TI Group Pension Scheme

Statement of Investment Principles – September 2023 (replaces July 2022)

1. Introduction

TI Pension Trustee Limited ("the Trustee") has drawn up this Statement of Investment Principles ("the Statement") in its capacity as Trustee of the TI Group Pension Scheme ("the Scheme"). The Statement has been drafted to comply with the requirements of the Pensions Act 1995 and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. In preparing this Statement, the Trustee has consulted with the Scheme's Sponsoring Employer, Smiths Group plc ("the Company").

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2. Process for Choosing Investments

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The Trustee has considered its objectives for investing the Scheme's assets. Retaining sufficient assets to meet the residual liabilities is a key priority of the Trustee. The Trustee makes all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of the investment manager. Day-to-day investment decisions are taken by a suitably authorised investment manager.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of its investment consultant, whom the Trustee believe to be suitably qualified to provide such advice, as well as seeking input from the Scheme Actuary. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended from time to time).

3. Investment Objectives

The Trustee's ultimate objective is to secure all members' (and other beneficiaries') benefits. They intend to achieve this through the purchase of bulk annuities ("buy-ins") which match as far as possible the Scheme's future benefit commitments, as a precursor to a buyout of all Scheme liabilities.

During the second quarter of 2022, the Scheme purchased its final buy-in with Rothesay. This final buy-in insures the remaining financial and demographic risks of the Scheme, although some small data/benefit related risks may remain. The Scheme has purchased seven buy-ins overall with Legal & General Assurance Society Limited, Pension Insurance Corporation (PIC), Rothesay and Aviva (the "Insurers"). The buy-ins are assets of the Scheme which pay amounts to the Trustee to match the benefit payments due. The Trustee received advice on the suitability of these contracts from its Risk Settlement Consultants.

It is the Trustee’s intention to complete a full buyout and to wind up the Scheme in due course, which will include meeting the remaining costs payable by the Scheme prior to doing so.

4. Risk Management and Measurement

As the Scheme’s assets are primarily buy-ins, the key risk to the Scheme is that of the Insurers defaulting. The Trustee considered the credit strength of its Insurers as part of the due diligence processes before signing buy-in documentation. Having considered this, in addition to several other factors including the regulatory environment provided by the Financial Conduct Authority and The Prudential Regulation Authority and following advice from its Risk Settlement Consultants, the Trustee considered the buy-ins to be appropriate investments for the Plan.

Another key risk is residual assets risk. This is the risk that the residual assets (which excludes the buy-ins) become insufficient to meet any future costs to the Scheme, also known as the “residual liabilities”.

5. Investment Strategy

The Scheme’s assets comprise of seven separate buy-ins (as detailed in Section 2). These equate to approximately >95% of overall assets. In addition, the Trustee invests the Scheme’s residual assets in fixed and index-linked UK government bonds (“gilts”), cash, and cash-like assets. The allocation to these investments has been set so that the residual assets may better hedge any movements of the residual liabilities (due to changes in interest rates and inflation expectations).

No further investment risk has been deemed required at this point given all liabilities have been insured.

6. Day-to-day Management of the Assets

The buy-in contracts are held with various insurers (detailed in Section 2). The buy-ins are intended to cover all Scheme beneficiaries, and to eliminate interest rate, inflation and longevity risk associated with those liabilities. The Insurers pay the Scheme regular amounts equal to the pension payment in respect of the membership underlying their respective buy-in policy. The buy-ins are assets of the Scheme and the pension liability remains within the Scheme until such a time as a buyout is completed.

Given the nature of the buy-ins into which the Scheme has entered, the Trustee does not monitor their investment characteristics. Should the Trustee become aware of any risks arising it will consider these in an appropriate manner.

The management of the residual assets is delegated to the Scheme’s investment manager.

7. Additional Assets

Members of the Scheme hold additional voluntary contributions (“AVCs”), Money Purchase Supplement (“MPS”) contributions and Transfers-in. These are currently held with Legal & General, Prudential and Phoenix Life.

The Trustee reviews the suitability of these arrangements at least every three years. If the Trustee judges that the AVC/MPS investments are no longer appropriate having regard to the requirements of Section 36 (Choosing Investments) of the Pensions Act 1995 as amended by subsequent legislation, it will consider whether it is appropriate to realise or alter such investments.

8. ESG and Stewardship (including Engagement Activities)

The Trustee believes that environmental, social and governance ("ESG") factors may have a financially material impact on investment risk and return outcomes, and that good stewardship (including voting and engagement) and promotion of corporate responsibility can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase buy-ins and has delegated the management of the collateral backing these policies to the Insurers. This includes the responsibility for voting and engagement. The Trustee reviewed the ESG integration and stewardship policies of the insurers at the point of purchasing the buy-ins, to the extent it was practical, to ensure that the policies were in line with the Trustee's beliefs given that the Trustee retains ultimate responsibility for the Scheme's assets and their management.

The Trustee periodically reviews its insurers and how they take issues such as ESG and climate change into account.

Whilst the Trustee is aware of the risks that ESG factors pose to the value of members' investment, the Trustee cannot change the way in which a member's AVCs are invested without the member's consent. As a result, the Trustee's ability to incorporate specific ESG factors when setting the investment strategy is itself correspondingly limited.

9. Non-financial Matters

Non-financial matters are not taken into account in the selection, retention and realisation of investments. Non-financial matters mean the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme. Member views are not actively sought. The Trustee would review this policy in response to significant member demand.

10. Investment Manager Arrangements

Given the nature of the assets, the Trustee believes that the Insurers are incentivised to manage their portfolios in an appropriate manner and it also believes that it has limited scope to influence their various policies. As such the Trustee does not seek to monitor these on an ongoing basis. Should the Trustee be provided with any opportunity which it deems appropriate to engage, it will consider this and will outline its views and expectations. Given the long term nature of the buy-ins, the Trustee does not believe that is appropriate for the ongoing performance or appointments of the Insurers to be reviewed.

Where the Trustee appoints investment managers via pooled funds or segregated accounts, outside of the buy-ins with the Insurers, the Trustee seeks expert advice in relation to these appointments. These appointments are made with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice.

The Trustee regularly monitors the Scheme's investments, including AVCs, held outside of the buy-ins with the Insurers, to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which 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.

11. Cost monitoring

The Trustee invests the residual DB assets in fixed and index-linked UK government bonds ("gilts"), cash, and cash-like assets. The fees for cash-like assets and gilts are generally lower compared to many other asset classes.

Performance Assessment & Fees
Given the nature of the buy-ins, the Trustee does not believe it is appropriate to monitor the performance of its Insurers. Furthermore, given the nature of the agreements it does not remunerate the Insurers and as such it does not evaluate these factors.

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment managers.

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.

Portfolio Turnover Costs
Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustee previously sought to explicitly report ongoing costs for all appointed managers for each calendar year. Given that the Scheme's remaining assets, outside of the buy-ins, are held in cash, cash equivalents, or buy and hold government bonds, the Trustee does not believe it is appropriate or necessary to explicitly monitor ongoing transaction costs.

12. Investment Restrictions

Restrictions applicable to the various investment mandates that are in place are set out in the relevant Investment Management Agreement and/or relevant pooled fund governing documents.

13. Fee Structure (non-investment manager)

The investment consultant is paid on either a fixed fee or time cost basis, as negotiated by the Trustee in the interests of obtaining best value for the Scheme. There are no direct fees paid to Annuity providers and any such fees are factored into the original purchase price.

14. Review of this Statement

The Trustee will monitor compliance with this Statement annually. In particular, it will check that investment manager mandates are consistent with giving effect to the principles set out in this Statement. The Trustee monitors on an ongoing basis compliance by the manager(s) with their mandates.

The Trustee will review this Statement at least once every three years to coincide with the Actuarial Valuation and any such review will incorporate formal investment advice on the Scheme's investment strategy. Reviews may be carried out at shorter intervals in response to material changes. Such changes may include significant changes in the balance of assets held by the Scheme, the appointment of a new or additional investment manager, significant changes (in the opinion of the Trustee) in the capital markets, the circumstances of the Scheme or the Company, or changes in governing legislation.