GKN Group Pension Scheme (No.4)

Statement of Investment Principles

This document is the Statement of Investment Principles (the ‘Statement’) for the GKN Group Pension Scheme (No.4) (the 'Scheme').

Background information on this Statement

This Statement has been drawn up by the Trustee of the GKN Group Pension Scheme (No.4) (the ‘Trustee’).

This Statement sets out the principles governing investment decisions made by the Trustee in relation to the Scheme. It should be read in conjunction with the related document entitled ‘Investment Arrangements’ which provides further detail on how the investment decisions are implemented. The Statement is also a legal requirement of the Pensions Acts 1995 and 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (collectively referred to as the ‘Pensions Acts’). For the avoidance of doubt the Investment Arrangements document does not legally comprise part of the Statement.

In preparing this document the Trustee has taken into account the requirements of the Pensions Acts. In addition, this Statement is designed to fulfil the spirit of any relevant best practice guidance published by the Pensions Regulator. The principles set out in this Statement are also consistent with the Trustee’s Statement of Funding Principles.

In February and May 2023, the Trustee secured a bulk insurance policy (“Annuity Policy”) with Just Group Plc (“Just”) (“Insurer”). This involved transferring 100% of the Scheme’s assets to Just via the payment of an insurance premium which secures 100% of members benefits, as detailed in the terms of the Annuity Policy.

Contents of this Statement

The Statement covers the following principles:

1. Governance arrangements
2. Investment objectives
3. Risk management policies
4. General investment policies
5. Agreeing and reviewing this Statement

1. Governance arrangements

Overview of the arrangements

The Trustee aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided.

In February 2023, the Trustee purchased an annuity policy to insure these benefits and minimise the risk that the Scheme is unable to meet this objective. This involved transferring 100% of the Scheme's assets to Just.

In return, Just are liable for funding members benefits, via the term of the Annuity Policy, for each member of the Scheme (held in the name of the Scheme as an asset). The insurer pays the Scheme an amount each month equal to the pension payment due in respect of the membership underlying the policy. The contract is an asset of the Scheme and the pension liability remains within the Scheme until such a time as a buyout is completed

Other parties involved

There are a number of parties involved in the Scheme's investment arrangements, namely:

- Trustee
- Sponsor
- Strategic Investment Adviser
- Scheme Actuary
- Insurer

Responsibility and knowledge

The Trustee receives advice from the Investment Adviser but has ultimate responsibility for the management of the Scheme and its assets, until such time that the Annuity Policy is converted to a buy-out arrangement.

In transferring 100% of the Scheme assets to the Insurer via the Annuity Policy, the overall Investment objectives of the Scheme are effectively delegated to the Insurer via the terms of the buy-in insurance agreement.

2. Investment objectives

The Trustee's primary objective is to provide sufficient assets to pay benefits as they fall due. In transferring 100% of the Scheme assets to an Insurer via the Annuity Policy this objective is delegated to the Insurer via the terms of the insurance policy.

In due course, the Annuity Policy will be converted to a buy-out policy in which Just will hold an individual annuity policy for each member and directly pay members benefits as they fall due, and the Insurer will be solely responsible for this Investment Objective.

3. Risk management policies

The Trustee recognises a number of risks are involved in the investment of the Scheme's assets.

The Trustee's key risk to the Scheme is that the value of assets is inadequate relative to the value of the liabilities. The Annuity Policy is expected to mitigate all Scheme risks, including but not limited to:

- Interest rate risk;
- Inflation risk;
- Demographic risk;
- Investment/Economic risk;
- Environmental Social Governance ("ESG") risk
- Sponsor risk;
- Concentration risk;
- Liquidity risk;
- Political risk;
- Operational risk.

In transferring 100% of the Scheme assets to the Insurer via the insurance premium the Insurer has responsibility for manging and monitoring risks. As the premium secured 100% of members benefits there is low residual risk to the Scheme.

The risk that Just fail to make the pension payments covered by the Annuity Policy as they fall due ('Annuity Policy default risk') is a residual risk to the Scheme. Having considered the credit strength of the insurer as part of the due diligence process, in addition to other factors such as the regulatory environment and other protections available (e.g., the Financial Services Compensation Scheme), the Trustee(s) considered this to be an appropriate investment for the Scheme.

4. General investment policies

Responsible investment & Stewardship

In setting the Scheme's investment strategy the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring performance.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest all of the Scheme's assets in an annuity policy and therefore cannot directly influence the environmental, social, and governance ESG policies and practices of the companies in which the annuity policy invests.

Stewardship – Voting and Engagement

Following the purchase of the Annuity Policy, responsibility for voting and engagement for the majority of the Scheme's assets has been delegated to the Insurer.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not take into account the views of Scheme's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

Cost Monitoring

Following the purchase of the Annuity Policy, responsibility for monitoring costs of the Scheme's assets has been delegated to Just. The Trustees therefore do not monitor costs relating to the annuity policy. The Trustees paid a premium to Just when the annuity policy was initiated, and as a result there are no ongoing fees in respect of the Scheme.

Arrangements with Investment Managers

Before entering into the Annuity Policy with Just, the Trustee reviewed the governing documentation associated with the Policy and considered the extent to which it aligned with the Scheme's requirements. Following the purchase of the Annuity Policy, the responsibility for managing arrangements with the underlying asset managers lies with Just. This responsibility may include ensuring that arrangements with appointed asset managers are aligned to achieving the medium and long-term objectives of Just and as established within the contractual terms of the Annuity Policy of the Scheme.

No performance monitoring is carried out in relation to the Annuity Policy however checks are carried out to ensure the payments received from the policy are in line with expectations.

There is no set duration for arrangements with the Annuity Provider.

5. Agreeing and reviewing this Statement

Advice received

The Trustee has obtained written advice on the content of this Statement from their Strategic Investment Adviser. They will also take written advice on any future major changes to this Statement. The Trustee is satisfied that the Investment Adviser has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustee has consulted the Principal Employer, GKN plc, on the content of this Statement and will consult with them on future changes.

Compliance and review

The Trustee will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and also following any significant change in investment policy.

Approved by GKN4 Trustee 2018 Ltd, October 2023

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustee

The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee's investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of sub-Committees, Advisers and other third parties
- Setting appropriate investment objectives, following advice from the Strategic Investment Adviser and Scheme Actuary
- Agreeing the range of investment types to be used to achieve the investment objectives, taking account of the need to manage risks
- Monitoring the Scheme's compliance with the pensions industry's Code of Best Practice
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this Statement, if deemed appropriate, in consultation with the Principal Employer and with written advice from the Strategic Investment Adviser.
- Monitoring compliance with this Statement on an ongoing basis
- Overseeing implementation of investment except those delegated to other sub-Committees
- Overseeing operational investment decisions

Strategic Investment Adviser

The Strategic Investment Adviser's role includes providing investment advice to the Trustee. A summary of the duties that fall into each category are shown below:

- Advice relating to investment governance and compliance
- Advice on this Statement
- Advice relating to potential conflicts of interest, including their own

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Investment Adviser on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustee's Investment Objectives and investment strategy
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels

- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities
- Advice relating to potential conflicts of interest, including their own

Insurer

The Insurer responsibilities include:

- Manage annuity policy to pay the agreed liabilities of the Scheme.
- Ensure that they are complying with the requirements applicable to them in this Statement. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolios as a whole.

Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustees' policy is to review their direct investments and to obtain written advice about them regularly. These include vehicles available for members' Additional Voluntary Contributions (AVCs). When deciding whether or not to make any new direct investments the Trustee(s) will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee(s) (or, to the extent delegated, by the fund managers) against a set criteria which takes into account the best interests of the members and beneficiaries, the security, quality, liquidity and profitability of the investments, as well as the nature and duration of liabilities. Also of consideration is diversification, the ability to trade on regulated markets and the use of derivatives.