

Knowles Europe Pension Plan

Statement of Investment Principles

June 2021



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This document is the Statement of Investment Principles for the Knowles Europe Pension Plan (the Plan). The requirement for the Trustees of the Plan to have such a Statement in place was introduced by the Pensions Act 1995. The Statement comprises the following sections and appendices:

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[https://wtwonlineuk.sharepoint.com/sites/tctclient_616231_knotrt21/Documents/Investment/Strategy review/Statement of Investment Principles June 2021.docx](https://wtwonlineuk.sharepoint.com/sites/tctclient_616231_knotrt21/Documents/Investment/Strategy%20review/Statement%20of%20Investment%20Principles%20June%202021.docx)

Section 1: Introduction

Pensions Act

- 1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it), the Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustees of the Knowles Europe Pension Plan (the Plan).

Background

- 1.2 Before preparing this document, the Trustees have consulted the employer and will also consult the employer before revising this document, in particular, if it relates to changes in investment policy. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.
- 1.3 Non-financial matters, such as the views of beneficiaries and members of the Plan have not been (and are not ordinarily) taken into account in determining the Trustees's investment principles or the current investment strategy.
- 1.4 Before preparing this document, the Trustees have sought advice from the Plan's investment consultants and Scheme Actuary. The Trustees have also provided a copy to the Plan's investment managers. The Trustees will review this document, in consultation with the investment consultant and Scheme Actuary, at least every three years, or sooner following an unscheduled actuarial valuation, or without delay following a significant change in investment policy. Before preparing this document the Trustees have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Plan details

- 1.5 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.6 Prior to 6 April 2016, the Plan was contracted-out of the State Second Pension under the Pensions Schemes Act 1993. With effect from 6 April 2016, the Plan (like all other contracted-out defined benefit pension schemes) ceased contracting out.
- 1.7 Since 6 April 2006, the Plan has been treated by HM Revenue and Customs (HMRC) as a registered pension scheme, in accordance with Schedule 36 of the Finance Act 2004.

Financial Services and Markets Act

- 1.8 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

Section 2: Governance

- 2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some of these responsibilities.
- 2.2 Responsibility for all day-to-day investment decisions is delegated to the Plan's investment managers. The Trustees retain direct responsibility for other investment matters which include:
- Reviewing at least every three years, or sooner following an unscheduled actuarial valuation, or without delay following any significant change in investment policy, the content of this Statement of Investment Principles and for modifying it if deemed appropriate, in consultation with the investment consultant and Scheme Actuary.
 - Reviewing the investment policy following completion of each actuarial review, in consultation with the investment consultant and Scheme Actuary.
 - Appointing (and dismissing) investment managers.
 - Assessing the quality of the performance and processes of the investment manager by means of regular, but not less than annual, reviews of the investment results and other information, in consultation with the investment consultant and Scheme Actuary.
 - Consulting with the employer before amending this Statement.
 - Strategically allocating the assets and the cash flow of the Plan between investment mandates and making periodic adjustments to the portfolio allocations.
 - Monitoring compliance with this Statement on an ongoing basis.
 - Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
- 2.3 Decisions affecting the Plan's investment strategy should be taken with appropriate advice from the Scheme Actuary and investment consultant and the Trustees' other advisers as appropriate.
- 2.4 The Trustees are satisfied that they have sufficient expertise and appropriate training to evaluate critically the advice they receive. The Trustees are also satisfied that they have an appropriate set of skills individually and collectively, and the right structures and processes, to carry out their role effectively.
- 2.5 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Plan. The Trustees of the Plan draw on the skills and expertise of external advisers including the investment managers, custodians, investment consultant and Scheme Actuary.
- 2.6 The Trustees are aware that they have the flexibility to open the contracts for actuarial services and investment advice to separate competition.

Section 3: Objectives and long term policy

Objectives

- 3.1 The Trustees have the following investment objectives:
- a the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employer, the cost of current and future benefits which the Plan provides as set out in the Trust Deed and Rules;
 - b to limit the risk of the assets failing to meet the liabilities over the long term;
 - c to minimise the long term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

Policy

- 3.2 The Trustees' policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. They recognise that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes is targeted to provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk for the Trustees.
- 3.3 Having taken appropriate actuarial advice, the Trustees are of the opinion that the asset allocation detailed in 4.1 is appropriate in the current circumstances. As set out in paragraph 2.2 above, the investment policy will be reviewed following completion of each actuarial valuation.

Expected return on investments

- 3.4 In setting the Plan's asset allocation policy, the Trustees' aim is that the returns on investment enable the Plan to fund the benefit provisions to members. For this purpose the Trustees have had regard to the actuarial valuation approach which is used to determine Company contributions, including in particular an expected higher return on equity investments than on bonds, and to the historical rates of return earned on the various classes of assets available for investment.
- 3.5 The relative risks and returns of different classes of investment are reviewed at intervals by the Trustees, based in part on consideration of the liability profile following each actuarial valuation.

AVCs

- 3.6 The Plan's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustees are aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

Environmental, social and governance considerations

- 3.7 Environmental, social and governance (ESG) issues, including climate change, may be financially material to the investment portfolio over the Plan's time horizon.
- 3.8 In practice, the majority of the Plan's assets are already invested in government securities and this proportion is likely to increase as the Plan matures. As such, ESG considerations are only expected to impact a minority of the portfolio. Given this, and the fact that all of the Plan's assets are currently managed on a passive basis, the Trustees have taken a proportionate approach to ESG considerations, as follows:
- The Trustees expect investment managers to consider financially material environmental, social and governance issues in investment decision making.
 - The Trustees expect investment managers to practice good stewardship, including engagement with firms and exercise of voting rights.
- 3.9 The Trustees will monitor the investment managers in this regard from time to time.

Rights attaching to investments

- 3.10 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights.

Realisation of assets

- 3.11 The majority of stocks held by the Fund's investment managers are quoted on major stock markets and may be realised quickly if required.

Section 4: Asset allocation guidelines

Asset allocation

- 4.1 The Trustees believe that the following strategic scheme-specific asset allocation is appropriate for the Plan:

| | Asset Allocation % |
|-----------------------|-----------------------|
| UK equities | 4.0 |
| Overseas equities | 16.0 |
| Total equities | 20.0 |
| UK conventional gilts | 17.0 |
| Corporate bonds | 18.0 |
| Index linked gilts | 45.0 |
| Total bonds | 80.0 |
| Total | 100.0 |

- 4.2 This strategy is achieved by investing the Plan's assets in line with the asset allocation set out in the table in Appendix A. The actual allocation of the Plan's equity and bond assets will be rebalanced, upon breach of the control range set out in the table in Appendix A, by the passive manager using their bond funds and their equity pooled funds. The Trustees, after receiving advice from their investment consultant, may amend (including remove) these ranges or suspend automatic rebalancing by the passive manager.
- 4.3 It is the intention of the Trustees to review the asset allocation of the Plan every three years following each actuarial valuation. In addition, the Trustees will monitor the position on an annual basis.
- 4.4 Asset categories not included here may only be used following a revision of these restrictions which specifically permits their inclusion.
- 4.5 The Trustees' policy is not to leverage the portfolio. Some short-term borrowing for settlement is allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

Diversification

- 4.6 The Plan's strategic asset allocation (see 4.1 above) is designed to ensure that the Plan's investments are adequately diversified by asset class. Since the Plan is invested in pooled funds, the Trustees cannot influence directly the concentration of investments at a stock selection level.

Currency Hedging

- 4.7 The Trustees' policy is to currency hedge 50% of their overseas equity portfolio.

Suitability

- 4.8 The Trustees have taken advice from the Scheme Actuary and the investment consultant to ensure that the asset allocation specified above is suitable for the Plan given its liability profile.

Liquidity

- 4.9 The Trustees, together with the Plan's administrators, will ensure that they hold sufficient cash to meet the likely benefit outflows from time to time. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy.

Section 5: Investment manager arrangements

Manager structure

- 5.1 The assets (other than those in respect of AVCs) are entirely managed and invested in State Street Global Advisors passive funds. The Trustees' policy is to obtain ongoing and regular advice on whether these funds are satisfactory as required by the Pensions Act.
- 5.2 Managers are paid an ad valorem fee, in line with normal market practice. As all of the assets are managed on a passive basis, the fees paid to the investment managers are not linked to investment performance.
- 5.3 Utmost Life and Pensions are the provider for members' AVC investments. The Trustees have agreed that it would not be proportionate to keep Utmost Life and Pension's appointment under regular review given the total amount of AVCs invested and that no further contributions are being made.

Performance objectives

- 5.4 Whilst the Trustees are not involved in the investment managers' day to day method of operation and therefore cannot directly influence attainment of the performance target, they will assess performance on an annual basis. Measurable objectives have been developed for the fund managers, consistent with the achievement of the Plan's longer term objectives. These are:
 - State Street Global Advisors passive pooled funds - to produce returns in line with the relevant fund benchmark indices, before the deduction of investment management fees. These are currently:
 - FTSE All-Share Index ex Controversies ex CW* Index
 - FTSE World ex UK ex Controversies ex CW* Index
 - FTSE World ex UK Index ex Controversies ex CW*, with 100% of the non-Sterling currency exposure hedged back to Sterling
 - FTSE Actuaries UK Conventional Gilts All Stocks Index
 - FTSE Actuaries UK Conventional Gilts Over 15 Years Index
 - FTSE Actuaries UK Gilts British Government Index Linked Over 5 Years Index
 - Bloomberg Barclays Sterling Aggregate 100 mm Non Gilts Index
- * CW = Controversial Weapons

Manager monitoring

- 5.5 The appointment of the investment managers will be reviewed by the Trustees from time to time, based on the results of their monitoring of performance and investment process, fees charged for the service provided, the Trustees' confidence that the manager can continue to fulfil their mandate in the future and of the managers' compliance with the requirement in the Pensions Act concerning diversification and suitability, where relevant. The Trustees may also take account of the investment managers' approach to ESG considerations. The managers have

been provided with a copy of this Statement and the Trustees will monitor the extent to which the managers give effect to the policies set out in it.

5.6 The contents of this Statement must include either the Trustees' policy in relation to the following matters or reasons as to why they are not set out:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies
- How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies
- How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range
- The duration of the arrangement with the asset manager

5.7 The Trustees do not currently have a policy or monitor any of the items above. This is because, at present, the investment managers invest the assets entirely on a passive basis and manage the allocation of the assets within control ranges provided to them by the Trustees. As such, the Trustees do not deem any of the items above to be relevant in monitoring the performance of the investment managers. The Trustees would review this should the Trustees amend their policy of investing the assets on a passive basis or providing control ranges to the investment managers.

Section 6: Risk management

6.1 The Trustees recognise a number of risks involved in the investment of the assets of the Plan and will continue to monitor these risks, making investment adjustments as appropriate.

- Deficit risk:
 - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
 - are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk:
 - is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy
 - is managed by the selection of a passive manager and by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- Liquidity risk:
 - is measured by the level of cashflow required by the 'Plan' over a specified period
 - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Interest rate and inflation risk:
 - is measured by comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates
 - is managed by reviewing the portfolio of assets to seek to better-match movements in the value of the liabilities due to inflation and interest rates.
- Custodial risk:
 - addressed through investment in pooled vehicles, with the investment managers responsible for selection of suitable custodians. 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 measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
 - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- Sponsor risk:
 - is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments
 - is managed through an agreed contribution and funding schedule.

6.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

6.3 The Trustees continue to monitor these risks.

Signed: *Dan Richards*

Name: Dan Richards

Date: 14/07/2021

Authorised for and on behalf of the Trustees of the Plan

Appendix A: Current investment manager

State Street Global Advisors Limited passively manage the plan assets in accordance with the following criteria set by the Trustees.

| Fund | Asset Allocation % | Range % ± | Benchmark |
|---|-----------------------|--------------|---|
| Total Equities | 20.0 | | |
| UK ESG Screened Index Equity | 4.0 | 3.0 – 5.0 | FTSE All-Share Index ex Controversies ex CW* Index |
| International (Developed 100% Hedged) ESG Screened Index Equity | 8.0 | 7.0 – 9.0 | FTSE World ex UK ex Controversies ex CW* Index, with 100% of the non-Sterling currency exposure hedged back to Sterling |
| International ESG Screened Index Equity | 8.0 | 7.0 – 9.0 | FTSE World ex UK ex Controversies ex CW* Index |
| Total Bonds | 80.0 | | |
| UK Conventional Gilts All Stocks | 12.0 | 10.0 – 14.0 | FTSE Actuaries UK Conventional Gilts All Stocks Index |
| UK Conventional Gilts Over 15 Years Index | 5.0 | 4.0 – 6.0 | FTSE Actuaries UK Conventional Gilts Over 15 Years Index |
| Sterling Non-Gilts Bond All Stocks ESG Screened Index | 18.0 | 16.0 – 20.0 | Bloomberg Barclays Sterling Aggregate 100 mm Non Gilts Index |
| UK Index Linked Gilts Over 5 Years Index | 45.0 | 42.0 – 48.0 | FTSE Actuaries UK Gilts British Government Index Linked Over 5 Years Index |

* CW = Controversial Weapons