Textron UK Pension Plan

Statement of Investment Principles

October 2023

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1 Introduction

Plan background

- This Statement of Investment Principles (the "Statement"/ the "SIP") details the principles governing investment decisions for the Textron UK Pension Plan (the "Plan").
- The Plan:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on a defined benefit (DB) basis,
  - is closed to new entrants.
- Buck is investment consultant to the Trustee.

Regulatory requirements and considerations

- This Statement covers the requirements of, and the Plan's compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of "Institutional Investing in the UK", the results of which were first published in 2001 (referred to as the "Myners Principles").
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustee is complying with this requirement.
- In respect of the additional voluntary contributions provided on a money-purchase basis within the Plan, the Trustee has taken into account the requirements and recommendations within the Pension Regulator's DC code and regulatory guidance.

Responsibilities and appointments

- Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Plan. The Trustee draws on the expertise of external persons and organisations including the investment consultant, investment managers and the Scheme Actuary. Full details are set out in this SIP.

Consultation

- In accordance with the Act, the Trustee has obtained and considered written advice from Buck Consultants (Administration & Investment) Limited (the investment consultant) prior to the preparation (or revision) of this SIP and has consulted the Sponsoring Employer. However, it should be noted that neither the Trustee (nor any investment manager to whom it has delegated any discretion to make decisions about investments) shall require the consent of the Sponsoring Employer to exercise any investment power.

Review

- The Trustee will review this SIP at least every three years and without delay after each significant change in investment policy, taking note of any changes in the Plan's liabilities. Once agreed, and after consultation with the Sponsoring Employer, a copy of this SIP will be given to the Scheme Actuary, will be made available on a publicly available website, and will be made available to Plan members on request.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

- In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted the Sponsoring Employer.

- The Trustee will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Plan's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustee Directors.

Key investment principles

Kind of investments to be held

- The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

- The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes (including derivative instruments), these attributes being:

  – quality of the investment,

  – expected long-term return,

  – volatility of return,

  – term of the investment,

  – exchange rate risk,

  – liquidity,

  – taxation.

- The Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Plan.

Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustee believes that collective responsibility is the appropriate structure, given the size of the board, except for specific projects when an investment sub-committee may be set up. The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee Director.

- All investment decisions relating to the Plan are under the Trustee's control without constraint by the Sponsoring Employer. The Trustee is obliged to consult with the Sponsoring Employer when changing this Statement.

- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on the Trustee's behalf is suitable for the Plan, and appropriately diversified.

Investment Objectives and Suitability of Investments:

- The Plan's investment strategy has been agreed by the Trustee having taken into consideration the advice from the investment consultant and takes due account of the Plan's liability profile along with the level of disclosed surplus or deficit.

- The Trustee's agreed investment strategy is based on an analysis of the Plan's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Trustee's primary objectives are:

  – to provide benefit payment security for all beneficiaries,

  – to achieve long-term growth sufficient to provide the benefits from the Plan, and

  – to achieve an appropriate balance between risk and return with regards to the cost of the Plan and the security of the benefits.

- The Trustee has translated its objectives into a suitable asset allocation for the Plan.

- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions have been delegated to investment managers authorised under the Act.

- The Trustee is responsible for reviewing both the Plan's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Plan's investment consultant. The Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

- The Trustee considers the Plan's current asset allocation to be consistent with the current financial position of the Plan. This assessment will be updated with reference to the Technical Provisions set out in the Plan's Statement of Funding Principles once the next actuarial valuation has been completed. "Technical provisions" is the value of the Plan's liabilities for funding purposes as at the latest available Plan-specific actuarial valuation date.

Diversification

- The Trustee, after seeking appropriate investment advice, has selected an asset allocation for the Plan.

- Subject to their respective benchmarks and guidelines the investment managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.

- The Trustee is satisfied that the investments selected are consistent with its investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Plan, the Trustee has decided to invest the Plan's assets on a pooled fund basis. All such investments are effected through a direct agreement with the investment managers and/or through an insurance contract.

- The Trustee is satisfied that the range of vehicles in which the Plan's assets are invested provides adequate diversification.

Risk

- The Trustee considers the main risk to be that of the assets being insufficient to meet the Plan's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.

- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Plan's Technical Provisions.

- In determining its investment strategy, the Trustee has taken into consideration advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Plan's liability profile, as well as the expected returns underlying the most recent actuarial valuation.

- Although the Trustee acknowledges that the main risk is that the Plan will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. Namely the risk:

  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,

  - of the Plan having insufficient liquid assets to meet its immediate liabilities,

  - of the investment managers failing to achieve the required rate of return,

  - of insufficient diversification of investments,

  - of failure of the Plan's Sponsoring Employer to meet its obligations.

- The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

- The Trustee undertakes monitoring of the investment managers' performance against its targets and objectives on a regular basis.

- Each fund in which the Plan invests has a stated performance objective by which investment performance will be measured. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

- The Plan's asset allocation is reviewed and discussed with the investment consultant at each Trustee meeting, and a decision will be made at that time whether to adjust the Plan's assets.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to maintain a fully funded status under the agreed assumptions.

Realisation of investments

- In the event of an unexpected need to liquidate all or part of the assets of the portfolio, the Trustee requires the investment managers to be able to liquidate the Plan's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Plan. The majority of the assets are not expected to take an undue time to liquidate.

Investment Manager Monitoring

- The Trustee will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustee with the assistance of the investment consultant.

- The investment managers will provide the Trustee with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Trustee.

- The investment managers will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds used by the Plan as and when they occur.

- The Trustee will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.

- Appropriate written advice will be received from the investment consultant before the review, appointment or removal of the investment managers.

The Trustee's policy in relation to their investment managers

- In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment managers, the Trustee considers how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment manager to align their investment strategy and decisions with the Trustee's policies

- The Trustee has delegated the day to day management of the Plan's assets to investment managers. The Plan's assets are invested in pooled funds which have its own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to its stated policies and objectives.

How the arrangement incentivises the investment managers to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustee, in conjunction with its investment consultant, appoints its investment managers and chooses the specific pooled fund to use in order to meet specific Plan policies. It expects that its investment managers make decisions based on assessments about the financial and non-financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Plan's performance) over an appropriate time horizon.

- The Trustee also expects its investment managers to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

How the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for asset management services are in line with the Trustee's investment policies

- The Trustee expects its investment managers to invest the assets within its portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustee reviews investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee's policies, it will make its concerns known to the investment manager and may ultimately disinvest.

- The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, considers the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

How the Trustee monitors portfolio turnover costs incurred by the investment managers, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Plan on an annual basis. The Trustee receives a report which includes the turnover costs incurred by the investment managers used by the Plan.

- The Trustee expects turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Trustee does not in general enter into fixed long-term agreements with its investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Performance Monitoring

- Each of the funds in which the Plan invests has a stated performance objective against which the performance is measured.

- The Trustee will review the performance of the investment managers from time to time, based on the results of their performance and investment process.

- The investment managers are expected to provide written reports on a quarterly basis.

- The Trustee receives an independent investment performance monitoring report from its investment consultant on a quarterly basis.

Balance between different kinds of investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

Financially material considerations

- The Trustee expects its investment managers to consider the financial implications of environmental, social, and governance factors as part of their investment analysis and decision making process.

- The Trustee has reviewed the investment managers' policies in respect of financially material considerations and is satisfied that they are consistent with the above approach.

Non-financial matters

- The Trustee's objective is that the financial interests of the Plan members is its first priority when choosing investments.

Stewardship in relation to the Plan's assets

- The Trustee has a fiduciary duty to consider its approach to the stewardship of the investments, to maximise financial returns, within an acceptable level of risk, for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through its investment managers.

Engagement and monitoring

- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and it expects the investment managers to use their discretion to maximise financial returns for members and others over the long term. The Trustee has not set out its own stewardship priorities but follows that of the investment managers.

- The Trustee will review the stewardship / voting policies and behaviour of the investment managers and undertaking the ongoing monitoring and engagement with its investment managers as appropriate, with the assistance of the investment consultant.

- The Trustee will engage with an investment manager should they consider that manager's voting and engagement policy to be inadequate or if the voting and engagement undertaken is not aligned with the investment manager's own policies, or if the investment manager's policies diverge significantly from the views of the Trustee from time to time.

Voting Rights attaching to Investments

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity.

Additional Voluntary Contributions (AVCs)

- The Trustee has full discretion as to the appropriate investment vehicles made available to members of the Plan for their voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustee, having taken into consideration written advice from properly qualified and authorised financial advisers.

- The Trustee makes available AVC arrangements with Utmost Life and Pensions and Aegon.

- In selecting the range of funds offered, the Trustee has taken into consideration the advice from its professional advisers on:

  – the risks faced by members in investing on a money purchase basis, and

  – the Trustee's responsibilities in the selection and monitoring of the investment options offered.

- The Trustee will continue to manage the AVC arrangements having taken professional advice on these matters.

- The Trustee will monitor the performance of AVC providers periodically.

- Members are directed to seek independent financial advice when considering their AVC arrangements.

3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Plan.

Trustee

The Trustee's primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers,

- appointing investment consultants and investment managers as necessary for the good stewardship of the Plan's assets,

- reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Plan's liabilities, taking into consideration advice from the investment consultant and the Scheme Actuary,

- reviewing the stewardship / voting policies of the investment managers, and undertaking the ongoing monitoring and engagement with their investment managers as appropriate,

- assessing the policies and processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),

- monitoring compliance of the investment arrangements with this Statement on a regular basis, and

- monitoring risk.

Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,

- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee,

- advising the Trustee on the selection and review of the investment managers,

- providing training or education on any investment related matter as and when the Trustee sees fit, and

- monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Investment Managers

The investment managers' main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Plan's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustee with quarterly reports including any changes to its investment process and a review of the investment performance,
- attending meetings with the Trustee as and when required,
- informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Plan as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Plan's assets.

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

Administrators

- The administrator's primary responsibilities are the day to day administration of the Plan and the submission of specified statutory documentation, as delegated by the Trustee.
- The Plan's administrator is Buck.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Plan's investment strategy given the financial characteristics of the Plan; and
- performing the triennial (or more frequently as required) actuarial valuation and advising on the Plan's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

The Scheme Actuary is Martin Rawe of Buck.

Appendix 1– Asset Allocations and Objectives

Plan’s asset allocation

The Plan’s asset allocation as at 30 June 2023 is tabulated below:

Asset Type	Investment Style	Allocation (%)
Private and Public Equities	Active / Passive	64.1
Property - UK	Active	11.8
Long Lease Property	Active	4.9
UK Fixed interest gilts	Passive	14.9
UK Index-linked gilts	Active / Passive	2.6
Cash	Active	1.8[1]
Total		**100.0[2]**

1. Cash refers to the Plan's allocation to BlackRock's Institutional Liquidity Fund.
2. Figures may not sum exactly due to rounding.

The asset allocation is reviewed at each Trustee meeting and a decision will be made at that time whether to adjust the Plan’s asset allocation.

Benchmarks & performance objectives

Benchmark indices and relative performance objectives for each of the funds in which the Plan is invested are outlined below. All performance targets are gross of fees and relate to rolling three-year periods.

Manager	Fund	Benchmark Index	Objective % p.a.
Baillie Gifford	Global Alpha Pension Fund	MSCI All Country World Index	+2.0–3.0[1]
Baillie Gifford	Private Companies Fund II L.P.	Target Return	5x return over 5 years
IFP	Global Equity Fund	MSCI World Index Net	Outperform over a full market cycle
BlackRock	Currency Hedged World ex-UK Fund	FTSE All World Developed ex UK 95% GBP Hedged	Track
	UK Property Fund	MSCI UK All Balanced Open-ended Property Fund Index	+1.0
	Over 15 Year Gilt Index Fund	FTSE Actuaries UK Conventional Gilts over 15 Years Index	Track
	Index-Linked Bond Fund	FTSE Over 5 Year Index-Linked Gilts Index	+0.50–0.75
	Over 25 Year Index-Linked Gilt Fund	FTSE Actuaries UK Index-Linked Gilts over 25 Years Index	Track
	ICS Sterling Liquidity Fund	Overnight SONIA	Track
abrdn	Long Lease Property Managed Pension Fund	FTSE All Stocks Gilts Index	+2.0[1,2]
Man Group	GPM RI Community Housing Fund	Target Return	8-10 net IRR[3]

[1] over rolling five-year periods

[2] net of fees

[3] of which 6% stabilised cash yield is expected