

Engineering Employers' Federation Staff Pension Fund

Statement of Investment Principles ("SIP")

Purpose of this Statement

This SIP has been prepared by the Trustee of the Engineering Employers' Federation Staff Pension Fund (the "Fund"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Fund.

The Fund's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Details on the Fund's investment arrangements are set out in the Investment Implementation Document ("IID").

Governance

The Trustee of the Fund makes all major strategic decisions including, but not limited to, the Fund's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee's investment advisers, Isio Group Limited, are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Fund.

Investment objectives

The Trustee invest the assets of the Fund with the aim of ensuring that all members' current and future benefits can be paid. The Fund's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Fund's circumstances. The Fund's funding target is specified in the Statement of Funding Principles, which takes into consideration the specific profile and maturity of the Fund's liabilities

The Fund's present investment objective is to achieve a return of around 3.1% per annum above the return on a liability matching portfolio of UK Government bonds.

Investment strategy

The Trustee adopts an integrated risk management approach and takes a holistic approach to considering and managing risks when formulating the Fund's investment strategy.

The Fund's investment strategy was derived following careful consideration of the beliefs and factors set out in Appendices A and B. The considerations include the nature and duration of the Fund's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Fund, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes and managers.

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long-term, and also by investing in a suitably diversified portfolio of assets across a number of investment managers with the aim of minimising (as far as possible) volatility relative to the liabilities. Further risks considered are set out in Appendix B.

The assets of the Fund consist predominantly of investments which are traded on regulated markets.

Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Fund as listed in the IID. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee take investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Fund's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Fund's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Performance, Strategy and Risk

Method for monitoring and engagement

- The Trustee receives regular reporting which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.
- The Fund's investment managers are invited, in person, to present to the Trustee on their performance, strategy and risk exposures.

Circumstances for additional monitoring and engagement

- There are significant changes made to the investment strategy.

- The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.
- Underperformance vs the performance objective over the period that this objective applies.

Environmental, Social, Corporate Governance factors and the exercising of rights

Method for monitoring and engagement

- The Trustee's investment managers provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.
- The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.

Circumstances for additional monitoring and engagement

- The manager has not acted in accordance with their policies and frameworks.
- The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment managers' appointment and will consider terminating the arrangement.

Employer-related investments

The Trustee's policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Fund invests in collective investment Schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Fund's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from its investment advisers.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Funds (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed: Kate Hardingham

Date: 21 September 2020

Appendix A – Investment Beliefs

1. Investment strategy is the most important decision and should be based on clear objectives

Our long-term goal is to generate returns required to fund our members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are our central considerations.

Our strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

2 There is more to robust portfolio construction than diversification alone

Excessive diversification can introduce inefficiency, cost, and fail to protect our portfolio in a downturn.

Pay-off profile of assets: We tailor the expected pay-off profile of the Fund's investments around our required objectives.

Excess liquidity of our Fund: We utilise excess liquidity in order to access any illiquidity premium (when illiquidity is rewarded), taking into consideration known cash flow requirements and the need for flexibility.

True diversification: We optimise true diversification of underlying risk drivers.

3 We aim to select the most appropriate opportunities in the market

A strategy that buys the right asset, at a fair price, will serve us better than buying the wrong asset at a cheap price.

We consider the most appropriate potential market opportunities in order to help us achieve our long-term objectives.

4 A long-term mind-set can be used to enhance returns

As a long-term investor we pursue incremental growth that rewards adherence to our strategic plan, rather than pursuing short term opportunities rewarding speculation.

We will mitigate or manage risks that we are not rewarded for.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

5 Excessive costs will erode performance

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

6 Good governance improves our decision making

We continuously strive to enhance our knowledge of the investment opportunities and risks facing the Fund.

We monitor the performance of our strategy and investment managers to improve our decision making.

7 Our investment process reflects our beliefs on responsible investing and Stewardship

We consider environmental, social and corporate governance factors when selecting, monitoring and engaging in the investments we make.

Appendix B – Risks, Financially Material Considerations and Non-Financial Matters

A non-exhaustive list of risks and financially material considerations that the Trustee have considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

| Risks | Definition | Policy |
|--------------|---|--|
| Investment | The risk that the Fund's position deteriorates due to the assets underperforming. | <ul style="list-style-type: none"> • Selecting an investment objective that is achievable and is consistent with the Fund's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets. |
| Funding | The extent to which there are insufficient Fund assets available to cover ongoing and future liability cash flows. | <ul style="list-style-type: none"> • Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time. |
| Covenant | The risk that the sponsoring company becomes unable to continue providing the required financial support to the Fund. | <ul style="list-style-type: none"> • When developing the Fund's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Fund is exposed to is at an appropriate level for the covenant to support. |

The Fund is exposed to a number of underlying risks relating to the Fund's investment strategy, these are summarised below:

| Risk | Definition | Policy |
|------------------------------|---|--|
| Interest rates and inflation | The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations. | To broadly fully hedge these risks on the Technical Provisions basis through the LDI mandate. |
| Liquidity | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment. | To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members' benefits as they fall due (including transfer values), and to provide collateral to the LDI and synthetic equity manager. |

| | | |
|--------------------------------------|--|---|
| Market | Experiencing losses due to factors that affect the overall performance of the financial markets. | To remain appropriately diversified and hedge away any unrewarded risks, where practicable. |
| Credit | Default on payments due as part of a financial security contract. | To diversify this risk by investing in a range of credit markets across different geographies and sectors. |
| Environmental, Social and Governance | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Fund's investments. | To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory |
| Currency | The potential for adverse currency movements to have an impact on the Fund's investments. | To invest in funds that hedge the majority of currency risk as far as practically possible. |
| Non-financial | Any factor that is not expected to have a financial impact on the Fund's investments. | Non-financial matters are not taken into account in the selection, retention or realisation of investments. |

Appendix C – Manager Remuneration

The Trustee has the following policies in relation to the investment management arrangements for the Fund:

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| <p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.</p> | <ul style="list-style-type: none"> • As the Fund is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. • The Scheme’s mandates for Direct Lending and Infrastructure Equity are subject to a performance related fee. |
| <p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p> | <ul style="list-style-type: none"> • The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance. |
| <p>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.</p> | <ul style="list-style-type: none"> • The Trustee will review the performance of all of the Fund’s investments on a net of cost basis to ensure a true measurement performance versus investment objectives. The Trustee will evaluate performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years. |
| <p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range,</p> | <ul style="list-style-type: none"> • The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. |
| <p>The duration of the Fund’s arrangements with the investment managers.</p> | <ul style="list-style-type: none"> • The duration of the arrangements is considered in the context of the type of fund the Fund invests in. <ul style="list-style-type: none"> ○ For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee’s objectives and the Fund’s liquidity requirements. ○ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held. |