BROWN AND SHARPE PENSION PLAN

STATEMENT OF INVESTMENT PRINCIPLES

INTRODUCTION

This Statement of Investment Principles ("SIP") has been prepared by the Trustee of the Brown and Sharpe Pension Plan to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005, as amended, plus the Occupational Pension Schemes (Investment and Disclosure) Regulations 2018 & 2019. The Trustee complies with the requirements to maintain and take advice on the Statement, and with the disclosure requirements.

The principles outlined in this statement became effective following the delegation of certain decision-making powers by the Trustee to Aon Investments Limited (the 'Fiduciary Manager'). The Trustee has taken advice from its investment adviser, Aon Investments Limited, regarding the suitability of the Fiduciary Manager in this capacity.

When preparing this statement, the Trustee consulted with the sponsoring employer and obtained and considered written advice from Aon Investments Limited.

The Trustee will review this statement at least every three years, and immediately following any significant change in investment policy, and will consult with the sponsoring employer on any changes to the SIP.

The appendices to this statement contain further detail on the investment strategy and may be updated from time to time without updating this statement.

INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided as they fall due. In setting the investment strategy, the Trustee considered a range of asset allocations that they could adopt in relation to the Plan's liabilities. The investment strategy selected is designed to achieve a higher return than the return on liabilities while maintaining a prudent approach to meeting the Plan's liabilities as they fall due.

The Trustee has set an investment objective which targets a return of 1.0% per annum in excess of the liability benchmark over rolling three-year periods.

STRATEGY

The asset allocation strategy chosen to meet the investment objective is set at the discretion of the Fiduciary Manager such that it expects to deliver the expected return and target level of liability hedging set by the Trustee.

The asset allocation strategy chosen to meet the objective above compromises of a Hedging Component and a Growth Component. The Hedging Component aims to take into account the movement in the underlying value of the Plan's liabilities; in particular, their sensitivity to changes in interest rate and inflation expectations. The Growth Component is affected by market prices of a broad range of asset classes including equities, bonds, cash and alternatives. Further detail on the Plan's asset allocation strategy, including the allocation to different asset classes, is contained in the appendix to this statement.

The Fiduciary Manager will monitor the actual asset allocation on an ongoing basis. There is no formal rebalancing in place and so the allocations will vary due to market movements. When it is appropriate to do so, the Fiduciary Manager will adjust the asset allocation.

The asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position and the liability profile. When choosing the Plan's planned asset allocation strategy, the Trustee considered written advice from its investment adviser, and in doing so, addressed the following:

- The need to consider a full range of asset classes;
- The risks and rewards of a range of alternative asset allocation strategies;
- The suitability of each asset class; and
- The need for appropriate diversification.

The Trustee consulted with the sponsoring employer when setting its investment strategy.

It is the Trustee's policy to review the investment strategy at regular intervals. This will normally be done triennially, following each full actuarial valuation of the Plan.

RISK

The Trustee recognises that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities ('funding risk'). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Plan's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ('mismatching risk'). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.

- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ('cash flow risk'). The Trustee and its advisers will manage the Plan's cash flows, taking into account the timing of future payments in order to minimise the probability of this occurring.

- The failure by the Fiduciary Manager appointed by the Trustee, to achieve the rate of investment return assumed by the Trustee ("fiduciary manager risk"). This risk is considered by the Trustee both on the initial appointment of the Fiduciary Manager and on an ongoing basis thereafter.

- The failure by the investment managers chosen by the Fiduciary Manager to achieve the rate of investment return assumed by the Trustee ('manager risk'). This risk is considered by the Fiduciary Manager both on the initial appointment of the underlying investment managers and on an ongoing basis thereafter.

- The failure to spread investment risk ('risk of lack of diversification'). This risk was considered by the Trustee and its advisers when setting the Plan's investment strategy. The Fiduciary Manager also considers this risk when implementing the strategy.

- The possibility of failure of the Plan's sponsoring employer ('covenant risk'). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.

- The risk of fraud, poor advice, or acts of negligence ('operational risk'). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

- The risk of the extent to which ESG factors are not appropriately reflected in asset prices (ESG risk) and/or not considered in investment decision making processes, leading to underperformance relative to targets.

- The risk of the extent to which climate change causes a material deterioration in asset values as a consequence of factors (climate risk), including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

Due to the complex and inter-related nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

To allow the Trustee to monitor some of the key risks, it will receive quarterly reports which will include information such as:

- Overall performance versus the Plan's investment objective.
- Performance of the underlying asset categories versus their respective benchmarks.
- Any significant issues that may impact the Plan's ability to meet the performance target set by the Trustee.

IMPLEMENTATION

Aon Investments Limited has been selected as investment adviser to the Trustee. It operates under an agreement to provide a service which ensures the Trustee is fully briefed to take some decisions themselves and to monitor those they delegate. The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee has delegated all day-to-day decisions in respect of the Plan's investments to the Fiduciary Manager through a written contract, including the allocation of assets between different asset classes, the realisation of investments and the appointment and monitoring of the underlying investment managers. When choosing asset classes and investment managers, the Trustee and Fiduciary Manager are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The Fiduciary Manager's responsibilities include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments;

- Delegating voting and corporate governance in relation to the Plan's assets to the underlying investment managers as required.

GOVERNANCE

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions itself and delegates others. When agreeing which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision.

The Trustee has established the following decision-making structure:

Trustee Set structures and processes for carrying out its role. Select and review a suitable level of target return. Review actual returns versus the Plan's investment objective. Select and monitor Additional Voluntary Contribution ('AVC') direct investments (see below). Select and monitor the investment advisers and the Fiduciary Manager. Make ongoing decisions relevant to the operational principles of the Plan's investment strategy (where these decisions have not been delegated). Approve this document.
Investment Adviser Advise on all aspects of the investment of the Plan assets. Advise on this statement. Provide required training. Advise on the Liability Benchmark used by the Fiduciary Manager.
Fiduciary Manager Operate within the terms of this statement and its written contract. Set the strategy for investing in different asset classes in line with the investment objective. Determine the strategy for selecting investment managers. Implement the investment strategy. Select, appoint and monitor underlying investment managers. Adjust asset allocations to reflect medium term market expectations. Report on asset returns against objectives. Communicate any significant changes to the investment arrangements.

Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to an investment manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The direct investments that the Plan has are those used for members' additional voluntary contributions and are managed by Utmost Life and Pensions.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the investment manager.

The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the investment managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives.

The Trustee expects the investment managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The investment managers have appointed custodians for the safe custody of the assets held within their respective pooled funds in which the Plan is invested. The custodians are responsible for the safekeeping of the assets held and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

Arrangements with Asset Managers

The Trustee has appointed Aon Investments Limited as their Fiduciary Manager, who they consider to be their asset manager. References in this policy to 'underlying investment managers' refers to those asset managers which the Fiduciary Manager in turn appoints to manage investments on behalf of the Trustee.

The Trustee recognises that the arrangements with its Fiduciary Manager, and correspondingly the underlying investment managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the Fiduciary Manager is incentivised to operate in a manner that generates the best long-term results for the Plan and its beneficiaries.

The Trustee receives quarterly reports and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assesses the Fiduciary Manager over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its Fiduciary Manager, which supports the Trustee in determining the extent to which the Plan's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Plan's Fiduciary Manager and requests that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of underlying investment managers to the Fiduciary Manager. The Fiduciary Manager monitors the Plan's investments to consider the extent to which the investment strategy and decisions of the underlying investment managers are aligned with the investment objectives of the Plan. This includes monitoring the extent to which the underlying investment managers:

- Make decisions based on assessments about medium- to long-term financial and non- financial performance of an issuer of debt or equity; and
- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointment of a new fiduciary manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where necessary, the Trustee will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at Trustee's meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the Fiduciary Manager where possible), and regular monitoring of the Fiduciary Manager's performance and investment strategy, is sufficient to incentivise the Fiduciary Manager to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where the Fiduciary Manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically engage with the Fiduciary Manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the Fiduciary Manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying investment managers that the Fiduciary Manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

Cost Monitoring

The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by its investments.

The Trustee receives annual cost transparency reports from its Fiduciary Manager. These reports present information in line with prevailing regulatory requirements for Fiduciary Managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Plan;
- The fees paid to the Fiduciary Manager;
- The fees paid to the underlying investment managers appointed by the Fiduciary Manager
- The amount of portfolio turnover costs (transaction costs) incurred by the underlying investment managers appointed by the Fiduciary Manager;
  - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the underlying investment managers appointed by the Fiduciary Manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Plan.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and managers. The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the underlying investment managers appointed on behalf of the Trustee.

The Trustee benefits from the economies of scale provided by the Fiduciary Manager in two key cost areas:

- The ability of the Fiduciary Manager to negotiate reduced annual management charges with the appointed underlying investment managers;

- The ability of the Fiduciary Manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the underlying investment managers and achieve efficiencies where possible.

Evaluation of performance and remuneration

The Trustee assesses the (net of all costs) performance of its Fiduciary Manager on a rolling three-year basis against the Plan's specific liability benchmark and investment objective.

The remuneration paid to the Fiduciary Manager and fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustee monitors these costs and performance trends over time.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

In setting the Plan’s investment strategy, the Trustee’s primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Plan's investment strategy and when monitoring the Fiduciary Manager.

The Trustee has appointed the Fiduciary Manager to manage the Plan's assets. The Fiduciary Manager invests in a range of underlying investment vehicles. As part of the Fiduciary Manager’s management of the Plan's assets, the Trustee expects the Fiduciary Manager to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying investment managers;
- Use its influence to engage with underlying investment managers to ensure the Plan's assets are not exposed to undue risk; and
- Report to the Trustee on its ESG activities as required.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promote corporate responsibility in the underlying companies and assets in which the Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.

The Trustee has delegated all voting and engagement activities to the Plan’s underlying investment managers, via its Fiduciary Manager. The Trustee accepts responsibility for how the underlying investment managers steward assets on its behalf, including the casting of votes in line with each underlying investment manager's individual voting policies. The Trustee relies on the Fiduciary Manager to review manager voting and engagement policies and activities on an annual basis. The Fiduciary Manager reviews these factors to check they are aligned with expectations and can reasonably be considered to be in the Trustee's, and therefore the members', best interests.

As part of the Fiduciary Manager's management of the Plan's assets, the Trustee expects the Fiduciary Manager to:

- Monitor and engage with underlying investment managers, including prospective underlying investment managers, on the extent to which they exercise voting rights (where appropriate) in relation to the Plan's assets; and
- Report to the Trustee on stewardship activity by underlying investment managers as required.

Underlying investment managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Plan's assets, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the underlying investment manager. Where voting is concerned, the Trustee expects the underlying investment managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee will engage with its Fiduciary Manager, who in turn is able to engage with underlying investment managers or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest of the underlying investments made. This engagement aims to ensure that robust active ownership behaviours, reflective of the Trustee's active ownership policies, are being actioned. This will take the form of annual reporting and follow up meetings, where necessary, from the Fiduciary Manager. Such reporting will be made available to Plan members on request.

Should the Trustee's monitoring process reveal that an underlying asset manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage with the Fiduciary Manager, via different medium such as emails and meetings, to discuss how alignment may be improved to bring about the best long-term outcomes for the Plan.

Members' Views and Non-Financial Factors

In setting and implementing the Plan's investment strategy the Trustee does not explicitly take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors" - The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018).