Lansing Linde Pension Scheme – DB Section

Statement of Investment Principles – September 2020

1. Introduction

1.1 This Statement has been prepared by the Trustees of the Lansing Linde Pension Scheme (the "Scheme"). It sets out the principles that govern our decisions about the investment of the Scheme's Defined Benefit Section assets. We will refer to this Statement when making investment decisions, to ensure that they are consistent with these principles.

1.2 This Statement is designed to meet the requirements of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. A separate Statement covers the assets of the DC Section.

1.3 The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document ("IPID") which is available to Scheme members on request.

1.4 In preparing this Statement, the Trustees have obtained advice from the Scheme's Investment Consultant. Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary. We will obtain similar advice whenever we review this Statement.

1.5 The Trustees' investment powers are set out within the Scheme's governing documentation and relevant legislation. If necessary, the Trustees will take legal advice regarding the interpretation of these. We note that, according to the law, we have ultimate power and responsibility for the Scheme's investment arrangements.

1.6 We will seek to maintain a good working relationship with the Employer, Linde Material Handling (UK) Ltd. and we will discuss any proposed changes to this Statement with the Employer. However, our fiduciary obligations to Scheme members will take precedence over the Employer's wishes, should these ever conflict.

1.7 The Trustees support the Myners Code of Best Practice and review their processes against it.

1.8 The Trustees do not expect to revise this Statement frequently because it covers broad principles. We will review it at least once every three years, and without delay if there are relevant, material changes to the Scheme and/or the Employer. These include changes in the Scheme's liabilities and finances and in the attitude to risk of the Trustees or the Employer.

2. Fund Governance

2.1 The Trustees have appointed a firm of professional consultants (the "Investment Consultant") to provide relevant advice to the Trustees. We also take advice as appropriate from the Scheme Actuary and other professional advisers.

2.2 The Trustees retain direct responsibility for setting investment objectives, establishing risk and return targets and setting the Scheme's strategic benchmark and investment manager structure. The Trustees implement them under delegated powers by retaining and monitoring investment managers, custodians and other service providers.

2.3 The Investment Managers are responsible for day-to-day management of the Scheme's assets in accordance with guidelines agreed with the Trustees. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The Investment Managers report to the Trustees regularly regarding their performance.

2.4 Custodians are responsible for the safekeeping of the Scheme's assets, both individual securities and holdings in collective vehicles, and for performing the associated administrative duties such as trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting. The Trustees will only invest in collective investment vehicles where we are satisfied that appropriate procedures are in place for selecting and monitoring the custodian(s) of the underlying assets.

2.5 The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme. Full details of the current funding strategy and contributions payable are set out in the Statement of Funding Principles and Schedule of Contributions.

2.6 Fees for the Investment Consultant and the Scheme Actuary are determined in line with agreed hourly rates, with agreed fees for particular projects.

2.7 Custodian fees are a combination of a percentage of assets plus transaction related charges.

2.8 Investment management fees are charged as a percentage of the assets under management or in the case of the Private Investment Partners ("PIP") Private Debt Fund, based on the capital commitment. The PIP Private Debt Fund also includes a performance fee.

3. Strategy Setting

3.1 The Trustees undertake regular investment strategy reviews. These reviews ensure investment strategy is consistent with the funding strategy. In addition, the Trustees consider an appropriate level of investment risk to take relative to the Scheme's liabilities.

4. Investment Objectives

4.1 The Trustees' primary investment objective is to invest the Scheme's assets in such a manner that members' benefit entitlements can be paid as and when they fall due.

4.2 The Trustees have the following aims:

4.2.1 Over the long-term, to restore the Scheme's least risk funding position. As the Scheme matures, this objective will increase in importance;

4.2.2 Over the medium term, to consider an acceptable balance between contributions and investment returns towards achieving this goal;

4.2.3 Over the short term, to consider the implications of adopting this investment strategy on the Scheme's ongoing funding position and recommended contribution rate.

5. Risk

5.1 The Trustees recognise and monitor the following risk and return objectives:

5.1.1 The risk of deterioration in the Scheme's least risk funding level.

5.1.2 The risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets.

5.1.3 The risk that the assets will not achieve the rate of investment return expected by the Scheme Actuary, resulting in a higher than expected cost to the Employer.

5.1.4 The risk of volatility in the Employer's contribution rate and the implication of this to the Employer and the security of members' benefits.

5.1.5 The risk of deterioration in the ability of the Employer to support the Scheme.

6. Diversification of risks

6.1 In addition to targeting an appropriate overall level of investment risk, we seek to spread risks across a range of different sources. We aim to take on those risks for which we expect to be rewarded over time, in the form of excess returns. We believe that diversification limits the impact of any single risk

6.2 Among the asset classes that we have considered for the Scheme's investments are:

6.2.1 UK Government bonds – although UK Government bonds are the lowest risk asset relative to the Scheme's liabilities, they are not risk free. *Interest rate risk* exists if the cash flow profile of the UK Government bonds held differs from that of the projected liabilities. *Inflation risk* exists if the assets and projected liabilities have different linkages to inflation.

6.2.2 Other bonds and debt – in addition to interest rate risk and inflation risk, investing in certain bonds may introduce *credit risk* and *currency risk*. Credit risk reflects the possibility that the payments due under the bond might not be made by the

borrower. Currency risk will arise through investment in non-Sterling bonds, given the Scheme's liabilities are denominated in Sterling, because changes in exchange rates will impact the relative value of the assets and liabilities. Included in these assets may be loans and debt which may not publically traded.

6.2.3 Equities – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities is captured in the form of the *equity mismatch risk*. The equity mismatch risk may be broken down into the credit risk of the underlying company, and the *volatility risk* associated with the stability of the price of the equity as well as currency risk for equities denominated in currencies other than Sterling among other risks.

6.2.4 Alternatives – the Scheme may also invest in other alternative investments for example through diversified growth funds or absolute return funds. The selection of these assets will be delegated to managers but could include private investments (debt or equity), property, and loans. Derivatives may also be used for the purpose of efficient portfolio management or risk mitigation.

6.3 For some asset classes, we have chosen to employ active management. We have selected investment managers whom we believe have the skill and judgement to add value net of fees, to manage this mandate. Active management gives rise to *active risk*, examples of which are:

6.3.1 Active management within an asset category, defined as holding a combination of securities that differs from the asset class benchmark.

6.3.2 Active management across asset categories, which arises when the combination of asset categories held differs from that of the benchmark.

6.3.3 Manager selection risk, which arises due to the potential for selecting an active manager that underperforms its benchmark net of management and transaction fees.

6.4 Investment in foreign markets introduces *currency risk* which is managed through the total allocation to these markets and currency hedging. This arises from investment in global equities (50% of exposure is hedged to Sterling), private debt, absolute return bonds (hedged to Sterling) and buy and maintain corporate bonds (hedged to Sterling).

6.5 Across all of the Scheme's investments, we are aware of the potential for regulatory and political risks. *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes.

6.6 The Trustees recognise that there is *liquidity risk* in holding assets that are not readily marketable and realisable. Given the Trustees' long-term investment horizon, we believe that a degree of liquidity risk is acceptable because we expect to be rewarded for assuming it.

6.7 We are also aware of *concentration risk* which arises for example when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class. This does not apply to debt issued by the UK Government.

6.8 The Trustees also recognise that *risks relating to climate change* may have a financially material impact on the value of investments, arising from both the physical consequences of climate change as well as the impact from the associated transition to a low-carbon economy.

6.9 Investment in derivatives is permitted for risk reduction purposes or to facilitate efficient portfolio management. In particular, the Trustees have agreed that they are comfortable with the use of financial derivatives for the purpose of managing the risk of changes in long term interest rates and inflation expectations within pooled funds. Investments may be made in securities that are not traded on regulated markets.

6.10 The Trustees acknowledge that it is not possible to monitor all the risks listed above at all times. However, we seek to take on those risks we expect to be rewarded for over time, in the form of excess returns, in a diversified manner. The resulting combination of assets and investment management approaches has been selected to be consistent with the Trustees' investment objective, risk tolerance and return target.

7. Strategic investment benchmark and investment manager structure

7.1 The Trustees maintain a strategic investment allocation taking into account the risks and potential returns identified above.

7.2 Scheme assets are divided amongst different types of manager. The overall investment manager structure is set out in detail in the IPID.

8. Investment managers

8.1 Day-to-day management of the assets is delegated to professional Investment Managers who are all regulated by the Financial Conduct Authority (the "FCA"). The current investment managers are listed in the IPID.

8.2 The Investment Managers have full discretion to buy and sell investments on behalf of the Scheme, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured. The IPID gives details of each Investment Manager's mandate as set out in their respective investment management agreements.

8.3 Our main objectives when considering the selection of Investment Managers are as follows:

8.3.1 To select a combination of investment products that together (though not necessarily individually) would generate the maximum net of fees added value over the benchmark, given the Scheme Trustees' tolerance for risk.

8.3.2 To employ highly-rated Investment Managers, according to the investment Consultant's research, wherever possible (subject to 8.3.1).

8.3.3 To minimise potential transition costs by retaining the incumbent managers where possible (subject to (8.3.1) and (8.3.2) above), but allowing for the fact that the cost of making a change can easily be outweighed by superior future performance.

8.4 Where assets are managed on a segregated basis, we are able to tailor the nature of the investment mandate and restrictions on how assets are managed to the Scheme's specific requirements.

8.5 We accept that it is not usually possible to specify investment restrictions where assets are managed via pooled vehicles. Nevertheless, notwithstanding how the assets are managed we will take appropriate legal and investment advice regarding the initial and ongoing suitability of the investment management agreements and relevant investment vehicles.

8.6 The Trustees have agreed that the use of leverage is appropriate as part of the Scheme's liability matching solution to enable target hedge ratios (for interest rate and inflation exposure) to be achieved and maintained. The Trustees have not set a formal target with respect to the use of leverage but will monitor actual leverage levels over time.

8.7 We assess the continuing suitability of the Scheme's Investment Managers. We meet each investment manager in a regular cycle to discuss their performance, activity and wider issues. The Investment Consultant provides help in monitoring the Investment Managers, both in the form of written reports and attendance at meetings.

8.8 The Trustees will review the appointment of any Investment Manager for any reason we consider appropriate. These will include, but will not be limited to:

8.8.1 Breach of investment guidelines

8.8.2 Changes to the investment management process, personnel or business management of the Investment Manager that lead to a loss of confidence in the Investment Manager's ability to outperform its benchmark over a full market cycle

8.8.3 Changes to the investment management process that result in the Investment Manager no longer being suitable for the mandate for which they were appointed

8.9 The Trustees will monitor the Investment Managers' compliance with this Statement annually. In particular, we will seek written confirmation from the Investment Managers that they have exercised their discretionary powers of investment in accordance with applicable legislation and given effect to the principles in the Statement so far as reasonably practicable. We have undertaken to advise the Investment Managers of any material change to this Statement.

9. Additional Voluntary Contribution Assets ("AVCs")

The Scheme provides a facility for members to pay AVCs to enhance their benefits at retirement. The Trustees' objective is to provide a range of funds, which will provide a suitable long-term return for members, consistent with members' reasonable expectations.

In keeping with their policy for the main Scheme assets, the Trustees' policy is to seek to achieve the objective by allowing members to invest in a suitable mixture of real and monetary assets.

With the assistance of the Scheme's consultants, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the Scheme remains consistent with the objectives of the Trustees and the needs of the members. More information on the AVC providers is detailed in the IPID.

10. ESG, Stewardship (including Engagement Activities) and Climate Change

10.1 The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. This applies to both equity and debt investments.

10.2 The Trustees have delegated the day to day management of a proportion of the Defined Benefit assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. Mercer is expected to consider ESG factors in appointing managers to these portfolios. The underlying investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

10.3 The Trustees have appointed Insight to manage the remainder of the assets. Insight are given discretion to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations in line with the requirements detailed above for the underlying investment managers.

10.4 The Trustees engage with Mercer and Insight on these issues through (amongst other things) meetings and periodic correspondence and will monitor investment manager engagement activity at least annually. This covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance

10.5 The Trustees consider how ESG, climate change and stewardship are integrated within Insight's and Mercer's investment processes and those of the underlying managers in the monitoring process. Mercer and Insight are expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and relevant climate-related metrics which may include carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

10.6 ESG considerations are included in the Trustees' quarterly monitoring of their investment managers. In any future manager selection exercise, the Trustees will include ESG considerations in the selection criteria.

10.7 In considering their responsible investment policies, the Trustees will consider relevant policies from the Employer, for example its sustainability policy.

11. Investment Manager Arrangements

Objectives and Incentivisation

11.1 Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

11.2 The Trustees seek expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

11.3 The Trustees invest in multi-investor pooled investment vehicles and accept that they have little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee's own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

11.4 The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice.

11.5 For each appointment retention is dependent upon the Trustees having ongoing confidence that the investment manager will achieve its investment objective. The Trustees make this assessment taking into account various factors that include performance to date as well as an assessment of future prospects.

11.6 Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees' policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Performance Assessment & Fees

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

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

11.9 As well as assessing investment returns the Trustees will consider a range of other factors, with the assistance of their investment adviser, when assessing investment managers, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Engagement activity;
- Service standards;
- Operational controls; and
- The adviser's assessment of ongoing prospects based on their research ratings.

11.10 The investment managers are remunerated by way of a fee calculated as a percentage of assets under management and, for private debt, a performance fee. The principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive the associated fee. The Trustees will consider any performance related fees on a case by case basis and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

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

11.12 The Trustees have not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees will seek explicit reporting on ongoing costs for all appointed managers.

11.13 The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via their investment consultant.

12. Compliance with this Statement

The Trustees monitor compliance with this Statement on a regular basis. Regular monitoring of the assets against the investment strategy will be provided in quarterly reports prepared by Mercer for the Trustees.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and immediately after any material change in any aspects of the Scheme. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

The Trustees of the Lansing Linde Pension Scheme