The Sulzer UK Defined Benefit Pension Scheme

Statement of Investment Principles

September 2020

Contents

1 Introduction

Scheme background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the Sulzer UK Defined Benefit Pension Scheme (the "Scheme").

- The Scheme:

  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;

  - provides benefits calculated on a defined benefit ("DB") basis; and

  - is closed to new entrants and future accrual.

- Buck is investment consultant to the Trustee.

- The appointed fiduciary manager for the Scheme is:

  - Russell Investments (the "fiduciary manager")

Regulatory requirements and considerations

- This Statement covers the requirements of, and the Scheme's compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of "Institutional Investing in the UK", the results of which were first published in 2001 (referred to as the "Myners Principles").

- The Myners Principles require trustee boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustee is complying with this requirement.

- In respect of the additional voluntary contributions provided on a money-purchase basis within the Scheme, the Trustee has taken into account the requirements and recommendations within the Pension Regulator's DC code and regulatory guidance.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

- In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted the Sponsoring Employer.

- The Trustee will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

Key investment principles

Kind of investments to be held

- The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee has delegated the selection of specific investments to the fiduciary manager who is expected to consider the attributes of the various asset classes (including derivative instruments), these attributes being:

  – security (or quality) of the investment,

  – yield (expected long-term return),

  – spread (or volatility) of returns,

  – term (or duration) of the investment,

  – exchange rate risk,

  – marketability/liquidity (i.e., the tradability on regulated markets),

  – taxation.

- The Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Scheme.

Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustee believes that collective responsibility is the appropriate structure, given the size of the board, except for specific projects when an investment sub-committee may be set up. The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee.

- All investment decisions relating to the Scheme are under the Trustee's control without constraint by the Sponsoring Employer. The Trustee is obliged to consult with the Sponsoring Employer when changing this Statement.

- All day-to-day investment decisions are delegated to a properly qualified and authorised fiduciary manager of pension scheme portfolios. An investment management agreement has been exchanged with the fiduciary manager, who in turn has agreements with the underlying investment managers. The fiduciary manager is reviewed from time-to-time to ensure that the manner in which it makes investments on behalf of the Trustee is suitable for the Scheme, and appropriately diversified.

Investment Objectives and Suitability of Investments

- The Scheme's investment strategy has been agreed by the Trustee having taken advice from the investment consultant and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit.

- The Trustee's agreed investment strategy is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Trustee's primary objectives are:

  – to provide appropriate security for all beneficiaries,

  – to achieve long-term growth sufficient to provide the benefits from the Scheme, and

  – to achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.

- The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme.

- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to a fiduciary manager authorised under the Act.

- The Trustee is responsible for reviewing the Scheme's investment strategy as part of each Actuarial Valuation in consultation with the Scheme's investment consultant. The Trustee may also reconsider the investment strategy outside the triennial valuation period where necessary.

- The Trustee considers the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme. This assessment has been made with reference to the Scheme's Statement of Funding Principles produced as part of the 31 December 2018 Actuarial Valuation.

Diversification

- The Trustee, after seeking appropriate investment advice, has selected a return target and liability hedge ratio targets for the Scheme's assets including control ranges for each broad asset class.

- Subject to its respective guidelines the fiduciary manager (and underlying investment managers) is given full discretion over the choice of investment vehicles and is expected to maintain a diversified portfolio.

- The Trustee is satisfied that the investments selected are consistent with its investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Scheme, the Trustee has decided to invest the Scheme's assets on a pooled fund basis. All such investments are effected through a direct agreement with the fiduciary manager who in turn has an agreement with the underlying investment managers and/or through an insurance contract.

- The Trustee is satisfied that the range of vehicles in which the Scheme's assets are invested provides adequate diversification.

Risk

- The Trustee considers the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.

- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's liabilities on a swaps basis, and with the need to avoid undue contribution rate volatility.

- In determining the investment strategy of the Sulzer Pension Scheme (the previous pension scheme from which this Scheme was created and upon which this Scheme's investment strategy is based), the Trustee received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent Actuarial Valuation of the Sulzer Pension Scheme, the target investment return and target liability hedge ratios are then set.

- Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks. These are the risks:

  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,

  - of the Scheme having insufficient liquid assets to meet its immediate liabilities,

  - of the fiduciary manager failing to achieve the target investment return,

  - due to the lack of diversification of investments,

- of failure of the Scheme’s Sponsoring Employer to meet its obligations.

- The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Trustee undertakes monitoring of the fiduciary manager’s performance against its targets and objectives on a regular basis. This, at times, will include monitoring the performance of the underlying investment manager mandates.

- Within each asset class, the fiduciary manager is expected to select investment managers to construct a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

- The divergence of the actual distribution of the investments from the target returns and hedge ratios will be monitored by the Scheme’s investment consultant at the time of providing an investment monitoring report. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed by the Scheme Actuary in order to reach a fully funded status under the agreed assumptions.

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the fiduciary manager to be able to realise the Scheme’s investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. There is a guideline in place which dictates that the majority of the assets are not expected to take an undue time to liquidate.

Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.

- The Trustee will review the performance of the fiduciary manager from time to time, based on the results of their performance and investment process.

- The fiduciary manager is expected to provide written reports on a quarterly basis.

- The Trustee receives an independent investment performance monitoring report from its investment consultant on a quarterly basis.

Balance between different kinds of investments

- The appointed fiduciary manager will hold a diversified mix of investments within its discretion in the control ranges given to meet the return target stipulated. Within each major market the fiduciary manager will maintain a diversified portfolio of securities through the underlying investment managers.

Financially material considerations

- The Trustee expect their fiduciary manager, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

- The Trustee has reviewed the fiduciary manager's policies in respect of financially material considerations and is satisfied that it is consistent with the above approach.

Non-financial matters

- The Trustee's objective is that the financial interests of the Scheme members is its first priority when choosing investments. The Trustee will take members' preferences into account if they consider it appropriate to do so.

- Non-financial matters may be taken into account if the Trustee has good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.

Stewardship in relation to the Scheme's assets

- The Trustee has a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their fiduciary manager.

Engagement and monitoring

- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the fiduciary manager and underlying managers and it expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

Fiduciary Manager Monitoring

- The Trustee will assess the performance, processes and cost effectiveness of the fiduciary manager by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

- All strategic investment decisions, and the overall performance of the fiduciary manager are monitored by the Trustee with the assistance of the investment consultant.

- The fiduciary manager will provide the Trustee with quarterly statements of the assets held along with a quarterly performance report on the results of the past investment policy and the intended future investment policy, and any changes to the investment processes applied to its portfolios. The fiduciary manager will also report verbally on request to the Trustee.

- The fiduciary manager will inform the Trustee of any changes in the internal performance target and guidelines of any pooled funds used by the Scheme as and when they occur.

- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the fiduciary manager.

- The Trustee will assess the quality of the performance and processes of the fiduciary manager by means of a review at least once every three years in consultation with the investment consultant.

- The Trustee receives an independent fiduciary manager performance monitoring report from the investment consultant on a quarterly basis.

The Trustee's policy in relation to its fiduciary manager

- In detailing below the policies on the fiduciary manager arrangement, the over-riding approach of the Trustee is to select a fiduciary manager that meets the primary objectives of the Trustee. As part of the selection process and the ongoing review of the fiduciary manager, the Trustee considers how well the fiduciary manager meets the Trustee's policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the fiduciary manager to align its investment strategy and decisions with the Trustee's policies

- The Trustee has delegated the day to day management of the Scheme's assets to a fiduciary manager. The Scheme's assets are predominantly invested in pooled funds which have their own policies and objectives and charge a fee for its services. Such fees incentivise the fiduciary manager to adhere to its stated policies and objectives.

How the arrangement incentivises the fiduciary manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustee, in conjunction with its investment consultant, appoints its fiduciary manager to meet specific Scheme policies. It expects that its fiduciary manager makes decisions based on assessments about the financial and non-financial performance of underlying investments, and that they engage with issuers of debt or equity or the underlying fund managers to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

- The Trustee also expects its fiduciary manager to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

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

- The Trustee expects its fiduciary manager to invest the assets within its portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustee reviews the fiduciary manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. over a market cycle.

- If the Trustee determines that the fiduciary manager is no longer managing the assets in line with the Trustee's policies it will make its concerns known to the fiduciary manager and may ultimately disinvest.

- The Trustee pays its fiduciary manager a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, considers the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the fiduciary manager.

How the Trustee monitors portfolio turnover costs incurred by the fiduciary manager, and how it defines and monitors targeted portfolio turnover or turnover range

- The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustee receives a report which includes the turnover costs incurred by the fiduciary manager used by the Scheme.

- The Trustee expects turnover costs of the fiduciary manager to be in line with its peers, taking into account the style adopted by the fiduciary manager, the asset classes invested in and prevailing market conditions.

- The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the fiduciary manager should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Trustee does not in general enter into a fixed long-term agreement with its fiduciary manager and instead retains the ability to change fiduciary manager should the performance and processes of the fiduciary manager deviate from the Trustee's policies. However, the Trustee expects its fiduciary manager appointment to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Voting Rights attaching to Investments

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the fiduciary manager and underlying managers and to encourage the managers to exercise those rights. The fiduciary manager is expected to provide regular reports detailing the underlying managers' and their own voting activity.

Additional Voluntary Contributions (AVCs)

- The Trustee has full discretion as to the appropriate investment vehicles made available to members of the Scheme for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustee, having taken appropriate written advice from properly qualified and authorised financial advisers.

- Aviva, Clerical Medical Investment Group Limited, Legal & General Assurance Society and Utmost Life and Pensions are the current managers of members' AVCs.

- From time to time, the Trustee reviews the choice of investment available to members to ensure that it remains appropriate to the members' needs. In selecting the range of funds offered the Trustee has taken advice from its professional advisers on:

  - the risks faced by members in investing in on a money purchase basis, and

  - the Trustee's responsibilities in the selection and monitoring of the investment options offered.

3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

Trustee

The Trustee's primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or a change to the fiduciary manager;

- appointing investment consultants and fiduciary/ investment managers as necessary for the good stewardship of the Scheme's assets;

- reviewing the investment strategy as part of each triennial Actuarial Valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant;

- assessing the processes (and therefore the performance) of the fiduciary manager by means of regular, but not less than annual, reviews of information obtained (including investment performance);

- monitoring compliance of the investment arrangements with this Statement on a regular basis, and

- monitoring risk and the way in which the fiduciary manager or underlying investment managers have cast votes on behalf of the Trustee in respect of the Scheme's equity holdings.

Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer;

- undertaking project work including reviews of investment strategy and independent assessment of the fiduciary manager's performance as required by the Trustee; and

- providing training or education on any investment related matter as and when the Trustee sees fit.

Fiduciary Manager

The fiduciary manager's main responsibilities include:

- investing assets in a manner that is consistent with the objectives set;

- ensuring that investment of the Scheme's assets is compliant with prevailing legislation and the constraints detailed in this Statement;
- providing the Trustee with quarterly reports including any changes to its investment process and a review of the investment performance;
- attending meetings with the Trustee as and when required;
- informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any fund used by the Scheme as and when they occur;
- negotiating on behalf of the Trustee on fee structures with the underlying investment managers; and
- working with the underlying investment managers to exercise voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets.

- The custodianship arrangements are those operated by the fiduciary manager and the underlying investment managers for all clients investing in their pooled funds.

Administrators

- The administrator's primary responsibilities are the day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustee.
- The Scheme's administrator is Sulzer (UK) Holdings Limited.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme; and
- performing the triennial (or more frequently as required) Actuarial Valuation and advising on the Scheme's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

The Scheme Actuary is Rachel Downs of Buck.