# MiTek UK Retirement & Death Benefits Plan

## Statement of Investment Principles

### Introduction

The Trustee of the MiTek UK Retirement & Death 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 Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. In preparing this Statement the Trustee has consulted MiTek Industries Limited ("the Employer") on the Trustee investment principles.

This document applies with effect from 29 June 2021 and replaces the previous Statements for the MiTek Section and TBS Section of the Plan. This Statement reflects that on and from 29 June 2021 the MiTek Section and TBS Section are merged.

### Governance

The Trustee makes all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustee takes proper advice. The Trustee's investment consultants, Capita, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

### Investment Objectives

The Trustee is required to invest the Plan's assets in the best interest of members, and its main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Plan's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Plan;

- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustee understands, following discussions with the Employer, that it is willing to accept a degree of volatility in the company's contribution requirements in order to reduce the long-term cost of the Plan's benefits.

**Risk Management and Measurement**

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Plan. The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Plan's liability profile. The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Plan's liabilities.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the single manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.
- The Trustee recognises that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Plan's assets are managed through a mixture of active and passive management which may be adjusted from time to time.
- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Plan's circumstances; the Trustee will review whether the current risk profile remains appropriate.

### Investment Strategy

Given its investment objectives and the recent Plan merger, the Trustee has agreed to the asset allocation detailed in the table below until further investment strategy work is carried out. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

| Asset Class | Strategic Asset Allocation % | Upper tolerances % |
|---|---|---|
| Balanced | 67.5 | 70.0 |
| ***Growth Assets*** | ***67.5*** | ***70.0*** |
| UK Corporate Bonds | 21.5 | - |
| UK Index-Linked Gilts | 11.0 | - |
| ***Matching Assets*** | ***32.5*** | - |
| Total | 100.0 | |

The growth assets have an upper tolerance of 70.0% and is anticipated that de-risking over time and cash flow management policies will prevent this from being breached. The Trustee will consider whether other control ranges are reinstated, following further investment strategy work.

### Cash Flow Management

The Trustee will monitor the Plan's actual asset allocation at least quarterly and, subject to the stated upper tolerance, will decide on a course of action. This may involve redirecting cash flows, a switch of assets, or taking no action. The Trustee will receive advice from the investment consultant prior to making any decision.

Any incoming cashflows (including contributions into the Plan) will be directed toward the M&G Index-Linked Passive Fund and disinvestments will be made from the M&G Balanced Fund, in order to aid a gradual de-risking of the Plan. This will be reviewed by the investment consultant and Trustee on a regular basis (usually annually) and this Statement changed to reflect any change in policy. The Trustee anticipates that the UK Index-Linked Gilts holding may increase beyond its strategic asset allocation as the Plan de-risks, hence there is no upper tolerance on matching assets.

### Expected Return

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustee expects to generate a return, over the long term, of circa 2.3% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Plan's liability value. This return is a "best estimate" of future returns that has been arrived at given the Plan's longer term asset allocation and in the light of advice from the investment consultant.

The Trustee recognises that over the short term performance may deviate significantly from this long term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Plan's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

**Investment Mandates**

The Trustee has selected M&G Investments ("M&G") as the appointed Investment Manager ("the Investment Manager") to manage the assets of the Plan. The Investment Manager is regulated under the Financial Services and Markets Act 2000.

The Trustee has a rolling contract with its Investment Manager. The Trustee monitors the performance of its Investment Manager on a quarterly basis. This monitoring is contained in a report provided by its advisors.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

**Investment Manager Remuneration**

The Trustee monitors the remuneration and incentives, that are paid to its Investment Manager and how it rewards its key staff who manage client funds.

As part of the monitoring that the Trustee carries out on a regular basis, they ensure that this policy is in line with its investment strategy.

**Investment Manager Philosophy and Engagement**

The Trustee monitors the Investment Manager's process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond mainly accountancy measures. The Trustee considers if the Investment Manager is incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments being made. The Trustee is conscious of whether the Investment Manager is incentivised by the agreement with the Trustee to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

**Investment Manager Portfolio Costs**

The Trustee will monitor costs of buying, selling, lending and borrowing investments and it will look to monitor the costs breakdown annually, as long as the Investment manager provides these costs using the Cost Transparency Initiative template. The Trustee will also ensure that, where appropriate, its Investment Manager monitors the frequency of transactions and portfolio turnover. If there are any targets, then the Trustee will monitor compliance with these targets.

**Financially material considerations over the Plan's time horizon**

The Trustee believes that its main duty, reflected in the investment objectives, is to protect the financial interests of the Plan's members. The Trustee believes that environmental, social and governance ("ESG") considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustee forms a view of the length of time that it considers is needed for the funding of future benefits by the investments of the Plan. The Trustee recognises that whilst this is a DB scheme closed to new entrants, with an ageing membership, it nonetheless believe that an appropriate time horizon for the Plan could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustee has elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustee will consider the manager policies in all future selections and will deepen its understanding of the existing manager policies by reviewing these at least annually. The Trustee will also seek to understand what other options might be available and in the wider market. In cases where it is dissatisfied with a manager's approach it will take this into account when reviewing them. It is also keen that any managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that its Investment Manager can explain when, and by what practical methods, the manager monitors and engage with relevant persons about relevant matters in this area. It will be liaising with its Investment Manager to obtain details of the voting behaviour (including the most significant votes cast on the Trustee's behalf and what proxy voting services have been used) and will then be reporting annually on this. The Trustee is also keen that the Investment Manager is a signatory of the UK Stewardship Code. This is currently the case.

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their Investment Manager. To that end it dedicates time regularly to the discussion of this topic and intends to review and renew its approach periodically with the help of its investment consultant, where required. Consequently, the Trustee expects the Plan's Investment Manager to have effective ESG policies (including the application of voting rights) in place, and look to discuss the Investment Manager's ESG policies with them if the manager attends Trustee meetings.

Non-financial matters, including members' views are not taken into account.

**Compliance with Myners' Principles**

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustee believes that it complies with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustee believes this to be justified.

**Employer-Related Investments**

The Trustee's policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

**Fee Structures**

The Investment Manager is paid a management fee on the basis of assets under management. The investment consultant is paid on a fee based on assets under management for providing 'core services'. The Trustee can also request that Capita undertake 'out-of-scope' projects, which may be undertaken on a fixed fee or time-cost basis - as agreed between the Trustee and Capita.

**Review of this Statement**

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 believes 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.

Stuart Walters (20-20 Trustee Services Limited)

**For and on behalf of MiTek UK Trustees Limited**

Date 28 June 2021

## Appendix – Investment Mandates

The Trustee has appointed the Investment Manager to manage the assets of the Plan. The Investment Manager is regulated under the Financial Services and Markets Act 2000. Its mandates are set out below:

| Asset Class | Investment Manager | Fund Name | Active / Passive Management | Strategic Allocation % | Upper Tolerance % |
|---|---|---|---|---|---|
| **Growth Assets** | | | | **67.5** | **70.0** |
| Balanced | M&G | PP Discretionary Fund | Active | 67.5 | 70.0 |
| **Matching Assets** | | | | **32.5** | - |
| UK Corporate Bonds | M&G | Long Dated Corporate Bond Fund | Active | 21.5 | - |
| UK Index-Linked Gilts | M&G | Index-Linked Passive Fund | Passive | 11.0 | - |
| Cash* | M&G | Cash Fund | Active | 0.0 | - |

** The Plan currently holds cash but this does not form part of the investment strategy*