XPS Investment

Ideal Standard (UK) Limited Pension Plan

Statement of Investment Principles

September 2021

Statement of Investment Principles

The Trustee of Ideal Standard (UK) Limited Pension Plan ("the Plan") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities, Money Purchase funds and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Plan's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Investment objective and strategy

Choosing investments

The Trustee sets the investment strategy and investment policies for the Plan.

The Trustee has considered the Plan's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Plan's assets but retains control over all decisions made about the investments in which the Plan invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Plan.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Plan's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective

The Trustee has set the following objectives:

- To maintain a fully funded position on a Technical Provisions. In particular, the discount rate used in calculating the value of assets required underpinning that target is gilts + 0.75% pa (pre-retirement) and gilts + 0.50% (post-retirement).
- To implement an investment strategy targeting a return of 1.1% pa in excess of gilt yields.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Plan.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustee intends to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Plan's liabilities or membership.

The Trustee also utilises a range of assets or funds in respect of benefits provided on a money purchases basis in respect of members' contributions based on Top-up Earnings and/or AVCs. These money purchase Top-up funds/ AVCs are held separately to the main Defined Benefit investments.

The actual strategy adopted for the Plan, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Plan assets can be held in investments related to the Employer.

- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Plan's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Plan's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assesses the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Plan assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustee recognises that assets may need to be realised to meet Plan obligations at any time.

The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustee will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

Range of assets

The Trustee considers that the combination of the investment policy detailed and the specific manager mandates detailed in the Appendix will ensure that the assets of the Plan include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustee or governing the pooled funds in which the Plan is invested.

The Trustee will ensure that the Plan's assets are invested in regulated markets to maximise their security. The Trustee regularly evaluates the investment managers' performance against the specific mandate that was agreed. The investment manager is incentivized to perform in line with the agreed objectives as maintaining the mandate and associated fees are contingent on them doing so.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Plan. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

Money Purchase top-up funds & AVCs

Long-term objectives

The Trustee's long-term objectives are to provide members with investment options that will enable them to optimise the real return on investments in order to build a fund which will be used at retirement to invest in an income drawdown product, purchase an annuity and/or be taken as a cash lump sum.

The Trustee recognise that the available investment options directly impact the Plan's members and their expectation for their retirement provision.

The Trustee have therefore set the following investment objectives for the Plan:

- Fiduciary - To ensure members are given an appropriate range of investment vehicles and guidance on the suitability of these vehicles;
- Funding - To give members investment opportunities that enable them to maximise the returns achieved at acceptable levels of risk;
- Stability - To provide members with certain investment options which offer some protection against volatility in the capital value of their fund; and

- Value - To ensure that the funds represent appropriate value for money. This may include consideration of factors such as performance, volatility of returns, cost effectiveness and non-financial matters.

Expected returns

By undertaking the investment policy described in this Statement, the Trustee anticipates that the investment options and the associated future absolute investment returns will allow members to maintain or increase the real value of their fund whilst at the same time providing them with the opportunity to invest in assets which are closely aligned to the way in which they expect to convert their fund at retirement.

The Trustee expects the long-term return on investment options that invest predominantly in equities to exceed price inflation. The long term returns on bond and cash options are expected to be lower than returns on predominantly equity options. Cash funds provide protection against changes in short-term capital values and may be appropriate for members wishing to take part or all of their DC benefits in the form of a cash lump sum.

In order to meet the above objectives, the Trustee has made available a range of investment funds with different risk-reward characteristics. Further details are provided in Appendix.

Range of assets

The amounts allocated to any individual asset class will be influenced by the choices made by the members and may vary through the Investment Managers' tactical asset allocation preferences at any time, within the restrictions imposed under individual fund investment parameters.

The Trustee will ensure that the investment options made available to members hold a suitably diversified range of securities, avoiding an undue concentration of assets. In addition, the Trustee will ensure the range of assets is otherwise suitable to meet the investment objectives, as set out in Appendix.

Investment Manager Arrangements

Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies.

The Trustee receives quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Selection / Deselection Criteria

The criteria by which the Trustee will select (or deselect) the Investment Managers include:

- Ownership of the business;
- Leadership/team managing the strategy and client service;
- Key features of the investment and the role it performs in a portfolio;
- Philosophy and approach to selecting underlying investments including operational risk management and systems;
- Current and historical asset allocation of the fund;
- Past performance and track record;
- The underlying cost structure of the strategy;
- Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

Portfolio turnover

The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Responsible investment

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Plan and believes there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Plan's investment managers. The Trustee requires the Plan's investment managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

As the Plan invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the investment managers. The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

Should the Trustee monitoring process reveal that a manager's engagement and voting practices are not sufficiently aligned with Trustee expectations, the Trustee will engage with the manager further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager appointment will be terminated

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Plan, although they have neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustee will review this policy if any beneficiary views are raised in future

Approved and adopted by the Trustee on 20 September 2021

Appendix – Investment strategy

Overall strategy

The investment strategy of the Plan is summarised in the table below.

Asset class	Strategic allocation	Expected return (above gilts pa)	Manager Fund	Objective
LDI	40%	-0.1%	BMO LDI Private Sub Fund	Liability Matching
Buy & Maintain Credit	30%	0.8%	BMO Cashflow Matching (Credit Only) LDI Fund	To deliver cashflows to meet the fund's benchmark.
Private Debt	15%	3.8%	StepStone Global Senior Corporate Lending Europe Fund	To achieve capital growth over the medium to long term through a multi-manager or funds of funds approach.
Secure Income	10%	1.8%	Aberdeen Standard Multi Sector Private Credit Fund	Libor + 2.8 - 3%, (gross of fees)
Long Lease Property	5%	2.3%	Aberdeen Standard Long Lease Property Fund	FTSE- A All Stocks Gilts Index + 2.0% pa (gross of fees)
	100%	1.1%		

Return expectations quoted above are best estimates for long-term returns as at 30 June 2021.

The Investment Consultant will confirm trading spreads and any costs associated with transferring assets as part of their formal written advice.

Liability hedging

This strategy is designed to achieve liability hedging of:

- c.95% of the interest rate risk, as a proportion of the Plan's total liabilities, as assessed against the current technical provisions basis.
- c.95% of the inflation risk as a proportion of the Plan's total liabilities, as assessed against the current technical provisions basis.

Rebalancing investments

The Plan does not have any formal rebalancing arrangements in place. The Trustee will review the allocation quarterly and if required will instruct the Investment Managers to rebalance towards the strategic allocation.

Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments. It is envisaged that where assets need to be realised, the source of disinvestments will be the BMO LDI portfolio.

Income

The Plan has the following arrangements in place for generating income:

- Aberdeen Standard Long Lease Property Fund – The Plan is expected to receive quarterly income distributions equivalent to a yield of 3%-4% pa.
- Aberdeen Standard Multi Sector Private Credit Fund – The Plan is expected to receive quarterly income distributions equivalent to a yield of 4%-5% pa.
- StepStone Global Senior Corporate Lending Europe Fund – Once the investment period is complete, the private debt mandate will begin distributing income. The Plan is expected to receive semi-annual income distributions equivalent to a yield of 3%-5% pa.
- BMO Cashflow Matching (Credit Only) LDI Fund – The Plan is expected to receive quarterly income distributions equivalent to a yield of c.3%-4% pa.

These arrangements are expected to generate a total annual income of c.£8m (or c.£670k per month) which is expected to help ease the Plan's cashflow requirements.

The Trustee has the authority to change any of these arrangements at any point should it be deemed necessary for the Plan.

Money Purchase top-up funds & AVCs

Overall strategy

The Trustee have decided to offer a range of appropriate funds to members to enable them to choose investments appropriate to their individual circumstances, whilst not offering too many funds which may deter some members from making a choice. In accordance with best practice guidance from the Pensions Regulator, particular attention has been placed on the default strategy to be used where members do not make their own investment choice.

The range of investment options is as follows:

Default strategy

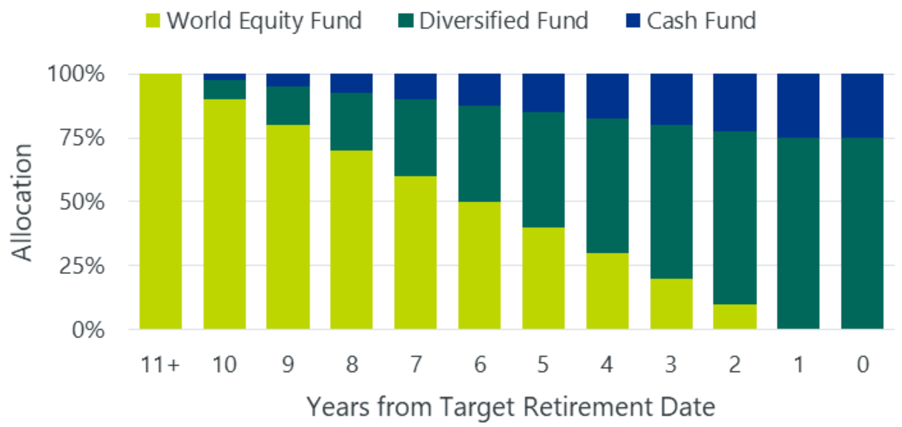
The aim of the default strategy is to maximise the value of members' retirement savings while managing the risks including volatility over the member's investment timeline, with a particular focus on the period leading up to retirement age. The Trustee, with their Investment Consultant, assessed the suitability of the default investment arrangement considering the regulations governing how members can access their benefits at retirement. This assessment considered the Plan's membership profile and members' expected fund values at retirement.

The default strategy is operated in accordance with the policies described in the Statement and is intended to ensure investment in the best interests of members and beneficiaries as further described in the Statement.

The investment funds are historic arrangements in place with Legal & General and Utmost Life and Pensions (formerly known as Equitable Life).

The Plan has adopted a lifestyle strategy for the default strategy, as outlined below;

- Up until 10 years from members' target retirement dates (growth stage) - 100% invested in global equities
- 9 years to 1 year from members' target retirement dates (de-risking stage) – Members' assets are gradually switched into a combination of multi-asset and cash.
- 1 year to retirement (income alignment phase) – 75% multi-asset and 25% in cash



Self-Select Options:

- Legal & General World Equity Fund;
- Legal & General Diversified Fund;
- Legal & General Global Equity Fixed Weights (60:40) Index Fund;
- Legal & General Over 5 Year Index-Linked Gilts Index Fund;
- Legal & General Cash Fund.

The Trustee will review the money purchase top-up funds provider, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustee is aware that members' money purchase top-up funds are subject to the same risks faced by the Plan's investments, such as inflation risk eroding real returns. In addition, members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their money purchase top-up fund may fall in value.

The Trustee considers that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

Contact us

xpsgroup.com