



Warner Electric Limited Retirement Benefits Scheme

Statement of Investment Principles

February 2023

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01 Introduction

This document constitutes the Statement of Investment Principles (“the SIP”) required under Section 35 of the Pensions Act 1995 for the Warner Electric Limited Retirement Benefits Scheme (“the Scheme”). This SIP details the matters that are required to be covered under Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (the “Regulations”). It also has been prepared in accordance with the Government’s voluntary code of conduct for Institutional Investment in the UK (“the Myners Principles”).

The Investment Adviser is XPS Investment Limited.

The Trustees confirm that, in preparing this SIP, they have consulted with Circor Sub Ltd (“the Employer”) and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser. The Trustees believe the Investment Adviser to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme’s assets and the administration of the Scheme. In order to meet the requirements of S36 of the Pensions Act (choosing investments), where they are required to make an investment decision, other than those relating to a rebalancing, the Trustees obtain written advice from the Investment Adviser. They consider this to be proper advice as such term is defined under the Pensions Act 1995 because the Investment Adviser is authorised and regulated by the Financial Conduct Authority.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest in pooled funds managed by an organisation, rather than directly appointing an individual Investment Manager.

01.01 Declaration

The Trustees confirm that this SIP reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Investment Adviser, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed Date

Name

For and on behalf of the Trustees of the Scheme

02 Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy having obtained appropriate advice, while delegating the day-to-day aspects to the managers of pooled funds.

The Trustees have decided not to appoint an investment committee to delegate investment matters to.

03 Investment Objectives

The primary investment objective of the Trustees is to seek ensure the Scheme is able to meet the benefit payments promised as they fall due from a combination of investment returns and planned contributions.

The Trustees have set the following secondary investment objectives:

1. Having regard to the primary investment objective and subject to the strength of the Employer covenant, the Trustees will seek to achieve a level of investment return which mitigates the cost of the Scheme to the Employer over the long term. The Trustees have opted to target the Scheme's solvency basis, and so the asset allocation seeks to move more closely in line with insurer pricing.
2. The Trustees will seek to keep the costs and the manager risk in implementing the Investment Strategy to a minimum.
3. The Trustees will seek to utilise the skills of Investment Managers to enhance returns to the extent they reasonably expect that the manager will be able to add value in excess of the extra fees over time.
4. The Trustees will seek to use the skills of Investment Managers to reduce volatility and to increase diversity across asset classes where prudent to do so given the other investment objectives.

The Scheme's Investment Strategy should be set in accordance with the Scheme's Trust Deed and Rules. The Trustees believe the investment objectives and the resultant Investment Strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, 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 any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including the selection / deselection criteria.

The Trustees encourage the Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help the Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

04 Asset Allocation Strategy

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an approximate match of an insurer's asset allocation, made up entirely of "matching" assets (e.g. fixed and index-linked gilts and high quality corporate bonds) and seeking to remove interest rate and inflation risk.

The current benchmark and target allocation is set out in the Appendix and any changes in such allocations have, and will, only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustees have decided to use pooled funds to invest the Scheme's assets.

04.01 Rebalancing Policy

The Trustees will review the allocation of assets between the pooled funds and between asset classes not less than once a year. If the allocation has moved significantly from that set out in this SIP, the Trustees will seek advice from the Investment Adviser as to whether it is appropriate to rebalance between pooled funds and how to rebalance. Given the current allocation seeks to match movements in the Solvency liabilities arising from changes in interest rate or inflation changes, the Trustees would not seek to actively rebalance the Scheme's allocation, should one particular asset class be overweight against its benchmark.

04.02 Rates of Return and Fees

The benchmark and target rates of return expected together with the impact of fees and other expenses are detailed in Appendix A to this Statement for each fund.

04.03 Diversification

The use of pooled funds with minimum diversification requirements is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.04 Liquidity

The great majority of the assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Furthermore, the vast majority of underlying investments are traded regularly on a public exchange and accordingly there are no foreseeable circumstances in which redemption requests could not be met.

05 Strategy Implementation

05.01 Pooled Funds

The Trustees will monitor the performance of the Investment Managers of the pooled funds against the target performance of the pooled funds.

The Trustees, or the Investment Adviser on behalf of the Trustees, will regularly review the performance of the pooled funds to satisfy themselves that the funds selected are continuing to meet the investment objectives within a tolerable level of underperformance risk.

In addition, the Trustees will consider whether or not the Investment Managers are carrying out their rebalancing function effectively.

If the Trustees are not satisfied with the performance of one or more pooled funds they will ask the Investment Managers to justify any underperformance. If the Investment Managers are not able to offer a satisfactory explanation which gives comfort that the underperformance will be reversed, the Trustees will ask the Investment Adviser to advise on an alternative pooled fund that is likely to meet the investment objectives.

05.02 Investment Managers

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees receive, and consider, regular performance monitoring reports from the Investment Adviser which review performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate.

These ratings help to determine the Investment Managers' ongoing role in implementing the Investment Strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested.

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

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

The Trustees require 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 Managers expect and the reasons for any divergence.

The Trustees do not believe it appropriate to set a specific turnover target or limit, but they expect their Investment Managers to keep turnover to a minimum and be able to justify any turnover in terms of improved performance or reduced risk.

05.03 Advisers

The Trustees will monitor the advice given by their appointed Adviser on a regular basis and will assess their performance on the basis of their ability to explain the expected return on investments, how the investments will help the Trustees meet their investment objectives and the risks that will impact on such return.

06 Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

- i. Interest rate risk – the risk that liabilities will increase as a result of a fall in interest rates is measured by reference to the percentage of liabilities that are interest rate hedged and addressed by holding a significant proportion of the Scheme in assets that are matching assets that will increase in value as interest rates fall.
- ii. Inflation risk – the risk that liabilities will increase as a result of an increase in the expected rate of inflation is measured by reference to the percentage of liabilities that are inflation hedged and managed by holding index-linked gilts whose value increases as inflation expectations increase.
- iii. Diversification risk – the risk that the Scheme is exposed to a significant loss from esoteric factors relating to a single investment are measured by reference to the maximum exposure limits in each pooled fund. As the Scheme invests in a single corporate bond fund as a source of investment risk, this still applies. However this is mitigated by the fund being held in investment grade corporate bonds, which have lower volatility than other growth assets.
- iv. Liquidity risk – the risk that liabilities cannot be met when due is considered too insignificant to measure and is addressed through the use of pooled funds, the majority of which have frequent redemption dates, and by ensuring the Scheme's investment is not disproportionate relative to the overall size of the pooled funds.
- v. Underperformance risk – the risk of pooled funds failing to achieve their target returns is measured by reference to how much discretion the manager of each pooled fund has relative to the benchmark and by regularly reviewing the asset allocation against the target. Underperformance risk is managed by investing in passive funds.
- vi. Market risk – the risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return seeking assets relative to equity markets. As the Scheme is no longer invested in growth assets with investment market risk, this is materially reduced.
- vii. Organisational risk – the risk of losses arising through operational mistakes or errors is measured by reference to the number of past such operational losses and is managed by seeking to minimise the number of changes to the pooled funds.
- viii. Sponsor risk – the risk that the Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.
- ix. Currency risk – the risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Scheme to pooled funds with unhedged currency risk. All Scheme assets are held within UK denominated Funds so there is no unhedged currency risk.

- x. Credit risk – the risk that a bond issuer will default on its obligations is measured by reference to the exposure of pooled funds to corporate or emerging market debt and is managed by investing in pooled funds with a diversified list of credits.
- xi. Counterparty risk – the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Managers choose counterparties with a strong credit rating.
- xii. Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees recognise that it is in the nature of return seeking assets that they may underperform liability matching assets in the short term and accordingly it is possible that the funding position could worsen from one actuarial valuation to the next. Consequently, the Trustees have opted to implement a strategy invested in assets designed to move in line with the Scheme's solvency liabilities.

The Trustees will keep these risks under regular review.

07 Other Issues

07.01 Environmental, Social and Governance

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustees 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 Trustees' requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourages them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

07.02 Additional Voluntary Contribution ("AVC") Arrangements

Some members of the Scheme obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of the AVC providers and fund options are included in Appendix A to this Statement.

The Trustees review the choice of investments available to members periodically to ensure that they remain appropriate to members' needs.

07.03 Voting Rights

For the Scheme's investments in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments. For the Scheme's segregated investments, the Trustees are able to influence the policies and practices of the companies

more. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with the Investment Managers.

Appendix A

Pooled Funds

The Trustees have selected pooled funds offered by the Investment Manager, LGIM, to manage the assets of the Scheme.

Asset Allocation Strategy

The Trustees have agreed to target the following asset allocation strategy:

Asset Class	Asset allocation (%)
Gilts and Index-Linked Gilts	55.0
Corporate Bonds	25.0
Cash	20.0
Total	100.0

Investment Manager	Fund name	Index	Portfolio Benchmark Weight (%)
LGIM	Over 15y Investment Grade Corporate Bond Index Fund	Markit iBoxx GBP Non-Gilts 15	25.0
	Single Stock Gilt and Index-Linked Gilt Funds	Respective Gilt Benchmark	55.0%
	Profile Index Bonds	FTSE Actuaries UK Conventional Respective Index	
	Sterling Liquidity Fund	Sterling Overnight Index Average ("SONIA")	20.0
Matching portfolio Total			100.0

Cash balances

A working balance of cash is held for imminent payment of benefits, expenses etc. At the time of implementing the Scheme's liability hedge, there was an excess of cash due to the strong funding position. Consequently, there is a dedicated cash allocation to be used for benefit payments or expenses. Any large transfers out may instead be taken from the matching assets, so as to prevent any material over hedging.

Fee structure for managers

The Investment Managers are remunerated as an Annual Management Charge (“AMC”) in keeping with market practice plus any additional charges.

Details of the fees charged by the Investment Managers are set out in the table 5 below:

Investment Manager	Fund	AMC (% p.a.)
LGIM	Over 15y Investment Grade Corporate Bond Index Fund	0.15
	Single Stock Gilt and Index-Linked Gilt Funds	0.10
	Profile Index Bonds	0.10
	Sterling Liquidity Fund	0.125

Additional Voluntary Contributions (“AVCs”)

AVCs are currently invested with LGIM. These arrangements are reviewed from time to time by the Trustees to ensure that the investment performance achieved is acceptable, and the investment profile of the funds remains consistent with the objective of the Trustees and needs of the members.



Contact us
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Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

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Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).