

# **Statement of Investment Principles**

## **Defined Contribution Section (“DC Section”) of the GKN Group Pension Scheme 4**

September 2023

### **1 Introduction**

- 1.1 This Statement of Investment Principles (“the Statement”) has been prepared by the Trustee of the GKN Group Pension Scheme 4 (“the Scheme”). The Statement sets out the principles governing the Trustee’s decisions about the investment of the Scheme’s defined contribution assets. The Trustee refers to this Statement when making investment decisions, to ensure they are consistent with the principles set out in it.
- 1.2 This Statement has been written to comply with the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and subsequent legislation.
- 1.3 Before preparing this Statement, the Trustee has consulted with the Company (acting on behalf of all participating employers) and obtained and considered written professional advice from the Scheme’s DC Investment Consultant regarding the DC Section’s investment strategy.
- 1.4 The Scheme’s assets are held in Trust by the Trustee. The Trustee notes that, according to the law, they have ultimate power and responsibility for the investment of the Scheme’s assets and their investment powers are set out in the Scheme’s Trust Deed and Rules, subject to applicable legislation. The Trustee maintains responsibility for some decisions and delegates others.
- 1.5 When determining which decisions to delegate, the Trustee has taken into account whether they have the appropriate training and are able to secure the necessary expert advice in order to take an informed decision. Further, the Trustee’s ability to effectively execute the decisions is also considered.
- 1.6 The Trustee believes that their investment policies and their implementation are in keeping with best practice, including the six principles published by the Investment Governance Group and taking into account the DC Code of Practice.
- 1.7 The Trustee seeks to maintain a good working relationship with the Employer and will discuss any proposed changes to the Statement with the Employer. However, the Trustee’s fiduciary obligations are to the Scheme’s members and will take precedence over the Employer’s wishes.
- 1.8 The Trustee will review this Statement from time to time and at least every three years and without delay if there are changes to the legislative framework or if there are relevant, material changes to the Scheme and/or Principal Employer. These include material changes in the Scheme’s membership profile and finances, changes to regulatory requirements, and in the attitude to risk of the Trustee.

## 2 Scheme Governance

### Division of Responsibilities

2.1 With regard to the DC Section of the Scheme, the duties and responsibilities of the Trustee, their Investment Consultant and Provider are as follows:

- **The Trustee** has retained the following duties and responsibilities in relation to the DC Section:
  - Overall responsibility for the Scheme’s investments.
  - Complying with legislation and regulation.
  - Appointing the Investment Consultant.
  - Deciding upon investment strategy, in consultation with the Investment Consultant.
  - Considering proposed changes, and agreeing final changes to the Statement.
  - Consulting with the Company before amending the Statement.
  - Appointing the Provider and selecting the underlying funds in consultation with the Investment Consultant.
  - Monitoring the Investment Consultant, fund options and Investment Managers.
- **The Investment Consultant’s** duties and responsibilities are to:
  - Advise the Trustee in accordance with the Letter of Engagement in place between the Trustee and Investment Consultant.

The details of the Investment Consultant’s appointment, including the scope of its remit and its fees are set out in a contract entered into between the Trustee and the Investment Consultant.

The Trustee believes that the Investment Consultant meets the requirements of Section 35(5a) of the Pensions Act 1995 and subsequent legislation.

- **The Platform Provider** to the Scheme is Legal & General (the “Provider”). The terms of the Provider’s appointment are contained in the policy of assurance issued by the Provider to the Trustee. The Provider’s responsibilities are also governed by applicable law. Each Investment Manager of the underlying funds made available under the policy of insurance has an Investment Management Agreement (“IMA”) or re-assurance agreement with the Provider.

The Investment Managers’ roles in practice include the responsibility to:

- Manage the portfolios of assets within the investment guidelines, objectives, risk parameters and restrictions set out in the respective agreements but, subject to that, exercising discretion as appropriate when investing the portfolio.
- Have regard to the need for diversification of investments so far as appropriate and to the suitability of investments.

- Appoint custodians for the assets managed in the underlying funds.
- In addition, the Provider will:
  - Exercise the powers of investment with a view to complying with the content of the Statement, so far as reasonably practicable.
  - Provide the Trustee with periodic statements of the assets and cash flows and report on the results of past actions and any changes to the investment process and, where possible, on corporate actions and their future policies in that regard.
  - Inform the Trustee of any changes in the performance objective or guidelines of any underlying funds used by the Scheme as soon as practicable.

2.2 A listing of the Scheme’s fund options, including a description of their mandates and benchmarks is set out in Section 5 and Appendix A.

2.3 Given that the Scheme invests in pooled funds, the safekeeping of the underlying assets is undertaken by custodians selected by the fiduciaries of the pooled funds.

### 3 **Investment Policy**

#### **Objectives**

3.1 The Trustee recognises that Scheme members have differing investment needs and that these may change during the course of members’ working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances.

3.2 The objectives set out below and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Broader considerations including Environmental, Social and Corporate Governance (“ESG”) issues are discussed in Section 11.

3.3 The following encapsulates the Trustee’s objectives with regard to the DC Section:

- To make available a range of investment funds that should enable members to tailor their own investment strategy to meet their own individual needs.
- Offer funds which facilitate diversification and long term capital growth (in excess of inflation).
- Offer funds that enable members to reduce risk in their investments as they approach retirement.
- Offer funds which aim to mitigate the impact of sudden and sustained reductions in capital values or rises in the cost of purchasing benefits in retirement.
- To structure the range of funds, provide a suitable number of funds and present this range in a manner which may make it easier for members to make investment decisions.
- To provide a default investment option for members who do not make their own investment decisions.

- To provide general information as to the purpose of each investment option.
  - To encourage members to seek impartial guidance and / or financial advice from an appropriate organisation, where required.
- 3.4 The Trustee is responsible for deciding the range of funds to offer to members. In determining what types of funds are offered, the Trustee has taken investment advice regarding the suitability of investment vehicles considering factors such as:
- The asset class (or classes)
  - The level of diversification,
  - The styles of managing assets; and
  - The nature of the investment objectives.
- 3.5 However, the Trustee has no influence over the investment aims of each fund used or how the Investment Managers choose the underlying investments within each fund, as the assets are pooled with many other investors to obtain economies of scale.
- 3.6 Nevertheless, notwithstanding how the assets of each fund are managed, the Trustee regularly obtains professional advice to monitor and review the suitability of the funds provided and from time to time may change the managers or investment options.
- 3.7 The investment choices for the DC Section comprise primarily of equity, property, bonds, diversified growth funds and cash. Both active and passive management options are offered to members depending on asset class.
- 3.8 As previously mentioned, members who do not indicate a preference are invested in the default options, which include lifestyling towards taking their benefits at retirement via income drawdown or cash. More detail on this is provided in Section 6.
- 3.9 The growth phase and consolidation phase of all default options are the same, with the asset allocation only diverging from the start of the five year pre-retirement phase.
- 3.10 The underlying components of the default options are subject to periodic review by the Trustee. The review relates to the appropriateness of the asset classes held within the funds, and also the managers appointed to manage the funds on behalf of the Trustee.
- 3.11 All funds, including those in the default options, are daily-dealt pooled investment arrangements. These pooled investment arrangements are themselves regulated and underlying investments are mainly invested in regulated markets. Where pooled investment arrangements do not invest assets in regulated markets these are not expected to account for a material proportion of assets. Therefore, assets should be realisable at short notice, based on member and Trustee demand. However, the Investment Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within the parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

## **Risks**

- 3.12 The Trustee recognises that all forms of investment carry some degree of risk. The Trustee has considered these risks when setting the Investment Strategy and ultimately the choice of funds made available to members as detailed in the following section.

3.13 The Trustee has considered risk from a number of perspectives. These are:

- *Benefit adequacy risk.* The investment returns over a member's working life may not secure adequate benefits at retirement.
- *Risk of capital loss in nominal terms.* The protection of capital, in the approach to retirement, in supporting the provision of benefits to be funded from the members' individual accounts.
- *Risk of erosion by inflation.* If investment returns lag inflation over the period of membership, the real (i.e. post inflation) value of the members' individual accounts will decrease.
- *Market risk.* The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash.
- *Manager risk.* The performance of the investment vehicles used falls short of the Trustee's expectations and the funds' benchmarks. This will lead to lower than expected returns to members. The Trustee recognises that the use of active investment management involves such a risk.
- *Liquidity risk.* This refers to the risk of members not being able to realise their investments. The Trustee has invested in unitised pooled funds which are daily dealt to facilitate the availability of assets to meet benefit outflows.
- *Default risk.* The value of interest bearing securities would be at risk if a bond issuer or licensed deposit taker defaults on their commitments.
- *Conversion risk.* The costs of converting a member's accumulated defined contribution account into benefits at retirement is influenced by a number of factors such as future investment growth, price volatility, long-term interest rates and life expectancy.
- *Mismatch risk.* The risk that members are invested in funds/an investment strategy that is not in line with the way they intend to take benefits at retirement.
- *ESG risk.* The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 11 sets out how these risks are managed.

3.14 *Active and passive management*

The Trustee recognises that passively managed funds are subject to market risk whereas actively managed funds are subject to both market and manager risk. The Trustee has decided to use actively managed funds where they offer the greatest opportunities for adding value.

## 4 **Investment Platform**

4.1 The funds used by the DC Section of the Scheme are accessed through an investment platform operated by the Provider through a bundled arrangement (details are set out in Section 5).

- 4.2 The Trustee considers that this approach is an appropriate arrangement for the DC Section of the Scheme. This route provides access to a range of investment options at competitive charges and reduces the out-of-market risks and transaction costs encountered on switching between investment options.
- 4.3 In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. 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).
- 4.4 The Trustee will review the continued appropriateness of this approach at least triennially or more frequently if required.

## 5 Investment Strategy

### Range of funds

- 5.1 The Trustee believes, having taken expert advice, that it is appropriate to offer a range of investment funds to allow members to tailor their own investment strategy ("Self Select").
- 5.2 The Trustee has decided to adopt a core range of funds characterised by their asset type with one fund in each of the principal asset types. The purpose of this approach is to simplify the choice presented to members, whilst remaining broadly appropriate to the expected needs of most members.
- 5.3 The Trustee has also decided to offer a selection of additional, more specialist funds for members wishing to more closely tailor their fund choices to their personal circumstances.
- 5.4 The Trustee has decided to offer the following types of funds to members:
- ***Core Funds (passively managed except where shown)***
    - Global Equity
    - Global Equity with ESG focus
    - UK Equity
    - Diversified Growth (multi-asset) (actively managed)
    - Property (actively managed)
    - UK Government Bonds
    - UK Corporate Bonds
    - High Income (actively managed)
    - Cash (actively managed)
  - ***Additional Funds (passively managed except where shown)***
    - Islamic Equity

- Emerging Market Equity
- Factor-Based Global Equity with climate overlay

### Switching

- 5.5 Members are responsible for reviewing their investment choices in the light of their own circumstances.
- 5.6 Members may redirect future contributions or transfer their accumulated account between funds at any time prior to setting up their retirement benefits.
- 5.7 There are no administrative charges for switching, but members may incur transaction costs on selling and buying units.

### Lifestyle Investment Options

- 5.8 The Trustee recognises that, while the division between core and additional fund ranges should help members choose funds appropriate to their circumstances, there is likely to be a number of members who would prefer the simplicity of an investment strategy that automatically changes to be suitable at different stages of their working life. The Trustee has therefore decided to include three lifestyle options as part of the investment options.
- 5.9 The lifestyle options progressively and automatically switch members from higher risk/higher expected return funds to lower risk/lower expected return funds as the member approaches their selected retirement date. Three lifestyle strategies are to be offered for members which should broadly meet the needs and reflect the likely benefit choices of the Scheme's membership, as follows:
- Drawdown Lifestyle – this investment option is designed for members who wish to keep their retirement savings invested after retirement and draw down an income in retirement by making regular withdrawals from their pension pot. **It is the default investment option for DC only members, including new joiners, and members who are expected to have a large DC pot at retirement after taking their tax-free cash. These members have a small amount of past DB service relative to their years to Selected Retirement Date.**
  - Partial Drawdown Lifestyle – this investment option is designed for members who intend to withdraw the majority of their savings as cash upon retirement, and who wish to keep the remainder of their retirement savings invested after retirement and achieve an income in retirement by making regular withdrawals from this pot. **It is the default investment option for members who are expected to have a small DC pot at retirement after taking tax-free cash. These members have a moderate amount of past DB service relative to their years to Selected Retirement Date.**
  - Cash Lifestyle – this investment option is designed for members who intend to withdraw their entire savings as cash upon retirement. As such, this strategy is 100% invested in the GKN Cash Fund at retirement. **It is the default investment option for members who are expected to utilise their whole DC pot at retirement to fund their tax-free cash. These members have a significant amount of past DB service relative to their Years to Selected Retirement Date.**
- 5.10 The Trustee is aware that the default lifestyle strategy may not be appropriate for all members because of their varying needs. In addition, lifestyle strategies will not protect members' accumulated accounts from negative financial consequences and may be inappropriately perceived by members as a strategy which will always protect them from

financial volatility. The Trustee would therefore encourage members to make their own investment decisions.

- 5.11 The Trustee, having taken appropriate advice, has also decided that automatic switching within the lifestyle options should take place quarterly as a member approaches retirement.
- 5.12 The Trustee believes that these strategies meet the investment objectives and controls the risks identified for the Scheme’s membership. The Trustee will review the appropriateness of the lifestyle options from time to time.

## Risk Management and Measurement

Type of Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the investment return over members’ working lives will not keep pace with inflation and do not secure adequate retirement benefits.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit.
Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme’s assets.	<p>The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p> <p>The Trustee offers lifestyle options that aim to reduce overall investment risk as the member approaches retirement.</p> <p>Within active funds management of many of these market risks is delegated to the investment manager.</p> <p>The management of ESG related risks is delegated to the Investment Manager, who in turn delegates this to underlying investment managers.</p> <p>See Section 11, below, for the Trustee’s responsible investment and corporate governance statement.</p>



Type of Risk	Description	How is the risk monitored and managed?
Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustee considers fund returns relative to their benchmark and compared to the investment manager's stated target / expected tracking error. The Trustee monitors the performance of the investment vehicles on a regular basis.  The management of this risk is the responsibility of the Investment Manager.
Liquidity risk	The risk that the Scheme's assets cannot be realised at short notice in line with member or Trustee demand.	The Scheme is invested in daily dealt and daily priced pooled funds.  Where liquidity restrictions are required by the Investment Manager, the Trustee works with their administrator and advisers to ensure the best outcomes for members.
Pension Conversion risk	The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustee makes available three lifestyle options for members.  Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.

The above items listed in Section 5 of this Statement are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

The Trustee has considered these risks when choosing the funds to make available to members. The Trustee believes that the investment strategy for the Scheme is appropriate for mitigating and managing the risks outlined above.

The Trustee pays close regard to the risks that may arise from the lack of diversification of investments. The Trustee believes that the choice of funds in place provide an adequately diversified distribution of assets.

The Trustee recognised that many of these risks are inherent to investing and understands that the above list is not exhaustive.

### Investment Restrictions

- 5.13 The Trustee recognises that it is not possible to specify investment restrictions where assets are managed via pooled funds. For the DC Section, it is noted that this is particularly true given that it is Legal & General, the Scheme’s investment platform provider, who has the direct relationship with the third parties offering the funds (and not the Trustee).

### Implementation, Realisation of Investments and Engagement Policy

- 5.14 Within the DC Section of the Scheme, the Trustee has contracted with Legal & General to deliver DC investment management services. Legal & General are regulated by the Financial Conduct Authority (the “FCA”).

The pooled investment vehicles are daily-dealt, with assets mainly invested in regulated markets and therefore should be realisable at short notice, based on either Trustee or member demand. The selection, retention and realisation of investments within the pooled investment vehicles is the responsibility of the relevant investment manager.

The below table sets out the Trustee’s approach to implementation and engagement. The list below is not exhaustive, but covers the main areas considered by the Trustee.

Policy statement	Trustee’s Approach
<p><b>How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee’s policies</b></p>	<p>The Trustee appoints underlying investment managers based on their capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer’s manager research rating reflects Mercer’s forward-looking assessment of a manager’s ability to meet or exceed their objectives.</p> <p>As the Trustee invests in pooled investment vehicles, it accepts that it has no ability to influence investment managers to align their decisions with the Trustee policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.</p> <p>The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.</p> <p>If the investment objective for a</p>

Policy statement	Trustee's Approach
	<p>particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.</p>
<p><b>How the 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</b></p>	<p>The Trustee expects investment managers to incorporate the consideration of longer-term factors, such as ESG considerations, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity.</p>
<p><b>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 Trustee's policies</b></p>	<p>The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustee reviews both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons. The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. If performance is not satisfactory, the Trustee will ask the fund manager to provide additional rationale, and if not satisfied with this, may request further action be taken, including a review of fees.</p> <p>The Trustee reviews the absolute performance, relative performance against a suitable benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net of fees basis. Whilst the Trustee's focus is on long-term performance, they also take shorter-term performance into</p>

Policy statement	Trustee's Approach
	account.
<p><b>How the Trustee monitors portfolio turnover costs incurred by the asset manager.</b></p>	<p>Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.</p>
<p><b>How the Trustee defines and monitors targeted portfolio turnover or turnover range.</b></p>	<p>The Trustee does not currently define target portfolio turnover ranges for funds.</p>
<p><b>How the Trustee defines and monitors the duration of the arrangement with the asset manager.</b></p>	<p>The Trustee is a long term investor, all DC funds are open-ended and therefore there is no set duration for manager appointments.</p> <p>The funds are reviewed on a regular basis, supported by advice from the investment consultants.</p> <p>The Trustee may choose to remove a fund from the fund range, if it is no longer considered appropriate, and the fund range is reviewed on at least a triennial basis.</p>

### Compliance with this Statement

- 5.15 The Trustee will monitor compliance with this Statement annually, or immediately after any change in strategy.

### Review of this Statement

- 5.16 The Trustee will review this Statement at least once every three years and after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

## 6 Default Investment Options

6.1 For members who do not wish to take an active role in investment decisions, the Trustee offers three default investment options which should broadly meet the needs and reflect the likely benefit choices of the typical member.

6.2 The aims of the default investment options, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate positive nominal long-term returns in excess of inflation during the growth phase of the lifestyle strategy.

*The default strategies' growth phase structure invests in equities. These investments are expected to provide growth and some protection against erosion in both real and nominal terms.*

- To generate positive nominal long-term returns in excess of inflation during the growth phase of the lifestyle strategy whilst managing downside risk.

*The default strategies' consolidation phase structure invests in a diversified growth fund. These investments are expected to provide growth with some downside protection and some protection against erosion in both real and nominal terms. This is achieved via automated lifestyle switches by phasing in the diversified growth fund at 15 years prior to retirement, for a period of 5 years.*

- To provide a strategy that reduces investment risk for members as they approach retirement. See Section 5.9 for further details.

6.3 Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default investment options, the Trustee has explicitly considered the trade-off between risk and expected returns.

6.4 Assets in the default investment options are invested in the best interests of members and beneficiaries, taking into account the profile of members.

6.5 In particular, the Trustee considered detailed membership profiling analysis in order to inform decisions regarding the default investment options. For example, based on this understanding of the DC membership, a default investment option which targets income drawdown is appropriate for DC only members, whereas members with past DB service will be defaulted into one of three strategies depending on their past DB service relative to the number of years until their Selected Retirement Date at the point of allocation. Members are supported by clear communications regarding the aims of each default investment option and the access to alternative approaches. The Trustee will continue to review the default investment options over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

### Lifestyle Matrices

6.6 Members can only invest in one of the lifestyles or the Self Select option at any one time. The lifestyle strategies all have the same growth and consolidation phases, which are as follows:

#### Growth phase

6.7 The growth phase invests 100% in the GKN Growth Fund up to 15 years before a member's Selected Retirement Date.

The GKN Growth Fund has the following fund allocation:

- L&G Future World Global Equity Index Fund (GBP Hedged) (see Section 11) – 50%
- L&G UK Equity Index Fund – 5%
- L&G World Ex-UK Equity Index Fund – 45%

### Consolidation phase

- 6.8 The consolidation phase gradually disinvests from the GKN Growth Fund over a period of 5 years, until it invests 100% in the GKN Diversified Fund at 10 years before a member's Selected Retirement Date. It invests 100% in the GKN Diversified Fund up to 5 years before a member's Selected Retirement Date.

The GKN Diversified Fund has the following fund allocation:

- GKN Growth Fund – 30%
- L&G Property Fund – 10%
- L&G All Stocks Gilt Index Fund – 15%
- L&G AAA-AA-A Corporate Bond All Stocks Index Fund – 10%
- L&G High Income Fund – 5%
- L&G Sterling Liquidity Fund – 5%
- L&G Diversified Fund – 25%

The GKN Diversified Fund is phased in with the following proportions:

Years to Retirement	GKN Growth Fund (%)	GKN Diversified Fund (%)
>15	100	0
14	80	20
13	60	40
12	40	60
11	20	80
10 – 5	0	100

### Pre-retirement phase

- 6.9 The pre-retirement phase disinvests differently according to each lifestyle option. All members are defaulted to one lifestyle depending on how much past DB service they have relative to their remaining Selected Retirement Date.

### Drawdown Lifestyle

Years to Retirement	GKN Diversified Fund (%)	GKN Cash Fund (%)
5	100	0
4	95	5
3	90	10
2	85	15
1	80	20
0	75	25

### Partial Drawdown Lifestyle

Years to Retirement	GKN Diversified Fund (%)	GKN Cash Fund (%)
5	100	0
4	87.5	12.5
3	75.0	25.0
2	62.5	37.5
1	50.0	50.0
0	37.5	62.5

### Cash Lifestyle

Years to Retirement	GKN Diversified Fund (%)	GKN Cash Fund (%)
5	100	0
4	80	20
3	60	40
2	40	60
1	20	80
0	0	100

## 7 Self-Select Options

- 7.1 The Trustee utilises funds made available by Legal & General (the Provider), through their investment platform.
- 7.2 The Trustee has effectively delegated day to day investment decisions to the Investment Managers via the Provider.

7.3 The underlying funds chosen by the Trustee to be made available to members are pooled fund vehicles operated by the following Investment Managers:

- Legal & General Investment Management (“LGIM”)
- HSBC
- Columbia Threadneedle

7.4 The Provider accesses these funds by means of investment management or re-assurance agreements with the managers.

The investment funds used and their Investment Managers are:

<b>Fund category</b>	<b>Underlying Fund names</b>	<b>Fund manager</b>	<b>Active or passive</b>
Global Equity	L&G World (ex UK) Equity Index Fund	L&G	Passive
Factor-Based Global Equity with climate overlay	L&G Future World Fund	L&G	Passive
UK Equity	L&G UK Equity Index Fund	L&G	Passive
Emerging Market Equity	L&G World Emerging Markets Equity Index Fund	L&G	Passive
Islamic Equity	HSBC Islamic Global Equity Index Fund	HSBC	Passive
Diversified Growth	Threadneedle Dynamic Real Return Fund	Columbia Threadneedle	Active
Property	L&G UK Property Fund	L&G	Active
Government Bonds	L&G All Stocks Gilt Index Fund	L&G	Passive
Corporate Bonds	L&G AAA-AA-A Corporate Bond All Stocks Index Fund	L&G	Passive
High Income	L&G High Income Fund	LGIM	Active
Cash	L&G Sterling Liquidity Fund	L&G	Passive

7.5 The Trustee is satisfied that the spread of assets by type and the Investment Managers’ policies on investing in individual securities within each type provides adequate diversification of investments for members.

7.6 The performance objectives and benchmarks of these funds are described in Appendix A to this Statement.

## 8 Day-to-Day Management of the Assets

8.1 The Trustee delegates the day to day management of the assets to the Provider and the underlying Investment Managers. The Trustee has taken steps to satisfy themselves that the Provider and underlying fund managers have the appropriate knowledge and



experience for managing the Scheme's investments and that they are carrying out their work competently.

- 8.2 The Trustee regularly reviews the continuing suitability of the Scheme's investments including the appointed Provider and the funds utilised, and these may be amended from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that targeted.

## 9 **Expected Return**

- 9.1 The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of investment options offered to members should provide a spread of risk and return levels suitable for the membership as a whole. Most asset classes are expected to provide long term real growth to enhance member outcomes.

## 10 **Investment Restrictions**

- 10.1 Given that the Scheme invests solely in pooled funds, the Trustee acknowledges that they have no ability to restrict the holdings of the pooled funds. The Trustee has considered the investment restrictions attaching to each of the pooled funds prior to investing in the pooled funds and are comfortable with these.

## 11 **Environmental, Social, and Corporate Governance, Stewardship, and Climate Change**

- 11.1 The Trustee believes that good stewardship can create and preserve value for companies and markets as a whole and can therefore enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

- 11.2 The Trustee believes that Environmental, Social and Corporate Governance ("ESG") issues may have a material impact on investment risk and return outcomes, thereby affecting the performance of investment portfolios and should therefore be considered as part of the Scheme's investment process.

- 11.3 The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

- 11.4 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers. The Trustee's policy is that the extent to which ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, are taken into account in these decisions is left to the discretion of the investment managers.

- 11.5 However, the investment managers who are registered with the FCA are expected to act in accordance with their own corporate governance policies and current best practice, as well as comply with the UK Corporate Governance Code and UK Stewardship Code, including public disclosure of compliance via an external website.

- 11.6 The Trustee will also consider the Investment Consultant's assessment of how the investment managers embeds ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policies on voting and

engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

- 11.7 Member views are not taken into account in the selection, retention and realisation of investments.

## 12 Buying and Selling Investments

- 12.1 The Investment Managers have responsibility for buying and selling the underlying assets. As noted, day-to-day activities of the Investment Managers are governed by the arrangement between Investment Managers and the platform Provider.

## 13 Fees

- 13.1 The Provider deducts a fund management charge (“FMC”) from the units held before unit prices are set and expressed as a percentage per annum of the total funds under management in each fund. Since the arrangement is bundled, the Provider also deducts an annual management charge (“AMC”) to cover administration, communication and governance fees. The AMC is 0.08% p.a. and this is charged in addition to the FMC.

- 13.2 The current fee scales negotiated with the Scheme’s Provider is set out below.

<b>Fund category</b>	<b>Fund names</b>	<b>Fund manager</b>	<b>FMC<sub>1</sub> %</b>
<b><i>Default Funds</i></b>			
Global Equity	GKN Growth Fund	L&G	0.15
Diversified Growth	GKN Diversified Fund	L&G	0.30
Cash	GKN Cash Fund	L&G	0.11
<b><i>Self-Select Funds</i></b>			
Global Equity	L&G World (ex UK) Equity Index Fund	L&G	0.12
Factor-Based Global Equity with climate overlay	L&G Future World Fund	L&G	0.24
UK Equity	L&G UK Equity Index Fund	L&G	0.10
Islamic Equity	HSBC Islamic Global Equity Index Fund	HSBC	0.35
Emerging Market Equity	L&G World Emerging Markets Equity Index Fund	L&G	0.25
Diversified Growth	Threadneedle Dynamic Real Return Fund	Columbia Threadneedle	0.55
High Income	L&G High Income Fund	LGIM	0.30
Property	L&G UK Property Fund	L&G	1.28
Government Bonds	L&G All Stocks Gilt Index Fund	L&G	0.08
Corporate Bonds	L&G AAA-AA-A Corporate Bond All Stocks Index Fund	L&G	0.12
Cash	L&G Sterling Liquidity Fund	L&G	0.11

**1 Excludes any additional expenses**

13.3 The Scheme's DC Investment Consultant is remunerated on a project-by-project basis and their fees can vary from year to year according to the level of activity required.

13.4 The fees will be reviewed when there is a change to the funds made available to members or to the Provider appointed by the Trustee and/or when there is a change to the fee scale agreed between the Trustee and Provider.

**14 Compliance with this Statement**

14.1 The Trustee will monitor compliance with this Statement annually, or immediately after any material change in strategy. In particular, they will obtain written confirmation from the Provider that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the Investment Managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

**15 Review of this Statement**

15.1 The Trustee will review this Statement from time to time and at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

**September 2023**

## Appendix A – Fund Objectives and Benchmarks

The benchmarks and performance objectives for the underlying funds are as follows:

<b>Fund</b>	<b>Benchmark</b>	<b>Performance objective</b>
L&G Future World Fund	FTSE All-World ex CW Climate Balanced Factor Index	Track benchmark within +/-0.6% p.a.
L&G UK Equity Index Fund	FTSE All-Share Index	Track benchmark within +/-0.25% p.a.
L&G World (ex UK) Equity Index Fund	FTSE World (ex UK) Index	Track benchmark within +/-0.5% p.a.
L&G Future World Global Equity Index Fund (GBP Hedged)	Solactive L&G ESG Global Markets Index - GBP Hedged	Track benchmark within +/-0.6% for two years out of three.
L&G World Emerging Markets Equity Index Fund	FTSE Emerging Index	Track benchmark within +/- 1.5% p.a.
HSBC Islamic Global Equity Index Fund	Dow Jones Islamic Market Titans 100 TR Index	Track benchmark within +/-0.5% p.a.
Threadneedle Dynamic Real Return Fund	UK CPI + 4%	Return over CPI
L&G Diversified Fund	FTSE Developed World Index - 50% GBP Hedged *	England Base Rate +3.75% **
L&G High Income Fund	ICE BofA Global High Yield BB-B Rated (excluding financials) 2% Constrained Index	Exceed benchmark by 1.0% p.a.
L&G UK Property Fund	IA Sector: UK Direct Property (comparator benchmark)	Combination of income and capital growth
L&G All Stocks Gilt Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	Track benchmark within +/-0.25% p.a.
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	Markit iBoxx £ Non-Gilts (ex-BBB) Index	Track benchmark within +/-0.5% p.a.
L&G Sterling Liquidity Fund	Sterling Overnight Index Average	Money market rates

\*Legal & General compare the performance of the Fund against an equity comparator index as the long-term expected rate of return of the Fund is broadly similar to that of a developed market equity fund.

\*\*The fund is additionally shown against a secondary comparator of the Bank of England Base Rate +3.75% per annum as Legal & General expected rate of return can also be illustrated using 'risk-free returns' plus an 'equity risk premium'. The market consensus for the latter is accepted to be in the region of 3.5 – 4.0% p.a.

It is noted that the performance of the funds of the Provider may differ from the underlying parent funds.