Invensys Pension Scheme

Statement of Investment Principles

Version 15

13 December 2023

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1 Introduction

1.1 Background

This document constitutes the Statement of Investment Principles ("the SIP") required under Section 35 of the Pensions Act 1995 for the Invensys Pension Scheme ("the Scheme"). It describes the investment principles being adopted by Invensys Pension Trustee Limited, the Trustee of the Scheme ("the Trustee"), and is in compliance with the proposals under the Myners' Principles for Institutional Investment and the Scheme's Trust Deed and Rules dated 22 August 2016 (as amended) ("the Trust Deed and Rules"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005 as amended ("the Investment Regulations").

The Trustee confirms that, in preparing this SIP, it has consulted with the current corporate sponsor of the Scheme, Invensys Limited ("the Company"), and obtained and considered written advice from its investment adviser ("the Investment Adviser") and consulted as necessary with its legal adviser ("the Legal Adviser") and the Scheme Actuary (together with the Investment Adviser and the Legal Adviser, "the Advisers"). The Trustee believes the Advisers to be qualified by their ability in, and practical experience of, financial matters and to have the appropriate knowledge and experience of pension scheme investment arrangements.

The Trustee is responsible for the investment of the Scheme's assets and arranges administration of the Scheme. Where it is required to make a decision regarding investments, the Trustee, or the committee it has delegated the relevant authority to, always receives advice from the Investment Adviser (and the other Adviser(s) as necessary) first and believes that this ensures that it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustee sets strategic investment policy, and has delegated the day-to-day investment of the Scheme's assets to professional investment managers ("Managers") in accordance with the requirements of Section 34(2) of the Pensions Act 1995. Each such Manager is properly authorised to carry out such investment business and provides the expertise necessary to manage the investments of the Scheme competently.

The Trustee regularly takes advice from the Advisers to ensure that the investment strategy of the Scheme is in accordance with the principles contained in this SIP and that the assets held by the Scheme (and the Managers selected to invest those assets) are suitable given the Scheme's liability profile, the Trustees' objectives, the specifications in the Trust Deed and Rules governing the Scheme and the requirements of Section 36 of the Pensions Act 1995.

The Trustee will review this SIP at least triennially, or immediately following a significant change in investment strategy, having considered the written advice of the Investment Adviser and consulted the Company, and the other Advisers as necessary. There will be no obligation to change the SIP or any Manager or Adviser as part of such a review. The Trustee will, in accordance with its statutory obligations, publish an annual Implementation Statement, which will set out how it has complied with the SIP and the amendments made to the SIP during the year.

The Investment Committee maintains a Statement of Investment Arrangements ("SIA") which is a working document setting out details on the Managers and the specifics of investment implementation.

The SIP is publicly available on the Scheme's website at www.invensyspensions.co.uk

1.2 Scheme structure

The Scheme provides only defined benefits. The Scheme is closed to new accrual.

As at 31st March 2023, there were 51,592 members within the Scheme. The asset values backing those benefits was £3,502m.

1.3 Latest version of this Document

Version 15 of the SIP differs from version 14 in order to reflect amendments to allow the Scheme to transact centrally cleared derivatives in the Liability Matching Fund, and other portfolios as appropriate.

2 Scheme Governance

2.1 The Trustee Board ("the Board")

The Board is ultimately responsible for carrying out the functions of the Trustee, including the exercise of its powers, duties and discretions. While the Board's constitution and authority are prescribed by and derive from the Articles of Association of the Trustee, the functions of the Trustee principally derive from the Scheme's Trust Deed and Rules and overriding legislation. In discharging its responsibilities, the Board delegates the exercise of a number of powers and discretions relating to the funding of the Scheme and the investment of its assets to the Investment Committee ("IC") and who may in turn to delegate to the Asset and Liability Management Committee ("ALCo"). All responsibilities and discretions relating to such matters which are not so delegated are retained by the Board and a summary of those matters is provided below:

- Establish a governance structure that ensures sufficient focus is devoted to investment matters and facilitates effective investment decision making;
- Develop, review and amend this SIP in consultation with the Company and with the advice of the Investment Adviser, and the other Advisers as necessary, when appropriate and at least once every three years. Occasions on which such a review might be appropriate may include a triennial valuation, a significant event in the capital markets, a significant change in the Trustee's evaluation of the Company's covenant or a significant change in the Scheme's liability profile;
- Ensure that the Scheme has an investment target consistent with the requirements of the Trust Deed and Rules;
- Determine, based on recommendations from the IC, the Scheme's "Investment Policy" (as set out in Section 6 of this SIP) and approve
    - The high level funding and investment objectives,
    - The risk framework and tolerances, and
    - The investable risk classes, strategic asset allocation and financial tools
- Approve the IC and the ALCo terms of reference ("ToR");
- Monitor the IC to ensure it operates in accordance with the agreed ToR;
- Appoint and dismiss the Investment Adviser and any custodian or collateral manager appointed;
- Authorise the IC to delegate the authority it deems appropriate to the ALCo, in accordance with the agreed ToR.

2.2 The Investment Committee

The IC's responsibilities and delegated authority are set out in its ToR, a summary of which is provided below:

- Regularly advise the Trustee on the SIP and make recommendations to the Trustee in respect of changes to the Investment Policy including matters such as the overall Scheme strategic asset allocation;
- Determine, and notify to the Trustee when amended, a medium term investment objective to be used as a target and against which to measure success in meeting the long-term Trustee funding objectives;
- Research, select and implement investment strategies expected to be suitable to achieve or exceed the Investment Policy objectives, which will include considering where possible and appropriate climate-related risks and opportunities ("CRROs") and any climate-related target set by the Trustee Board;
- Specify the ToR, including the delegated authorities contained therein, of the ALCo and supervise and monitor the ALCo's activities, including adherence to its ToR and delegated authorities;
- Appoint and remove Managers and investment counterparts, including the terms of such appointments, based on advice from the Investment Adviser and the other Advisers as necessary;
- Review on an ongoing basis the Scheme's asset allocation between Managers and instruct rebalancing, subject to the Investment Policy;
- Review on an ongoing basis the Managers' performance and take appropriate action within a reasonable timeframe;
- Review on an ongoing basis the Scheme's asset allocation between risk classes and instruct rebalancing, subject to the Investment Policy;
- Monitor and review the performance of the Investment Adviser;
- Recommend to the Trustee the appointment and removal of the Investment Adviser;
- Appoint and remove specialist advisers pertaining to a specific asset class;
- Appoint and remove any performance measurer;
- Monitor the investment performance of the Scheme and report on this to the Trustee on a quarterly basis.

2.3 The Asset and Liability Management Committee (ALCo)

The ALCo's responsibilities and delegated authority are set out in its ToR, a summary of which is provided below:

- Execute and implement investment decisions made by the IC, within the constraints, investment guidelines and risk tolerances either imposed by the Trustee and the IC and reflected in the SIP, or as stipulated in the relevant Manager's Investment Manager Agreement ("IMA");

- Take such decisions as have been specifically delegated to it by the IC, subject to the limits and constraints imposed by the IC and the applicable legislation and regulation;
- Monitor and report to the IC the asset managers', custodian's, collateral manager's and investment performance measurers' performance;
- Monitor and report to the IC the performance of the Advisers;
- Review and amend, in accordance with the specific authorities set out in the ALCo ToR, and subject to the advice of the Investment Adviser and the other Advisers as necessary, existing derivative, sale, purchase or loan agreements under ISDA/CSA, GMRA, clearing agreements and GMSLA documentation for ongoing administrative and operational matters;
- Review and amend, in accordance with the specific authorities set out in the ALCo ToR, and subject to the advice of the Investment Adviser and the other Advisers as necessary, existing IMAs, for ongoing administrative and operational matters;
- Report to the IC on any decisions taken in accordance with the delegated authorities set out in the ALCo ToR, and in respect of any investment-related implementations overseen by it;
- Maintain and update the SIA for review by the IC;
- Investigate new investment opportunities or approaches and where considered suitable bring proposals for their use by the Scheme to the IC.

2.4 The Executive Office

The Trustee has appointed an Executive Office to provide the Scheme with the resources considered necessary to implement and oversee the Investment Policy on its behalf and under the direction of the IC and the ALCo.

3 Overall Objectives

The Trustee is responsible for stewardship of the Scheme's assets. Its main objectives are to ensure:

a. That benefits are paid to members in accordance with the Trust Deed and Rules;

b. The ability to pay benefits over the long term is maximised having regard to security in terms of:

   i. The amount and type of assets

   ii. The liability profile: maturity, inflation promises etc.

   iii. The strength of the Company's covenant

   iv. The existence and value of the £1.75bn guarantee from Schneider Electric SE (the "Guarantee")

   v. The Scheme's other key risks

c. An appropriate level of contribution from the Company; and

d. The targeted asset performance is consistent with the agreed Targeted Rate of Investment Return (see Section 6.2) and the Scheme's Statement of Funding Principles adopted pursuant to Section 223 of the Pensions Act 2004:

   i. The Technical Provisions adopt a discount rate of Gilts plus 0.75% p.a.,

   ii. The Trustee and the Company have agreed an additional funding objective, which is for the Scheme to have sufficient and appropriate assets to cover its liabilities on the Long Term Objective ("LTO") basis by 31 March 2030. The LTO adopts a discount rate of Gilts plus 0.50% p.a.,

   iii. Whilst the additional funding objective is to reach full funding on the LTO basis by 31 March 2030, the Trustee and the Company expect, based on the funding position and market conditions as at 31 March 2021 and if all assumptions are borne out, to achieve this by 31 March 2027 as a result of:

      I. targeting additional asset returns in excess of the discount rate (at such levels to be agreed between the Trustee and the Company from time to time – see Section 6.2);

      II. additional contributions received following the disposal of IMServ Europe Limited, a participating employer in the Scheme; and

      III. the release of prudence over time.

4 Investment Beliefs and Principles

In setting the Investment Policy, the Board has regard to the investment principles set out in this SIP which have been developed in discussions with the ALCo and the Investment Adviser and the other Advisers as necessary.

The investment principles are key points for the determination and review of the Investment Policy and other investment discussions. They are reviewed regularly, and are not expected to change radically year on year, unless matters such as the impact of the capital markets, Company covenant or Scheme liability profile warrant their review.

1. Governance

The Trustee believes that robust governance is required to manage a large Scheme with a complex set of assets and liabilities. It requires the IC to be knowledgeable and educated in financial matters. Further, it is strengthened by an experienced and skilled in-house team with sufficient capacity both to support the IC on all aspects of investment and oversee management of the assets. It requires an empowered IC to have the necessary dynamism to effectively navigate the Scheme through the peaks and troughs of the capital markets. Finally, it requires advice from investment, actuarial and legal advisers with experience and knowledge of capital markets and regulation. Good governance should help to better manage risks and enhance returns.

The Trustee therefore monitors the IC, the ALCo and the Advisers to ensure that they have the appropriate skills to carry out their functions and that there is sufficient in-house capacity to manage the Scheme's assets and liabilities and regularly takes advice in relation to the Scheme's investment strategy.

2. Company

The Trustee believes that the Company (and through the Guarantee, the wider Schneider Electric group) is able and willing to support the Scheme to the extent that it can afford to do so (Eg; financially and operationally).

The Trustee will therefore monitor the covenant of the Company and the Guarantee to assess its ability to support the Scheme and will endeavour to establish and maintain an open working relationship to foster the Company's and the wider Schneider Electric group's ability and willingness to support the Scheme.

3. Integrated Risk Management

The Trustee believes that the maturity of the Scheme and the impact of its size on the Company covenant together warrant a strong focus on managing risk and pursuing the chosen return target in a risk-controlled manner.

The Trustee will therefore determine its medium term funding objectives, and the resulting target return, in accordance with its risk tolerances. These will be determined taking into account factors such as covenant strength, liability maturity and profile, Scheme funding position and prevailing market conditions. The Scheme's allocation to return-seeking assets and its overall expected rate of return might therefore vary through time.

4. Risk Measurement

The Trustee believes that risk is a multi-faceted notion which can, and should, be described both qualitatively and quantitatively.

The Trustee approves the risk metrics to be used to analyse and monitor the risks inherent to the Scheme. The adequacy of these metrics will be regularly reviewed.

5. Liability Driven Investment ("LDI")

The Trustee believes that a liability driven investment policy should be central to managing risk and setting a return target for defined benefit pension schemes. Such an approach, if successful, should contribute positively towards achieving the funding target, with increased stability of the funding level.

The Trustee uses the Liability Matching Fund ("LMF") (described in section 6, paragraph 5.1) to manage the Scheme's interest rate and inflation risks such that the overall Investment Policy is liability driven. In addition, it provides the Trustee with a significant hedge as the LMF is comprised predominantly of 'off-risk' assets.

6. Off-Risk assets and instruments

The Trustee considers UK Government bonds to be the lowest risk asset class for a UK pension scheme in addition to being good liability matching assets. They are therefore classified by the Trustee as "off risk" assets; this includes all securities issued by the UK Government or guaranteed by it. However they are not considered as no risk assets as there remains some default risk and could perform differently to the Scheme liabilities if not 'matched' (Eg; index-linked Gilts would perform poorly in a deflationary scenario).

The Trustee also considers collateralised sterling interest rate and inflation derivatives and nominal and index-linked gilt repurchase transactions ("Gilt Repos") (such derivatives and Gilt Repos together referred to as "derivatives" or "derivative instruments" throughout this document unless the context requires otherwise) to be very low risk financial tools due to the Scheme's collateral infrastructure. Accordingly these are also classified by the Trustee as "off-risk" instruments, together with cash/money market instruments.

7. Use of Derivative Instruments

The Trustee believes that derivative instruments can be used to either mitigate capital market risks that the Scheme is exposed to, or to gain exposure to those risks with a return objective. In addition to the underlying risk exposure they mitigate or provide for the Scheme, they also expose it to bank counterparty risk in the case of bilateral derivatives. This risk can be significantly mitigated through an effective and robust collateral management programme.

Clearing certain types of derivatives with a central counterparty removes the bank counterparty risk and instead replaces it with an exposure to a clearing member, who clears the trades with a central counterparty. A central counterparty is a well-capitalised financial intermediary and the clearing process is designed to address the risk of a counterparty default after trading and before settlement.

Certain types of derivatives must be rolled on a regular basis to maintain the desired exposure. The risk of being unable to roll at reasonable terms is mitigated by diversification strategies and by relying only on types of derivative where it is believed that roll risk is minimal.

Therefore the Trustee allows the use of derivative instruments for efficient portfolio management (including transitions) to mitigate risk and access return seeking asset classes and has implemented a robust collateral management programme to manage the resultant counterparty risk.

8. Diversification

The Trustee believes that effective diversification helps to reduce the impact for the Scheme of the risk/volatility inherent in individual asset classes. It is however most effective in ‘normal’ market conditions and does not guarantee positive returns at all times. In a market crisis or a stressed economic environment, the Trustee believes that the correlation between the return-seeking asset classes will often be very high.

The Trustee will therefore seek to diversify the sources of return and risk and to implement an Investment Policy that prevents it from being a forced seller of assets.

9. Investment horizon

The Trustee believes that given the long-dated nature of its liabilities, a long-term perspective is appropriate when determining the potential return from its investments and the horizon over which to achieve it. However, it also gives consideration to the implications of shorter-term volatility.

Accordingly, the investment targets are longer-term but performance is reviewed periodically and the Trustee can elect to revisit its allocation prior to the initial expected term of realisation.

The Trustee also believes that, in order to achieve the benefits of investing with a longer-term horizon, it needs to be mindful of its ongoing payment obligations and avoid being a forced-seller of assets.

The Trustee will therefore seek, when implementing the Investment Policy, to incorporate the Scheme’s projected outflows and consider how they should be met with predictable cash flows from its assets.

10. Asset allocation

The Trustee believes that asset allocation (above asset manager selection) and the conditions of entry to and exit from asset classes is critical for the achievement of the targeted returns and for improving the probability of achieving the Trustee’s objectives.

The Trustee, through recommendations from the IC and ALCo incorporating advice from the Investment Adviser and the other Advisers as necessary, has implemented a governance framework which will allow the IC to act with adequate flexibility in respect of ongoing asset allocation.

11. Risk premium

The Trustee believes that a “risk premium” exists for certain asset classes (Eg. equities, property, credit) although it may only be achieved over long time periods, and through due consideration of the conditions of entry into and exit from different asset classes.

The Trustee wishes to capture the higher returns potentially available from maintaining an exposure to asset classes which carry a risk premium. It will do so in a risk-controlled and diversified way having regard to the relationship between risk and return and the overall liability-driven objective.

12. Active management

The Trustee believes that active management can add value although it has not been shown to add value in all markets at all times. In addition it results in increased direct costs relative to passive management and hence can lead to underperformance.

Therefore, the Trustee considers the potential for active management to add value for each manager mandate having regard to the asset class, region and mandate type. Active mandates will be entered into where the IC and ALCo, following advice from the Investment Adviser and the other Advisers as necessary, believe that the Manager can be expected to add value through the nature of the investment process and having regard to the relative cost compared with the passive alternative.

13. Illiquidity

Given the long-term nature of the Scheme, the Trustee believes that investing in illiquid assets should provide additional returns (the illiquidity premium) compared to an investment in liquid assets with otherwise equivalent risk characteristics.

The Scheme looks to exploit illiquidity to improve the probability of achieving its objectives where the reward (the illiquidity premium) is considered adequate for the additional risks associated with illiquid investments

14. First mover advantage

The Trustee believes that there is a first mover advantage in many areas but that it is often difficult to exploit in that it requires the investor to take on 'unconventional' risks.

The Trustee only looks to invest in new areas when established research or empirical evidence to support such an investment can be imputed from similar situations.

15. Performance measurement

The Trustee believes that performance benchmarks, metrics and targets need to be relevant and appropriately measured. Accordingly, the return target in the Investment Policy is liability related.

16. Responsible investment

16.A Financially material investment considerations

The Trustee believes that environmental, social and governance ("ESG") factors, such as climate change, can have a significant impact on the performance of its investments and the consideration of ESG factors can enhance the risk and return profile of its investments. The Trustee believes that, in the case of the Scheme, such factors are primarily relevant to the allocation decisions between sectors and companies, which will typically be delegated to its Managers, with the exception of passive mandates. The Trustee expects its Managers, when exercising discretion in the mandates that they manage for the Scheme, to integrate all relevant and material financial factors, including ESG factors into the investment decision making process. This is intended to identify investment opportunities and financially material risks. This will influence the selection, retention and realisation of investments.

The Trustee also considers how potential new Managers incorporate ESG factors into their investment process before selecting a Manager.

As part of its regular monitoring process the Trustee requests that Managers demonstrate their approach to incorporating ESG factors when exercising discretion in the mandates that they manage for the Scheme over the relevant investment horizon. Depending on the findings, the Trustee may take steps to seek improvement.

The Trustee's expectations and monitoring process will depend on the mandate type and investment horizon.

The Trustee sets out its policy relating to the governance of climate-related risks and opportunities in a separate annually published climate report. The Trustee includes its portfolio metrics and climate change targets in this report.

16.B Corporate governance and stewardship policy

The Trustee believes that in order to act in the best financial interests of the Scheme's members it must act as a responsible asset owner. The Trustee, as a policy, delegates the exercise of voting rights of the underlying holdings and engagement with investee companies and other stakeholders as appropriate to its Managers. The Trustee expects its Managers to exercise these rights and to engage with the investee companies or any other relevant persons on relevant matters so as to protect and enhance the value of the Scheme's investments.

The Trustee monitors the actions taken by the Managers, on a regular basis as part of the ongoing Manager reviews at the IC and ALCo meetings. As part of this, the Trustee reviews the Managers' voting and engagement policies and monitors the Managers' voting records or their reports on responsible investments (such as UN PRI reports) and will seek explanations and discussions, as appropriate. The Trustee's expectations and monitoring process will depend on the mandate type, in particular in respect of the asset class(es) involved and the degree of discretion given to the Manager.

Where the Trustee is a unit holder of a fund, it seeks to retain the use of voting (and other) rights associated with the operations of that fund. The Trustee makes decisions on the use of such rights on those funds based on advice from its Legal and/or Investment Advisers as appropriate.

16.C Non-financial matters

Non-financial matters are defined in the Investment Regulations as the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme.

The Trustee does not take into account “Non-financial matters” when making investment decisions.

5 Risk Categories

The Trustee recognises a number of risks involved in the investment of assets of the Scheme held to meet liabilities. These risks, and how they are measured and managed, include:

1. Solvency and asset/liability mismatch risk

- Measured through qualitative and quantitative assessment of the potential development of the current and alternative investment strategies relative to the relevant liability measures.
- Managed by considering as needed the exposure to market factors, such as equity prices, interest rates, inflation rates, credit spreads, currencies, default risk and longevity risk. As part of this, the potential drivers of the evolution of such risk factors, including macroeconomic performance, climate-related risk (including both physical and transition risk), investors' supply and demand dynamics, monetary policies and valuation metrics will be considered as appropriate. The effect of some of those drivers may be amplified by other sources of risks mentioned below.

2. Covenant risk

- Measured by the level of ability and willingness of the Company to support the continuation of the Scheme and to make good any current or future deficit;
- Managed through the ongoing review of the Company's covenant and the Guarantee.

3. Manager risk

- Measured by the potential deviation of the investment performance relative to the managers' objectives;
- Managed by quantitatively and qualitatively assessing the manager's investment processes and business, monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process and by effecting periodic reviews of the organisation, as well as through the restrictions and tolerances within each manager's mandate.

4. Country / political risk

- Measured by the level of concentration of investments exposed to any one country leading to the risk of an adverse influence on investment values arising from political interventions;
- Managed by regular reviews of the actual investments relative to policy.

5. Concentration / inappropriate investment risk

- Measured by the level of concentration of investments in any asset class, risk factor, sector or, company, leading to the risk of a single event having a disproportionate impact on investment values, or the exposure to risks not sought by the Trustee.
- Managed by setting restrictions within the Trustee's agreements with the Managers, where possible and appropriate, to limit the risks from each individual investment and prevent unsuitable investment activity.

6. Counterparty risk

- Measured through qualitative and quantitative assessment of the counterparty's short and long term creditworthiness;
- Managed by carefully selecting and monitoring each bank counterpart, agreeing to conservative transaction documentation, including where possible the requirement to post collateral/margin and ratings based triggers and setting counterparty diversification requirements within the investment management agreements.
- For cleared derivatives, managed by agreeing to transaction documentation on terms similar to industry standard with a number of clearing members, and ensuring the provision of adequate margin for managers using cleared derivatives.

7. Derivative roll risk

- Measured though qualitative and quantitative assessment of liquidity in the relevant markets and factors that affect it, and through monitoring of the size and nature of the relevant derivative exposure.
- Managed by spreading roll dates, diversifying counterparts, and by seeking to rely on types of derivative where it is believed that roll risk is minimal.

8. Liquidity risk

- Measured by assessing the adequacy of the Scheme's financial resources with the cash flow requirements of the Scheme, including the payments owed to members and service providers and the potential cash requirements in relation to its investment activities;
- Managed by putting in place cash flow requirements schedules with certain managers where appropriate, and through on-going monitoring of Scheme, Company, managers and transaction-based present and future cash flows.

9. Custodian risk

- Measured by assessing the credit-worthiness of the custodian and the ability of the organisation to settle trades on time and provide a secure safekeeping of the assets under custody;
- Managed by monitoring the custodian's activities and creditworthiness and discussing its performance with the investment managers when appropriate.

10. Operational risk

- Covers the risk of losses to the Scheme resulting from failures in areas such as transactions management, reporting, monitoring, data management and fraud. This is measured qualitatively and quantitatively, where relevant;
- Managed by ensuring that investment service providers are reputable, suitably qualified and, have the required infrastructure, policies and procedures in place. The Scheme also adopts its own policies and procedures, complemented by audit reviews in order to prevent potential losses.

The Trustee will keep these risks, and how they are measured and managed, under regular review. In all cases, the primary risk measurement aspect is downside risk relative to the funding level.

6 Investment Policy

The Trustee sets the Investment Policy. It takes advice from the Advisers as necessary, the IC and the ALCo and consults with the Company.

The Trustee views the interdependence between the Scheme's targeted rates of return and its liability profile as critical to its investment and risk management framework.

The Investment Policy is driven by its financial characteristics (in particular the nature of the liabilities and approach to funding them), the Trustee's risk tolerance, the Trustee's evaluation and perception of the Company's covenant strength and the existence and value of the Guarantee.

In order to achieve its long-term objectives, the Trustee delegates the development of the Scheme's investment strategy by setting the Investment Policy within which the IC may operate. In effecting its delegated authorities, the IC is required to ensure compliance with the restrictions of the Investment Policy.

The Investment Policy restrictions are defined in terms of:

1. The Permitted Strategy Type
2. The Targeted Rate(s) of Return on Investments
3. The Risk Tolerances
4. The Permitted Investable Risk Classes
5. The Investment Management Structure
6. The Asset Allocation

All other aspects of the IC's role and responsibilities are covered by the IC's ToR.

The detailed investment strategy is developed by the IC in accordance with the Investment Policy. It is formally reviewed at least triennially in conjunction with the triennial valuation and more frequently if the Trustee or the IC considers it appropriate.

1. The permitted strategy type

As a mature scheme which is closed to further accrual of benefits, the Investment Policy is centred on risk-based investment principles which, given the liability-driven nature of the long-term objective, results in significant use of assets and instruments that can be combined to match the financial characteristics of the liabilities. The Trustee also focuses on protecting the Scheme's funding position with the aim that it will be able to recover any deterioration in the funding position within the deficit recovery schedule timeframe (if applicable) without increasing the risk budget.

The Strategy will therefore be measured against a relevant liability-related target.

The Trustee expects the proportion of assets invested so as to match the financial characteristics of the liabilities to increase over time as the Scheme's liability profile matures further.

2. The targeted rates of return on investments

Clause 3.2A of Schedule C to the Trust Deed and Rules requires the Trustee to ensure that the Scheme's targeted rate(s) of investment return for assets which do not represent money purchase benefits shall be consistent in all material respects with the Scheme's Statement of Funding Principles ("the Targeted Rate(s) of Investment Return").

The current Long-Term Targeted Rate of Investment Return is the return on Gilts plus 1.1% p.a. across the full value of the assets, excluding any money purchase assets, including any surplus, over the term until 31 March 2027, and the return on Gilts plus 0.75% p.a. thereafter.

Over shorter time horizons, the Trustee may pursue a Medium-Term Targeted Rate of Investment Return. The Medium-term Targeted Rate of Investment Return may be above or below the Long-Term Targeted Rate of Investment Return, depending on the Trustee's tolerance and appetite for risk.

3. Tolerance and appetite to risk and risk measurement

The Trustee uses a strategic investment return and risk framework to assess the level of investment risk within the Scheme and its appropriateness given the Scheme funding objectives and the Company's financial strength.

The budget for investment risks should be derived from striking a balance between three factors:

- The need for generating investment returns, which is a function of the Scheme funding objectives;
- The affordability of investment risks by the Company, having regard to its covenant and the Guarantee;
- The investment environment which may or may not favour taking investment risks.

The Trustee also seeks to manage risks through the following routes:

- A minimum holding in Off-Risk Assets
- Specifying the Permitted Risk Classes
- Specific allocation limits within the Investment Portfolio (as defined in paragraph 5.2 of Section 6) in terms of manager exposure, Risk Class exposure and security concentration limits in manager mandates

In addition the Trustee will ensure at all times that any investments which are connected or associated with the employers who participate in the Scheme will not breach the statutory limits on employer-related investments set out in section 40 of the Pensions Act 1995 and ancillary regulations.

The Trustee recognises the benefit of using quantitative tools in the determination and evaluation of the risk implications of the Investment Policy.

4. Permitted investable risk classes

The Scheme's investment strategy will be developed by investing in different risk classes. A risk class is categorised by analysing the primary risk the Trustee is exposed to. For example, an investment in private equity provides exposure to the equity of a corporation's capital structure. However, a substantial contributing risk for the Scheme is illiquidity since these investments often cannot be monetised before an extended period (often 6 to 10 years).

The table below sets out the Trustee's assessment of the risk classes relevant to the determination of the investment strategy:

Risk Class	Definition
Off-risk assets	Asset considered the least risky by the Trustee of the Scheme
Equity	Instruments which represent the residual participation in the profitability of a company after specific monetary claims against it have been met.
Interest rates	Instruments where the income is directly referenced by a specified interest rate.
Inflation	Instruments where the realisation value or return is directly referenced by an index of the change in the rate of inflation. Instruments where the change in capital value has been shown to be strongly correlated with realised inflation over time.
Credit	Instruments where the nature of the issuer means that there is a risk that they will default on their payment obligations.
Commodities	Instruments where the realisation value or return is directly referenced by the change in the value of a commodity, index of commodity prices or basket of commodities.. Instruments where the change in capital value has been shown to be strongly correlated over a reasonable time horizon with changes in the price of a commodity
Absolute Return	Exposure to Manager mandates that seek to generate returns without specific directional exposure to the risk premium of a particular asset class.
Illiquidity	Exposure to investments that cannot be readily converted into cash without severe loss or that have long lock-up periods.
Liquidity	Highly liquid assets which are expected to provide liquidity to the Scheme coupled with a high degree of capital preservation

Where feasible, the Trustee will seek to prohibit investment in the Company or entities within the Schneider Electric group.

Manager mandates based on the following investment vehicles and approaches to gain exposure to these risk classes may be used:

- Segregated arrangements;
- Collective investment schemes
- Insurance contracts;
- An investment partnership vehicle (long-term);

Manager mandates may include the use of derivative contracts such as swaps, options, Gilt Repo, futures, forward contracts, swaptions, credit-default swaps where the recommendation of the IC and its advisors is that they are suitable. In all segregated mandates the resultant bilateral counterparty exposure will be collateralised through the appointed Single Collateral Manager. For cleared derivative exposure, the asset manager will post collateral on behalf of the Scheme.

Active and passive mandates are permitted.

5. The investment management structure

The assets of the Scheme will be split into three main portfolios:

1. The LMF, which will:
    a) Invest exclusively in off-risk assets and instruments as defined by the Trustee in section 4;
    b) With the objective of:
        i. Mitigating the interest rate and inflation risks inherent in the liabilities of the Scheme to the extent considered appropriate by the IC subject to the risk constraints imposed by the Trustee from time to time;
        ii. Meeting the liquidity requirements of the Scheme.
2. Investment Portfolio, which will:
    a) Invest in permitted return-seeking asset classes to generate, on average over a timeframe consistent with the Statement of Funding Principles, the Targeted Rate(s) of Investment Return having regard to the off-risk nature of the LMF assets and prevailing market conditions.
    b) With the objective of:
        i. Accessing the risk premium available from a diversified portfolio of return-seeking assets,
        ii. Accessing the additional performance available from active management where considered appropriate.
        iii. Contributing towards the liquidity requirements of the Scheme
3. The Overlay Portfolio, which will
    a) Comprise primarily of derivatives;
    b) With the objective of:
        i. Mitigating unwanted risks in the Managers' portfolio;
        ii. Mitigating excessive or unbalanced asset classes risks on a holistic basis;
        iii. Mitigating tail risks;
        iv. Mitigating transition risks and increase efficiency when switching asset class or Manager.

6. The asset allocation

Asset allocation is driven by the liability profile, the Trustee risk budget and the prevailing and forecast economic and market conditions.

The specifics of the investment strategy will be formally reviewed by the Trustee at least in conjunction with the triennial valuation, and more frequently where the IC or Trustee considers it appropriate.

6.A Asset allocation: the minimum allocation to off-risk assets

The Trustee has split the assets between off-risk assets (LMF) and return-seeking assets (Investment Portfolio).

The Trustee has set the following working ranges, within which the IC can operate:

- 40% - 65% of total assets for the allocation to the LMF;
- 80% - 110%[1] of Technical Provisions for the Interest Rate Coverage Ratio;
- 80% - 110%[1] of Technical Provisions for the Inflation Coverage Ratio.

The Interest Rate and Inflation Coverage Ratios represent the ratio of the assets' sensitivity to gilt yields and inflation over the Technical Provisions' sensitivity to gilt yields and inflation respectively.

Those working ranges will be reviewed at least triennially.

[1] The headroom in excess of 100% of Technical Provisions permits Interest Rate and Inflation Coverage Ratios which might extend to the sensitivities inherent in the LTO if relevant.

6.B Asset allocation: the structure of the Investment Portfolio

The Trustee has set the following working ranges for the allocation to the primary asset classes. The IC is required to allocate within these ranges and in accordance with the IC's ToR.

Risk Class	Asset Class	Working Range (as % of total assets)
Equity	Developed markets equity mandates (including synthetic equity exposure)	0 – 15
	Emerging markets equity mandates (including synthetic equity exposure	0 – 7.5
Credit	Investment Grade Debt (including asset backed and mortgage backed debt) Mandates*	15 – 40
	Absolute Return Credit Mandates	0 – 10
	Sub Investment Grade Debt Mandates	0 – 5
Absolute Return	Fund of hedge funds	0 – 10
	Single hedge funds (including derivative-based hedge fund strategies)	0 – 5
	Dynamic Asset Allocation	0 – 15
Commodities	Commodity Funds and derivatives	0 – 10
Illiquidity	Investments which cannot be liquidated within 12 months in normal market conditions without significant penalties	0 – 5
Cashflow and Asset Allocation Liquidity	Cash and money market funds/instruments	0 – 10

*Investment Grade Bond mandates may include sub-investment grade bonds (within limits).

Market movements might mean that the allocations in Sections 6.A and 6.B are outside of the ranges from time to time. In addition as part of a transition exercise including, but not limited to, a change in investment manager or mandate, or when receiving a significant contribution from the Company, the Scheme's assets might be invested outside of these ranges.

6.C Asset allocation: The Overlay Portfolio

The Overlay Portfolio has a strategic allocation of 0%. It will vary from this when the IC considers it appropriate to take action to mitigate portfolio risks in the short term, including arising from asset class or manager mandate transition, whilst longer term mitigation is being developed.

7 Arrangements with Managers

The IC maintains the SIA which sets out detailed information on the Scheme's arrangements with its Managers. In order to reflect the requirements of Regulation 2(3)(d) of the Investment Regulations, key details are set out below.

7.1 Aligning manager objectives and incentivisation

The Investment Policy described in Section 6 sets out how, in aggregate, the LMF, the Investment Portfolio ("IP") and the Overlay Portfolio ("OP") are designed to target the Targeted Rate(s) of Investment Return, while taking into account the Scheme's benefit payment obligations

In particular:

- The arrangements with the LMF Manager(s) include a benchmark which is designed to mitigate against the impact of interest rate and inflation risks inherent in the liabilities of the Scheme, within relevant risk tolerances;
- The arrangements with the IP Managers (and where relevant the OP Managers) include a benchmark or target. When aggregated together with the LMF, these benchmarks or targets are designed explicitly in most cases (and implicitly in a smaller number of cases) to achieve over a time horizon consistent with the Statement of Funding Principles, the Targeted Rate(s) of Investment Return.
- The IC and ALCo each maintain a biennial schedule for review of the Managers (with the intention that each manager is reviewed on an annual basis by at least one of the Committees). Performance is assessed against those benchmarks or targets and the relevant risk tolerances. These reviews also include the Manager's stewardship of assets. Where managers are assessed by the IC as being less likely to achieve their objectives and/or there is evidence of not having achieved them historically, or where there are concerns over stewardship or integration of ESG factors, removal of assets or termination of mandates is considered. The Managers are made aware of the importance of these measures of return and risk and are required to manage their portfolio with these in mind, and report against them on an ongoing basis.
- The Trustee prefers the use of segregated mandates where possible and practical as specific requirements can be set in the agreement with the Managers. Those requirements may cover considerations related to return, risk, liquidity, any climate-related target, redemption payments to be made to meet Scheme benefit payments over set time horizons and terms that are relevant for the asset classes invested in, including but not limited to equity and debt instruments. In particular for debt instruments in these segregated mandates, the risk and other limits in the Manager agreements, together with regular ongoing engagement with the Managers are designed to give the Manager scope to add value over a 3 or 5 year period (or longer where relevant) rather than over shorter reporting periods;
- For the majority of the Scheme's mandates with Managers there are explicit performance fee arrangements in place whereby the Manager is directly incentivised to generate additional

returns. By having these performance fee arrangements in place, we aim to ensure the Managers are focused on protecting and enhancing the value of the Scheme's investments.

7.2 Stewardship

The Trustee's engagement activities in respect of the Scheme's investments are set out in Section 4.16

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of the Managers' ongoing business activities. As the Managers are regulated by their respective regimes, these are directly monitored as part of their regulatory filings (where available) and the IC and ALCo include this as part of the Manager review at inception and from time to time as appropriate.

7.3 Turnover Monitoring

The IC maintains a schedule of reviews of Managers as part of which portfolio turnover and other cost information is requested from the Managers and is reviewed by the IC and/or the ALCo. These are monitored to confirm whether they were in-line with reasonable expectations and expected market practices. The Trustee does not operate turnover ranges with the Managers, but instead considers turnover statistics alongside other data on risk and returns.

7.4 Tenure of current Managers' arrangements

The Trustee has an ongoing relationship with its Managers. In most of the Scheme's arrangements with its Managers, there is no scheduled termination date and the Trustee has the unilateral right to terminate its investment at a short notice. The segregated mandates also tend to include a schedule of redemptions,