selection of investments")
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues.
- Through their investment consultant, or any other appropriate advisor, the Trustee will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis ("retention of investments").
- The Trustee will, from time to time, request information from investment managers about how ESG considerations are taken into account in decisions to realise investment ("realisation of investments").

2. Policy on stewardship

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

As an investor in pooled funds, the Trustee delegates the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers, who are signatories to the UK Stewardship Code or equivalent. The Trustee expects the investment managers to take account of ESG factors and climate risk when exercising these rights and will monitor this through the annual Implementation Statement.

The Trustee also delegates undertaking engagement activities, which include entering into discussions with company management in an attempt to influence behaviour, to the investment managers. As part of this, the Trustee expects their active investment managers to assess and monitor developments in the capital structure for each of the companies in which the manager invests. This should include monitoring developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure. The Trustee recognises that monitoring the capital structure of the assets held is less relevant for passive investment managers. However, the Trustee will also monitor developments in ESG, climate risk and related issues for their passive investment manager. This expectation has been communicated to the Scheme's investment managers by the Scheme's investment consultant.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider the investment managers' policies on engagement and stewardship and how these policies have been implemented. If the Trustee finds that any investment manager is not engaging with the companies in which the investment manager invests in a suitable manner or is not taking sufficient account of ESG matters in its exercising of voting rights, it will engage with that investment manager with the help of the Scheme's Investment Consultants.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflicts of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have appropriately managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the companies in which the manager invests.

3. Investment manager arrangements

The below policies relate only to the assets within the Scheme that support liabilities not already backed by annuity contracts.

Aligning the investment strategy and decision of the investment manager with the Trustee's investment policies

When choosing an investment manager, the Trustee selects the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

The Trustee recognises that when investing in pooled funds there is limited scope to influence the investment manager's strategy and decisions but have resolved to:

- Monitor the performance of the funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustee's expectations.
- In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be reviewed. The investment managers have been informed of this by the Trustee.
- To carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

Incentivising investment managers to make decision based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

In making investment decisions, the Trustee expects the Scheme's active investment managers to assess the long-term financial prospects of any investment. The Trustee believes that financially material factors – such as ESG risk, climate risk and the engagement of investment managers with the companies in which they invest – may have a long-term impact on returns and therefore investment managers should take these into consideration when making decisions.

In order to encourage this, the Trustee has notified the investment managers of the following:

- When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where an investment fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of investment funds that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

- The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts.
- The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

How the method (and time horizon) of the evaluation of investment manager's performance and the remuneration for investment management services are in line with the Trustee's policies

Evaluation of investment managers' performance

From time to time the Trustee reviews the investment managers' performance on a net of fees basis. This is considered over 3-5 year periods, which is consistent with the Trustee's wider investment policies. This review reflects not only fund returns, but also whether the investment managers continue to invest in line with the Trustee's expectations in terms of their investment approach, philosophy and process. This includes the investment managers' approaches to ESG and climate risk.

Remuneration of investment managers

Details of the fee structures for the Scheme's investment managers are contained in the Scheme's Statement of Investment Strategy.

The Scheme invests exclusively in pooled funds. The investment managers are remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

The Trustee believes that this fee structure, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's investment consultant to assess if the investment management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

How the Trustee monitors the portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments.

During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective. Additionally, the Trustee believes that active investment managers can add value through turnover of investments.

The duration of the arrangement with the investment manager

All of the Scheme's investments are in open-ended pooled funds and as such, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.