The Emerson UK Pension Plan

Statement of Investment Principles

September 2019

PART II) - DEFINED CONTRIBUTION SAVINGS

INTRODUCTION

This section of the document constitutes the Statement of Investment Principles ("the Statement") applicable to the DC Segregated Section, Additional Voluntary Contributions (AVCs) and Personal Retirement Accounts (PRAs) ("the DC savings"). It has been prepared in accordance with Section 35 of the Pensions Act 1995 ("the Act"), including the amendments laid down in the Pensions Act 2004. Before preparing this document, the Trustee has consulted the employer and the Trustee will consult the employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

In drawing up this document, the Trustee has sought advice from Willis Towers Watson, the Plan's investment consultant (“Investment Consultant”). The Trustee will review this document when the Trustee considers a review is needed or after any significant change in investment policy. Before preparing this document the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in its investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as is reasonable.

When choosing investments, the Trustee and the investment managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 and in the principles contained in this Statement.

The DC Segregated Section's benefits are provided on a money purchase (defined contribution) basis for individual Plan Members ("the Members"). The DC Segregated Section's assets are held under the legal control of the Plan's Trustee, under a trust constituted between the Company and the Trustee. The operation of the DC Segregated Section is governed by the Definitive Trust Deed and Rules dated 20 June 2012 and any subsequent Deeds of Amendment.

The purpose of this section of the Statement is to document those investment principles, guidelines and procedures that are appropriate for the DC Segregated Section, in accordance with the Trustee's investment powers and permitted investments under the Trust Deed and Rules.

The Trustee is responsible for all aspects of the operation of the DC Segregated Section including this Statement. The Company has confirmed in writing to the Trustee that it has been consulted regarding the contents of this Statement as required by the Act.

This Statement will be regularly reviewed in accordance with the Act. To ensure compliance 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 appointed investment managers. The investment managers shall be authorised under the Financial Services and Markets Act and shall provide the skill and expertise necessary to manage the investments of the DC Segregated Section competently.

The Trustee has carried out an assessment of the DC Segregated Section against the Pensions Regulator's ("TPR") Code of Practice 13: The DC Code, updated in 2016 and aims to comply with the code where possible.

INVESTMENTS

Investment Objectives

The Trustee is obliged to act in the Members' best interests. One of the Trustee’s primary objectives for the DC Segregated Section therefore is to make available appropriate investment options to Members.

In determining which investment options to make available, the Trustee, with advice from its Investment Consultant, has considered the investment risk associated with defined contribution pension investment. This risk relates to the uncertainty in the ultimate amount of savings available on retirement to provide the Member’s chosen retirement benefits (lump sum, annuity or drawdown). There are a number of factors which contribute to this uncertainty. Some of these factors (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment options made available to Members.

The Trustee recognises, however, that the uncertainty inherent in three specific investment risks (inflation, capital and pension conversion) can be managed to a limited extent by the choice of investments. These risks and the Trustee’s objective for each risk are considered under the following headings:

Inflation Risk

The risk that the investment returns over Members’ working lives will not keep pace with inflation. The Trustee’s objective is to provide an investment option that is expected to provide a long-term rate of return that exceeds inflation. Such an option would largely consist of "diversified growth” or “equity-type" investments.

Capital Risk

The risk of a fall in the value of a Member’s fund.

The Trustee’s objective is to provide an investment option that offers a very low risk of capital loss. A money market fund is an example of such an option.

Pension Conversion Risk

The risk that the value of a Member's account does not reflect the change in the cost of their chosen at retirement action (be that purchasing an annuity at retirement, taking a lump sum or opting for drawdown).

The Trustee’s objective is to provide an investment option that broadly matches each member’s chosen retirement action (annuity purchase, lump sum withdrawal or drawdown). The DC Segregated Section has two lifestyles in place, one targeting annuity purchase and one targeting lump sum at retirement. An additional lifestyle option targeting drawdown is planned for launch soon.

Manager risk

The risk that the chosen investment manager does not perform in line with the objectives against which the manager is assessed.

The Trustee’s objective is to regularly monitor the performance of chosen investment managers and take action if necessary.

Trade-Off between Risks

The relative importance of inflation, capital and pension conversion risk depends on the length of time to retirement and each Member's attitude to risk and expected return. Managing pension conversion and capital risks is important near retirement, whereas the inflation risk should be far more important to younger Members.

It is recognised that the control of one of the aspects of risk is often at the expense of another. For example, investing in a money market fund will give significant protection against a decrease in fund values (capital risk), but will increase the risk of the investment returns not keeping up with inflation (inflation risk). This is often referred to as “opportunity cost risk”.

Member Investment Options

Based on the Trustee’s objectives for the DC Segregated Section as described previously, the Trustee has selected a range of investment options for Members through a platform offered by Legal & General (L&G).

Diversification

The range of funds below was chosen to allow Members to achieve an adequate level of diversification. As the DC Segregated Section invests via pooled funds the Trustee is not in a position to ensure the assets are diversified within asset classes. However, this issue will feature in the selection criteria for new managers and monitoring process for ongoing managers.

Further, in certain asset classes and funds (particularly those utilising active management) the DC Segregated Section utilises multiple asset managers to ensure manager diversification.

Suitability

The Trustee has taken advice from their Investment Consultant to ensure the funds offered are suitable for the Members.

Liquidity

The Members' accounts are held in funds that can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

Following advice from the Trustee's Investment Consultant, the Trustee has decided to implement the following fund range:

Fund	Objective
L&G Global Equity (30/70) Index Fund	To match the return on a mix of global stock markets (30% in the UK and 70% overseas).
L&G UK Equity Index Fund	To match the return on the UK stock market.
L&G World (ex-UK) Equity Index Fund	To match the return on the overseas markets.
LGIM Diversified Fund	To provide access to a number of different investments which look to provide stock market like returns at a lower level of volatility.
L&G Pre-Retirement Fund	To broadly match the change in prices of annuities.
L&G AAA-AA-A Corporate Bond – All Stocks – Index Fund	To broadly match the changes in price of a fixed pension.
L&G Over 5 Year Index-Linked Gilts Fund	To broadly match the changes in price of an inflation-linked pension.
L&G All Stocks Gilts Index Fund	To broadly match the changes in price of a fixed pension.
L&G Cash Fund	To provide a relatively stable rate of return by investing in cash and other short-term deposits.

In addition, there are legacy AVC and PRA accounts held with Aviva, Clerical Medical, Equitable Life and Royal London. These are closed to future contributions.

While no single option will be sufficient to manage the various risks associated with defined contribution investment as described previously, the range is expected to be wide enough to enable individuals to manage the risks identified as they become relevant, according to each Member's individual criteria.

Expected Risk and Return of Investments

The investment options given above involve investment in the following assets and have the below risk and expected return characteristics:

- **a.** Equities – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be highly volatile in the short term.
- **b.** Diversified assets – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be volatile in the short term although this is expected to be less than for equities over time.
- **c.** Bonds – capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term.
- **d.** Cash – low risk to capital and asset values are easily realisable with limited investment returns associated with the low risk nature of the assets.

Lifestyle

The Trustee has decided to offer two lifestyle options to Members, each targeting a different at retirement portfolio. A lifestyle is such that a Member's investments are automatically switched between funds as the Member approaches retirement to reflect the changing nature of the risks described previously.

If Members do not indicate which funds they wish their contributions to be invested in, contributions will automatically be invested in line with the default lifestyle strategy.

The default lifestyle strategy targets annuity purchase at retirement and provides an asset allocation at retirement split 75% in the pre-retirement fund 25% in the cash fund. To ensure assets in the default lifestyle arrangement are invested in the best interests of members and beneficiaries, the Trustee periodically conducts a membership analysis exercise, considering a variety of demographic variables, to better understand the risk profile of the membership and members’ likely retirement decisions.

The lump sum withdrawal lifestyle targets 100% in the cash fund at retirement.

Charts showing the glidepath of each of the two lifestyles are provided in Appendix A.

The Members have the option to invest their contributions into any of the funds listed above in any proportions if they do not wish to invest in a lifestyle.

The Trustee has set the managers the investment objectives of performing in line with the relevant indices or achieving competitive performance returns, depending on whether they are passively or actively managed respectively. The performance of each fund is measured against appropriate benchmarks.

The managers are paid fees based on the market value of the assets under management. All of the arrangements utilise pooled vehicles, and consequently the Trustee has no control over the fee structure. However, the managers' fee scales and structures are taken into consideration when reviewing and selecting managers.

Risks

The Trustee recognises that the investment of assets in financial markets results in an exposure to risk. Risk can be defined in a number of ways. The key risks for Members' investments were highlighted at the beginning of this section.

The Trustee will maintain a suitably diverse range of funds, which in turn are considered to be appropriately diverse within their specific objectives. To minimise the risk of any one particular investment having a substantial effect on the DC Segregated Section's overall investment performance, the Trustee invests the assets in pooled funds, ensuring Members' investments can achieve sufficient diversification and that investments may be readily realisable.

Additional Voluntary Contributions

The Plan permits Members to provide themselves additional benefits through the investment options by paying Additional Voluntary Contributions.

POLICY MONITORING AND REVIEW

Review of the Statement

The Trustee will review this document when the Trustee considers a review is needed or after any significant change in investment policy. Such a review and reasons for a review shall take into account:

- significant revisions to the expected long-term trade-off between risk and reward on key asset classes;
- changes in the regulations for the taking of benefits at retirement;
- a major development in the investment products available;
- changes to the managers used;
- shortcomings of the Statement that emerge in its practical application;
- applicable changes in legislation; and
- underperformance by the investment managers.

Monitoring Investment Arrangements

The Trustee requires the investment managers and platform provider to maintain appropriate monitoring and reporting structures to ensure compliance with any relevant investment manager agreements. The Trustee will monitor the performance and the composition of the DC Segregated Section's assets. Furthermore, the Trustee will monitor factors (such as each manager's internal processes and staff movements) which may impact the performance of the DC Segregated Section's assets in the future. In particular, this monitoring will normally include:

- quarterly performance measurement relative to indices and other similar funds;
- attendance of a consultant at Trustee meetings, on no less than an annual basis, to provide independent comment on the investment managers; and
- meetings with the platform provider.

The investment management structure and the investment managers shall be reviewed periodically and at such time as considered appropriate.

The Trustee shall regularly review the nature of the funds in which the DC Segregated Section is invested and consider all relevant factors in determining whether the associated risks and funds highlighted in this Statement remain appropriate.

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 DC Segregated Section's 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.

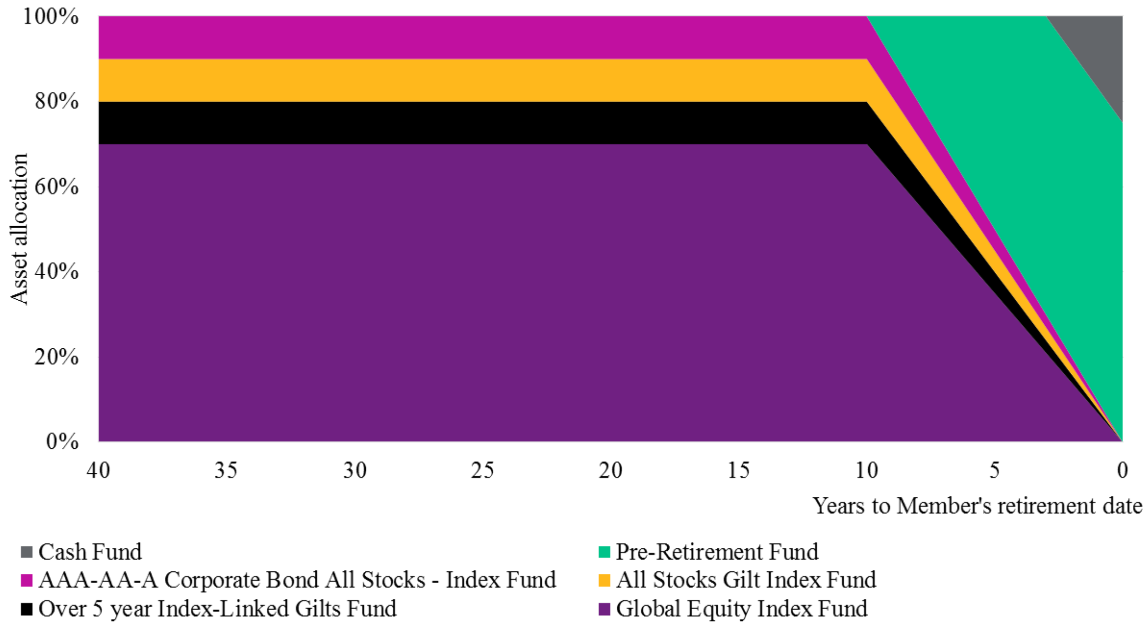
When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of and monitor the approach taken by managers with respect to sustainable investing including their approach to ESG integration and stewardship.

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.

APPENDIX A – LIFESTYLE SWITCHING MATRIX

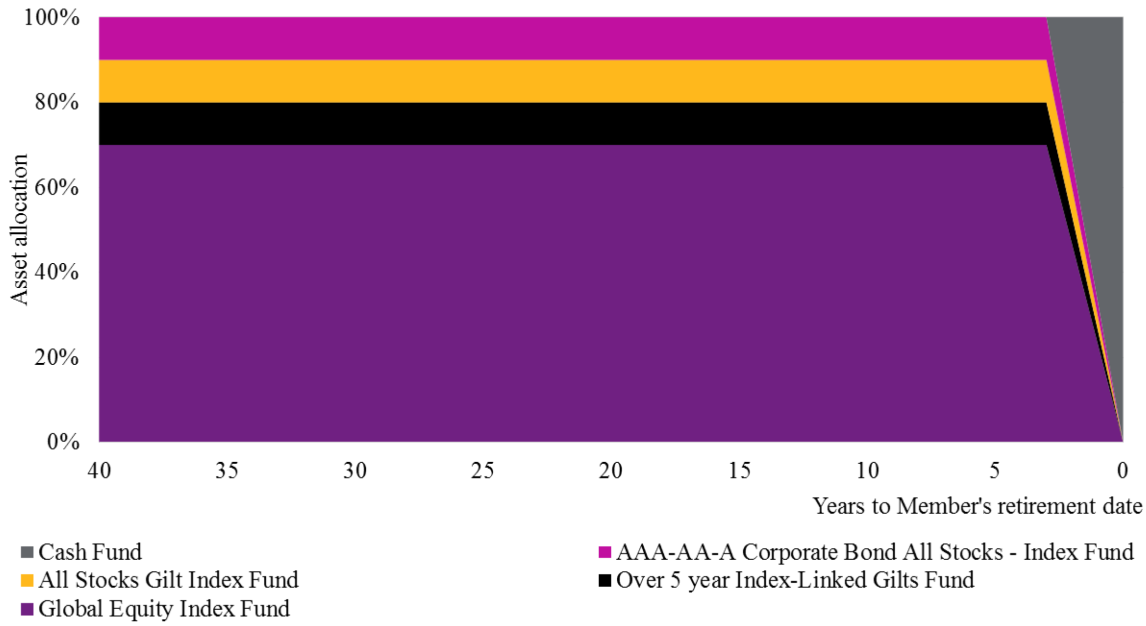
The glidepath of each Lifestyle is provided below.

Lifestyle 1 – Annuity focus (default for new members)



The chart shows the percentage distribution of a Member's account between the various funds over time periods up to a Member's retirement date. During the growth phase the lifestyle is 70% invested in the global equity passive fund and 30% in various bond funds. Ten years prior to retirement, the lifestyle begins to de-risk into the pre-retirement fund. Three years prior to retirement, the cash fund is introduced, with the allocation at retirement being 25% in the cash fund and 75% in the pre-retirement fund.

Lifestyle 2 - Lump sum focus



The chart shows the percentage distribution of a Member's account between the various funds over time periods up to a Member's retirement date. As with the Annuity focus Lifestyle, during the growth phase the lump sum focus lifestyle is 70% invested in the global equity passive fund and 30% in various bond funds. Three years prior to retirement the lifestyle begins to de-risk into the cash fund, with the allocation at retirement being 100% in the cash fund.

The Trustee recognises that one option will not be suitable for all Member circumstances and so has selected to offer these 2 lifestyles. Members may also self-select from the range of funds set out on page 16.

APPENDIX B – DIVISION OF RESPONSIBILITIES

Investment Managers and Platform Provider

The investment managers' responsibilities include:

- For active managers at their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting securities within each asset class. For the passive manager, tracking the relevant benchmark return within an appropriate tracking error.
- Providing the Trustee with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios.
- Informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the DC Segregated Section and managed by the Investment Manager or an associated company.
- Providing the Trustee with quarterly statements of the assets and factsheets on the underlying funds
- Ensuring that the underlying funds are priced correctly
- Reviewing the continued structural suitability of the underlying funds

Investment Consultant

The role of the Investment Consultant is to give advice to the Trustee in the following areas:

- the formulation of an efficient governance structure particularly in the light of the DC Code of Practice
- the regular updating of the Statement of Investment Principles
- the development of a clear investment strategy for the DC Segregated Section
- the construction of an overall investment management structure that meets the objectives of the Trustee
- the selection and appointment of appropriate investment management organisations
- the Consultant's current views of the Investment Managers employed by the DC Segregated Section
- commentary on investment performance and risk taken by the Managers

- trustee education
- general advice in respect of the DC Segregated Section's investment activities