Thomas & Betts Retirement Benefits Scheme

Statement of Investment Principles

January 2022

Table of Contents

This page is intentionally blank

Section 1: Introduction

Pensions Act 1995

1.1 Under Section 35 of the Pensions Act 1995, as subsequently amended by the Pensions Act 2004, 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 Thomas & Betts Retirement Benefits Scheme (the Scheme).

1.2 Before preparing this document, the Trustees have consulted ABB Installation Products Limited (the employer) and the Trustees will consult the employer before revising this document in future. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

1.3 Before preparing this document, the Trustees have sought advice from the Scheme's investment consultants, the Scheme Actuary and investment managers. The written advice received from the investment consultant considers the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement.

1.4 It is the Trustees' policy to review this document, in consultation with the investment consultant and Scheme Actuary, triennially and immediately after any significant change in investment policy, or where the Trustees consider a review is needed for other reasons.

1.5 Before preparing this document, the Trustees have had regard to the requirements of the Pensions Acts concerning diversification 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 reasonable.

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

1.7 A copy of this document is made available to the members of the Scheme.

Scheme Details

1.8 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

1.9 Members of the Scheme were contracted-out of the State Second Pension under the Pensions Schemes Act 1993. Following a period of consultation with the members, all active members opted out of the Scheme and became deferred pensioners from 1 January 2012.

1.10 The Scheme is registered with HM Revenue and Customs.

1.11 Administration of the Scheme is managed by the Trustees, who are responsible for the investment of the Scheme's assets.

Financial Services and Markets Act 2000

1.12 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 managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently. The Trustees invest through a number of pooled funds managed by insurance companies (the Legal & General contract and the contracts for members' AVCs).

Section 2: Division of Responsibilities

2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that such decisions are taken effectively, the Trustees use other bodies either through direct delegation or in an advisory capacity.

The Trustees' investment responsibilities include:

- Reviewing from time to time and at least every three years the content of this Statement of Investment Principles (SIP) and modifying it, if deemed appropriate, in consultation with the employer and with written advice from the investment consultant and the Scheme Actuary
- Reviewing the suitability of the investment policy following the results of each actuarial review, and/or asset/liability study, in consultation with the investment consultant and Scheme Actuary
- Assessing the quality of the performance and processes of the investment managers by means of regular, but no less than annual, reviews of the investment results and other information in consultation with the investment consultant and the Scheme Actuary
- Strategically allocating the assets and the cash flow of the fund between investment mandates and making periodic adjustments to the portfolio allocations
- Consulting with the employer when reviewing investment policy issues and before amending this SIP
- Appointing (and dismissing) investment managers
- Monitoring compliance with this SIP on an ongoing basis
- In addition to the considerations articulated within this SIP, the Trustees will formulate a forward-looking business plan that provides greater detail on the processes and structure in place governing the Scheme’s investments.

2.2 Decisions affecting the Scheme's investment strategy should be taken with appropriate advice from the Scheme Actuary and investment consultants and the Trustees’ other advisers. The Trustees consider that there is no need for a separate investment sub-committee to be formed, and that they, with input from the advisers, have the skills, resources and information to take the necessary decisions.

2.3 Only persons or organisations with the necessary skills, information and resources should be actively involved in taking investment decisions affecting the Scheme. The Trustees of the Scheme, where necessary, employ the skills and expertise of external advisers including the investment managers, investment consultant and Scheme Actuary. Their respective responsibilities are as follows:

Investment manager

2.4 The investment manager will be responsible for:

- Tracking the relevant benchmark returns within an appropriate tracking error
- Within any guidelines given by the Trustees, implementing changes in the asset mix and selecting securities within each asset class
- Informing the Trustees of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur
- Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments
- Giving effect to the principles contained in the SIP as far as reasonably practicable
- Providing the Trustees with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

Custodian

2.5 The Custodian's responsibilities include:

- Undertaking all appropriate administration relating to the Scheme's assets
- Processing dividends and tax reclaims in a timely manner
- Dealing with corporate actions
- The safe keeping of the Scheme's assets.

Investment consultant

2.6 The investment consultant will be responsible for:

- Participating with the Trustees in reviews of this SIP in consultation with the Scheme Actuary
- Undertaking project work as required including reviews of investment policy and investment managers
- Advising on the selection of new managers.

Scheme Actuary

2.7 The Scheme Actuary will be responsible for:

- Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

2.8 The Trustees agree with the Myners Review Principle of separate completion for actuarial and investment consulting contracts. They believe, however, that the importance of considering investment strategies in conjunction with the potential interaction with the liabilities of the Scheme makes it beneficial for the Trustees to take actuarial and investment advice from within the same organisation. In addition, the Trustees confirm that they are content with the capabilities of both.

2.9 The Trustees do not receive any additional remuneration for their role as Trustees.

This page is intentionally blank

Section 3: Objectives of the Scheme

3.1 The general investment objectives of the Scheme are:

- To maintain a suitably diversified portfolio of secure assets of appropriate liquidity that will generate income and capital growth to meet the cost of current benefits which the Scheme provides as set out in the trust deed and rules

- To limit the risk of the assets failing to meet the liabilities over the long-term and in relation to the Scheme's funding level in the shorter term

- To control the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives shown above.

3.2 These investment objectives of the Scheme are not framed relative to the performance of other pension funds or market indices.

This page is intentionally blank

Section 4: Strategic Asset Allocation

4.1 The strategic asset allocation is driven by the financial characteristics of the Scheme; in particular, the Scheme's liabilities and the risk tolerance of the Trustees and the participating employers.

4.2 The Trustees seek to achieve the Scheme's investment objectives through investing in a suitably diversified mix of real and fixed securities that match the nature, term and currency of the Scheme's liabilities. By investing in matching assets, the Trustees aim to protect the funding level of the Scheme against market fluctuations.

4.3 The Trustees have considered a full range of investment opportunities and asset classes available to the Scheme.

Asset ranges

4.4 The Scheme may hold funds in the following asset classes and will normally within the specified limits:-

Overall fund allocation	Central benchmark %	Control range % +/-	Fund name
Corporate bonds	20	+/- 2.00	AAA-AA-A Corporate Bond - Over 15 Year - Index
Index-linked gilts	27	+/- 3.00	Over 5 Year Index-Linked Gilts Index
Index-linked gilts	2	+/- 0.50	5 to15 Year Index-Linked Gilts Index
Fixed interest gilts	4	+/- 1.00	Over 15 Year Gilts Index
Fixed interest gilts	47	+/- 3.00	All Stocks Gilts Index
Total	**100**		

4.5 The Trustees understand that the asset mix underlying this benchmark will change from time to time. The Trustees consider that an asset allocation policy for the Scheme which corresponds to this benchmark will ensure that the assets of the Scheme include suitable investments, that those assets are appropriately diversified and that there is a reasonable expectation of meeting the objectives in 3.1.

4.6 In forming the asset allocation shown above, the Trustees have had regard to the expected returns achieved over the next 10 years. The Trustees are mindful that returns over relatively short periods can differ substantially from the long term average but considers that the asset allocation shown can be reasonably expected to achieve the investment objective over the next 10 years.

4.7 Asset categories not included here may only be used following a revision of these restrictions, which specifically permits their inclusion.

4.8 The Trustees may not borrow money or otherwise leverage the portfolio.

4.9 Divergence from the asset allocation benchmark is permitted by the investment managers and the Trustees will review such divergence from time to time to ensure that the asset allocation remains suitable for the Scheme, whilst allowing the investment managers to seek outperformance of the benchmark.

Asset class assumptions

4.10 The Trustees expect, over the long term, that the returns achieved by equity assets will exceed those from bonds and cash. The Trustees also recognise the greater volatility and investment risk associated with return seeking assets. As a result, the Trustees have removed the Scheme's exposure to equities and invested in assets which match the liabilities and reduce the volatility of the funding level of the Scheme. The Trustees believe that the level of risk and expected returns within their investment strategy is within the tolerance limits of both the Scheme and the employer.

4.11 In normal market conditions, the Trustees expect the 10 year median return on bond investments to be in the range 1%-2% per annum in nominal terms. The Trustees accept that over short timescales, the actual returns could be very different from these long term expectations.

Diversification

4.12 The choice of benchmark and the ranges specified in 4.4 above are designed to ensure that the Scheme's investments are adequately diversified. As the Scheme invests via index tracking pooled funds, it invests in a broad range of holdings within each asset class. As these are pooled funds, the Trustees are not able to influence any specific holdings within the funds. However, they can control the allocation to that asset class. The issue of adequate diversification will feature in the selection criteria for new managers and the monitoring process for ongoing managers.

Suitability

4.13 The Trustees have taken advice from the Scheme Actuary and the investment consultant to ensure that the benchmark and the ranges specified above are suitable for the Scheme given its liability profile.

Liquidity

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

Section 5: Manager structure

Manager Structure

5.1 The Trustees have considered the use of both passive and active investment management when reviewing the Scheme's strategy. The resultant allocation to passive management is formed following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns net of fees.

5.2 The Trustees have an insurance contract with Legal & General Assurance (Pensions Management) Limited (L&G) which invests in a range of funds managed passively by Legal & General Investment Management in line with the Scheme's benchmark outlined in 4.4.

5.3 AVCs are invested with Utmost Life & Pensions.

Performance Objectives

5.4 Whilst the Trustees are not involved in the investment manager's day to day method of operation and therefore cannot directly influence attainment of the performance target, they will assess performance and review L&G's appointment on a regular basis. The funds in which the assets are invested have a set of measurable objectives which are consistent with the achievement of the Scheme's longer term objectives, and are as follows:

- To maintain the Scheme's asset distribution close to the benchmark and within the ranges set out in Appendix A
- To track the total return of the relevant market index, within the specified tolerances, for each index fund in which the Scheme invests.

5.5 The manager should achieve the objectives in the majority of periods under consideration. It is not expected that the manager will achieve this target in every period. However, the manager should demonstrate that the skill that they exercise on the portfolio is consistent with this target given the levels of risks adopted.

5.6 Details of the current investment manager objectives and targets are included in Appendix A.

Manager Monitoring

5.7 The Trustees hold regular meetings with the investment managers to satisfy themselves that the fund managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

5.8 The manager will be provided with a copy of this SIP and the Trustees will monitor the extent to which the manager gives effect to the policies set out in it.

Selection Criteria

5.9 The Trustees have identified the criteria by which managers should be selected (or deselected). These are included in Appendix B.

Fees payable to advisors and investment managers

5.10 The investment managers are paid ad valorem fees based on the value of the assets under management, for a given scope of services which includes consideration of long-term factors and engagement. This is in line with normal market practice. The investment consultant is remunerated through a combination of time based fees and fixed fees for specific projects.

5.11 All fee arrangements have been determined by reference to common practice in relation to the nature of the work involved.

5.12 The Trustees review the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Alignment with the Trustees' policies

5.13 Alignment between a manager's management of the Scheme's assets and the Trustees' policies and objectives are a fundamental part of the appointment process of a new manager. Before investing, the Trustees will seek to understand the manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustees will ensure the investment objectives and guidelines of the vehicle are consistent with their own objectives. Where segregated mandates are used, the Trustees will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement.

5.14 To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to explicitly confirm that the Scheme's assets are managed in line with the Trustees' policies as outlined in that statement.

5.15 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

5.16 For most of the Scheme's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

5.17 The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Section 6: Corporate Governance and SRI

Social, environmental and ethical issues

6.1 The Trustees take account of all financially material risks and opportunities in consultation with their advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustees' time horizon reflects the time horizon of the employer's business and the Scheme's maturing liability profile. The Trustees consider sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.

6.2 The Trustees' policy is that day-to-day decisions relating to the investment of Scheme assets are left to the discretion of their investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant. The Trustees explore these issues with their managers to understand how they exercise these duties in practice and receive reports on how these issues are addressed with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.

6.3 The Trustees' focus is explicitly on financially material considerations. The Trustees' policy at this time is not to take into account non-financially material considerations.

Rights attaching to investments

6.4 The Trustees believe that voting rights are an important part of overall shareholder value. They therefore believe that institutional shareholders should make considered use of their voting rights on all resolutions at annual and extraordinary general meetings held by UK companies.

6.5 The Trustees have delegated responsibility for voting to their investment managers, and wish them normally to exercise these votes in accordance with what the managers believe to be in the best financial interests of the Scheme. The Trustees receive quarterly reports from their investment managers which highlight the impact of key actions taken in exercising ownership rights and have the opportunity to discuss these issues further with their investment managers on at least an annual basis.

6.6 It is likely that the investment managers will generally be supportive of management proposals. If, however, a proposal conflicts with their policy, they should normally either vote against the resolution or abstain. In appropriate cases, however, they may wish to discuss the issues concerned with the company management.

This page is intentionally blank

Section 7: Statement of Funding Principles

Statement of Funding Principles

7.1 The Pensions Act 2004 requires that the Trustees prepare a Statement of Funding Principles. The Trustees will produce this document, after obtaining advice from the Scheme Actuary, in conjunction with each actuarial valuation.

7.2 The Statement will cover the Scheme's statutory funding objective, the principles used in determining that objective, the policy for securing that it is met, and the process through which the Trustees and Company reach agreement on the contents of the statement.

Statutory Funding Objectives

7.3 The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions.

Secondary Funding Objective

7.4 The Trustees believe it is appropriate to ensure that the Scheme provides a substantial degree of security of benefits to address the risk that the sponsor of the Scheme may become insolvent at some point.

7.5 The Trustees are funding the Scheme with the intention that it should be possible after a number of years to secure discontinuance benefits from an insurance company. The Trustees and the Company have confirmed their intention to meet the full cost of securing the Scheme´s liabilities with an insurance company by 31 December 2025. This objective would be supported by additional contributions from the Company, as deemed to be appropriate from time to time.

This page is intentionally blank

Section 8: Risk Management

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

- Solvency risk and mismatching risk:
  - are 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 manager's investment process.
- Liquidity risk:
  - is measured by the level of cash flow required by the Scheme over a specified period
  - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- 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 the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
  - is managed by assessing the interaction between the Scheme 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 a number of metrics reflecting the financial strength of the sponsor.
- Currency risk:
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values

  - is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas investments' currency translation risk for those overseas currencies that can be hedged efficiently.

- Sustainability and Corporate Governance risk:

  - are measured by the level of concentration in individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure

  - are managed by regular reviews of stock concentration and discussion with the investment manager about sustainability risks.

8.2 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.

8.3 The Trustees continue to monitor these risks.

Appendix A: Investment Manager Arrangements

The performance objectives set are as outlined in the following tables:

Overall fund allocation	Central benchmark %	Control range % +/-	Fund name
Corporate bonds	20	+/- 2.00	AAA-AA-A Corporate Bond - Over 15 Year - Index
Index-linked gilts	27	+/- 3.00	Over 5 Year Index-Linked Gilts Index
Index-linked gilts	2	+/- 0.50	5 to15 Year Index-Linked Gilts Index
Fixed interest gilts	4	+/- 1.00	Over 15 Year Gilts Index
Fixed interest gilts	47	+/- 3.00	All Stocks Gilts Index
Total	**100**		

L&G is instructed to apply investment/disinvestment of monies to maintain the Scheme's asset allocation distribution as close as possible to the benchmark. Also, rebalancing will occur on any breach of the above ranges.

Asset Class	Tracking Tolerance
AAA-AA-A Corporate Bonds – Over 15 Year Index	+/- 0.50% pa two years in three
Over 5 Year Index Linked Gilts	+/- 0.25% pa two years in three
5 to15 Year Index-Linked Gilts Index	+/- 0.25% pa two years in three
Over 15 Year Gilts	+/- 0.25% pa two years in three
All Stocks Gilts	+/- 0.25% pa two years in three

This page is intentionally blank

Appendix B: Selection/De-Selection Criteria

Selection criteria

The Trustees have identified the criteria by which managers should be selected (or deselected). These include:

- Past performance
- Quality of the investment process
- Role suitability
  - level of fees
  - reputation of the manager
  - familiarity with the mandate
  - internal objectives and restrictions of any pooled funds
- Service
  - reporting
  - administration
- Team proposed
  - the individual fund managers working for the Scheme.
- Corporate governance
  - approach to sustainable investing
  - voting policies and engagement

De-selection Criteria

Managers may be replaced, for example, if:

- They fail to meet the performance objectives set out in Section 5; and/or
- They fail to adhere to the Trustees' approach to corporate governance and SRI set out in Section 6; and/or
- The Trustees believe that the manager is not capable of achieving the performance objectives in the future; and/or the manager fails to comply with this SIP.