The Emerson UK Pension Plan

Statement of Investment Principles

September 2019

PART I) - DEFINED BENEFIT SECTIONS

INTRODUCTION

This document constitutes the Statement of Investment Principles ("the Statement") applicable to the DB benefits provided under the DB Segregated Section and the EBCO Segregated Section ("the Sections").

The Sections provide retirement and death benefits for Plan members ("the Members").

The Sections' benefits are provided from a pension fund of assets ("the Fund") which is held under the legal control of the Plan's Trustee ("the Trustee") under a trust constituted between the Principal Company, Emerson Holding Company Limited ("the Company") and the Trustee.

The purpose of this Statement is to document those investment principles, guidelines and procedures which are appropriate for the Sections, in a manner conforming to the Pensions Act 1995 as amended ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee is responsible for all aspects of the operation of the Fund including this Statement. The operation of the Fund affects the overall cost of the Sections and the annual level of contributions.

Any party providing services in connection with the operation of the Fund shall accept and adhere to this Statement. However, the Trustee recognises that its contractual relationship with its Investment Managers and Custodian is governed by the terms of the particular Investment Management or Custodian Agreements.

TRUSTEE OBJECTIVES

The Trustee's duty is to act in the Members' best interests.

The current funding target adopted for the DB Segregated Section and the EBCO Segregated Section of the Plan is to aim for the value of the assets to be at least equal to the value of the liabilities on the Technical Provisions basis.

The current investment strategies for the DB Segregated Section and the EBCO Segregated Section of the Plan were determined with reference to the long-term nature of the liabilities of the Sections. The Trustee regularly considers whether the investment strategies of the Sections meet the objective of controlling the risk of insolvency at an appropriate level.

ASSET ALLOCATION

In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed Investment Manager or Managers. This may include the use of pooled funds managed by an insurance company or companies. Under Section 36 of the Pensions Act 1995 (as amended), such investments are termed direct investments and are classed as retained investments. It is therefore the Trustee's policy to obtain appropriate advice regarding the suitability of such investments on a regular basis. In each case, the investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Sections competently.

Investment may be made directly or via pooled investment funds subject to the Trustee's prior approval and the Trustee's principle of ensuring sufficient diversification of investment. The Trustee will determine at what intervals it feels it appropriate to receive formal advice on the continued suitability of its investments, in accordance with the Pensions Act 1995 (as amended). This will usually be on a triennial basis.

The Custodian of the Plan is The Northern Trust Company.

DB Segregated Section

A review of the DB Segregated Section's investment strategy was undertaken by Willis Towers Watson during 2018, based on the 2017 actuarial valuation, and subsequent 2018 merger with the main section of the Emerson Valves & Controls UK Defined Benefit Pension Scheme. The result of this review was a decision to reduce the equity orientation of the strategic asset allocation ("investment strategy") for this Section. This Section moved to a benchmark allocation of 50% in equities in 2019.

The DB Segregated Section's strategic asset allocation is managed by two managers, as shown below:

Asset Classes	Investment Managers	Strategic Allocation	Allocation Range
Equities		**50%**	**47.5 – 52.5%**
UK Equities	BlackRock Advisors UK Limited		
Global Equities	Legal & General Investment Management		
	BlackRock Advisors UK Limited		
Bonds		**50%**	**47.5 – 52.5%**
Corporate Bonds	BlackRock Advisors UK Limited		
	Legal & General Investment Management		
Gilts and Index-Linked Gilts	BlackRock Advisors UK Limited		
	Legal & General Investment Management		
		100%	

The actual asset allocation is reviewed monthly in order to maintain the allocation close to the above strategy. BlackRock is responsible for rebalancing the assets that it holds in order to rebalance the assets for the DB Segregated Section at the total level. The Trustee may choose to suspend rebalancing activity from time to time.

If, at the end of a month, the total equity allocation is outside the range 47.5% to 52.5%, the assets are rebalanced so that the equity allocation is brought back to the mid-point between the edge of the range and the benchmark allocation.

As a result of the above rebalancing, the bond allocation is maintained within the range 47.5% to 52.5%.

In addition, in order to mitigate the currency risk introduced as a result of the investment in the global equities portion of the assets, 62.5% of the developed overseas equities managed by Legal & General Investment Management are passively hedged back to Sterling. This currently results in hedging approximately 75% of the entire currency exposure back to Sterling.

The DB Segregated Section also holds a number of buy-in contracts, which were transferred to the Plan together with the assets of a number of legacy schemes:

- Chloride section - a buy-in policy with Prudential in respect of a number of Chloride section pensioners.

- Fisher Controls section - an annuity contract with Prudential providing monies to the Plan in order to pay pensions to some of the pensioners of the Fisher Controls section.
- Astec section – partly insured pensions paid as part of the monthly pension payroll, for which monies are received by the Plan from Aviva.
- Legacy Valves & Controls Sections – the Trustee holds annuity contracts with Winterthur Life, Reassure, and Phoenix Life providing monies to the Plan to pay pensions to some of the pensioners of the legacy Valves & Controls sections.

EBCO Segregated Section

The EBCO Segregated Section's strategic asset allocation is managed by the same two managers, as shown below:

Asset Classes	Investment Managers	Strategic Allocation	Allocation Range
Equities		**20%**	**15 – 25%**
UK Equities	BlackRock Advisors UK Limited		
Global Equities	BlackRock Advisors UK Limited		
Bonds		**80%**	**75 – 85%**
Corporate Bonds	BlackRock Advisors UK Limited Legal & General Investment Management		
Gilts and Index-Linked Gilts	BlackRock Advisors UK Limited Legal & General Investment Management		
		100%	

A rebalancing control range of +/- 5% applies around each target allocation. However, as rebalancing in accordance with this may mean switching assets back into the equites, this will be treated as an indicative control range only, with the Trustee having further discussions prior to taking any action. It is therefore possible that the EBCO Segregated Section may be more than 5% from its target allocation for an extended period, from time to time.

PERFORMANCE BENCHMARK

The Trustee has set performance benchmarks for the investment managers against which they are measured, as shown below:

DB Segregated Section Performance Benchmarks

Investment Managers	Asset Classes	Benchmarks
BlackRock	UK Equities	FTSE All-Share Index
Legal & General Investment Management	Global Equities	FTSE World Index 50% Hedged
BlackRock	Global Equities	FTSE AW – World Index
BlackRock, Legal & General Investment Management	Bonds	Composite Index comprising: • 50% BofA ML UK Gilts 25+ Years • 35% BofA ML UK Index-Linked Over 25 Year Gilts • 15% Barclays Global Corporate 500 Index
Total Fund		Aggregate index weighted by strategic allocation

EXPECTED RETURN

Based on the strategic allocation and the performance objectives, the Trustee's risk and return expectations are set out below. These expected returns are sourced from the Willis Towers Watson 2018 investment strategy review of the DB Segregated Section.

The Trustee has decided to pursue passive management as far as possible.

As part of the investment strategy review, the overall asset portfolio of the DB Segregated Section is expected to return 2.9% p.a. in excess of gilt returns. The returns assumed for the asset classes as at 31 March 2018 are below.

Asset Classes	Expected Long-Term Real Return (% pa compound)
Global Equities (Hedged)	2.7%
UK Equities	2.1%
Global Corporate Credit (Hedged)	0.1%
Long Dated Fixed-Interest Gilts	-0.6%
Long Dated Index-Linked Gilts	-1.5%

For this purpose, expected means a 50:50 chance of being higher or lower than the figure in the table.

Risk

The Trustee recognises that the investment of assets in financial markets results in an exposure to risk. Risk takes many forms.

- **Solvency risk and mismatching risk** – is principally the risk that the assets of the Sections are insufficient to cover members' benefits as and when they fall due. Contributing to this is the likelihood of the funding level dropping below an acceptable level and the implications of the Sections investing in assets that do not mimic the movement in the value of the Sections' liabilities. This is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and through ongoing triennial actuarial valuations. These are used to determine the benchmark and asset ranges with the investment manager.
- **Manager risk** – is the risk that the investment manager will not achieve the rate of investment return expected by the Trustee. This is measured and monitored through the selection process of managers and the ongoing monitoring of each manager.
- **Liquidity risk** – is the risk that either there will be insufficient short term cash holdings to pay the Sections' outgoings or that cash holdings are set at such a level they affect the overall investment performance of the Sections. The Trustee, together with the Sections' administrators, measure and manage the level of cash held in order to limit the impact of cash flow requirements on the investment policy.
- **Custodial risk** – is the risk that the assets are not safeguarded appropriately or that the administration is not undertaken properly. For pooled vehicles, the investment managers are responsible for selection of suitable custodians. For any segregated assets, the Trustee has selected Northern Trust Company as custodian for the assets. The Trustee monitors Northern Trust Company on an ongoing basis. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- **Political risk** – is the risk of an adverse influence on investment values from political intervention and is managed by the diversification of the assets across many countries. It is measured by the level of concentration in any one market

leading to the risk of an adverse influence on investment values arising from political intervention.

- **Sponsor risk** – is the possibility that, for some reason, the Participating Employers are unable to support the continuation of the Sections and to make good any current or future deficits. It is measured by the extent of the sponsor's legal and financial ability to support the continuation of the Sections and to make good any current or future deficit. It is managed by assessing the interaction between the Sections and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

MONITORING

The Trustee expects the investment managers always to maintain appropriate monitoring systems to ensure compliance with this Statement and any relevant investment manager agreements. However, the Trustee will also monitor the performance and the composition of the Sections' investments. In particular, this monitoring normally includes:

- monthly independent performance measurement from Northern Trust; and
- regular meetings with the investment managers.

The Trustee shall review the nature of the Sections' investments frequently and consider all relevant factors in determining whether this Statement and the associated risks remain appropriate.

The Trustee has appointed an Investment Sub Committee and has engaged Willis Towers Watson as consultant to assist in fulfilling its monitoring responsibilities.

DIVERSIFICATION

Risk of price fluctuations within asset classes and the uncertainty of future economic and investment scenarios dictate that prudent diversification be undertaken. The degree of diversification required will depend on the nature of each asset class.

INVESTMENT RESTRICTIONS

The investment restrictions imposed on the investment managers are described within each investment management agreement. The Trustee's expectations for risk and return set out above take account of the current investment restrictions for each manager contained in the agreements.

CASH FLOW MANAGEMENT

The Trustee regularly considers the likely cash flow position of the Fund and determines whether investment or disinvestment will be required. Procedures are adopted to manage the cash flow position.

The Trustee will, when possible, provide the Custodian and Investment Managers with reasonable notice of future cash needs. The Custodian and Investment Managers may act only on written instruction containing the original signatures of two authorised signatories as set out in the Investment Management and Custodian Agreements.

The Trustee will advise the Custodian and Investment Managers of any additions or deletions of authorised signatories when they occur.

CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

The Trustee in consultation with its advisers, considers financially material ESG risks and opportunities, including climate change, as relevant to the Sections' strategy and believes ESG integration is superior to exclusion. However, financial obligation takes precedence over extra financial considerations and as such the Trustee does not always explicitly take account of non-financial matters. The Trustee's policy is to delegate day-to-day investment decisions including integration of financially material ESG risks and opportunities (including climate change) to its Investment Managers.

When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of and monitor the approach taken by managers with respect to sustainable investing including their approach to ESG integration and stewardship.

The Trustee's policy is to delegate responsibility for exercising of ownership rights (including voting rights) to the Investment Managers. The extent to which ESG considerations are taken into account in this engagement policy is left to the discretion of the Investment Manager. However the Trustee believes ensuring good stewardship of assets by managers is an important part of the Trustee's fiduciary duty towards members and intends to monitor the stewardship practices of its managers to understand how they exercise these duties on their behalf and receive reports on manager practices (covering engagement and voting). The Investment Managers shall maintain a policy on the exercise of voting rights. They shall maintain a record of how voting rights have been exercised and shall affirm to the Trustee that they have complied with their voting rights policy. Where the managers have voted in a manner different from their voting rights policies, the managers shall provide the Trustee with an explanation regarding the rationale for departing from the policies.

REVIEW OF STATEMENT

This document shall be reviewed at least every three years, and without undue delay following any significant change in investment policy. Such review and reasons for a review shall take into account:

- a fundamental change in the benefits provided by the Sections;
- significant revisions to the expected long-term trade-off between risk and reward on key asset classes;

- a major change in the membership/liability distribution or the contribution/expense expectation;
- a significant shift in the Trustee's and/or the Company's attitude to risk;
- shortcomings of the Statement that emerge in its practical application; and
- applicable changes in legislation.

The Investment Manager structure, the Investment Managers and the Custodian shall be reviewed at such time as considered necessary.