# LINCOLN ELECTRIC (UK) LIMITED RETIREMENT AND DEATH BENEFITS SCHEME

# STATEMENT OF INVESTMENT PRINCIPLES

APRIL 2025

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# 1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by the Trustee of the Lincoln Electric (UK) Limited Retirement and Death Benefits Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustee to ensure the effective implementation of these principles.

In preparing the Statement, the Trustee has:

- obtained and considered written advice from a suitably qualified individual, employed by the investment consultants, Mercer, whom it believes to have a degree of knowledge and experience that is appropriate for the management of its investments; and
- consulted with the Sponsoring Employer, although it affirms that no aspect of its strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustee's investment policy for the Scheme.

The Trustee will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustee will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

# 2 INVESTMENT OBJECTIVES

The Scheme's assets can be categorised into one of two components:

**1. Buy-in policy:**

The Trustee has purchased an insurance policy covering all members in the Scheme, known as "buy-in" policy, whereby the policy is under the name of the Trustee.

**2. GMP Equalisation Reserve:**

The Trustee has also retained assets to account for the GMP equalisation exercise, which refers to the process of equalising benefits provided to members of the Scheme who have accrued Guaranteed Minimum Pension ("GMP") rights (i.e., a "GMP Equalisation Reserve"). As a result, the Trustee has agreed that an appropriate objective for the assets held in respect of the GMP equalisation exercise is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet the GMP equalisation liabilities as and when they fall due and to ensure the assets are liquid enough to meet all liabilities when they fall due.

# 3 INVESTMENT RESPONSIBILITIES

## 3.1 TRUSTEE'S DUTIES AND RESPONSIBILITIES

The Trustee is responsible for setting the investment objectives and determining the strategy to achieve the objectives.

The duties and responsibilities of the Trustee include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the Investment Adviser
- The appointment and review of the investment platform provider
- The choice of appropriate pooled funds
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

## 3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustee has appointed Mercer as the investment adviser to the Scheme. Mercer provides advice as and when the Trustee requires it, as well as raising any investment-related issues, of which it believes the Trustee should be aware. Matters on which Mercer expects to provide advice to the Trustee include the following:

- Setting of the investment objectives
- Determining the investment strategy and asset allocation
- Determining an appropriate investment structure
- Selecting and replacing the investment manager
- Setting cashflow management (investment and disinvestment) procedures (see Appendix 2)

The Trustee may seek advice from Mercer regarding both strategic and tactical investment decisions, however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflow.

The Trustee does not anticipate taking tactical investment decisions and there is no responsibility placed on Mercer to proactively provide tactical investment advice to the Trustee.

Mercer will be remunerated primarily on a fixed fee basis.

In particular, Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees are satisfied that this is the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

## 3.3 INVESTMENT MANAGER'S DUTIES AND RESPONSIBILITIES

The Trustee, after considering appropriate investment advice, has invested the Scheme's non-insured assets in pooled funds with Legal and General Investment Management ("L&G") through a Trustee Investment Policy (TIP) with Mobius Life Limited ("Mobius"). The Trustee first invested through the Mobius TIP in September 2015.

Mobius is authorised by the Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA.

The Trustee is a long-term investor and does not look to change the investment arrangements on a frequent basis.

The Trustee, after considering appropriate investment advice, has appointed a professional, authorised investment manager to manage the Scheme's assets.

The investment manager has been appointed based on its capabilities and, therefore, the perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

As the Trustee invests the non-insured assets in pooled investment vehicles it therefore accepts that it cannot specify the risk profile and return targets of the investment manager and its funds. However, pooled funds are chosen with the appropriate characteristics to align with the overall investment strategy.

Details of the investment manager selected by the Trustee are set out in Appendix 3, as well as details of each mandate.

The investment manager is responsible for all decisions concerning the selection and de-selection of the securities within the portfolios they manage.

The investment manager engaged by the Trustee is authorised and regulated by the Prudential Regulation Authority ("PRA") and regulated by the FCA.

Both Mobius and the investment manager is remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Mobius also charges a fixed administration fee The Trustee believes that this is the most appropriate basis for remunerating the investment manager.

The pooled funds in which the Scheme's assets are invested do not have performance-based fees which could encourage the investment manager to make short term investment decisions to hit their profit targets.

The Trustee therefore considers that the method of remunerating the investment manager is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt. By encouraging a medium to long-term view, it will in turn encourage the investment manager, where relevant, to engage with issuers of debt in order to improve their performance in the medium to long-term.

The Trustee accepts that it cannot influence the charging structure of the pooled funds in which the Scheme invests, but is satisfied that the ad-valorem charges for the different funds are clear and are consistent with each fund's stated characteristics. The Trustee is therefore satisfied that this is the most appropriate basis for remunerating the investment manager and is consistent with the Trustee's policies as set out in this Statement.

**Buy-in policy**

The Trustee has secured an insurance policy with Aviva Insurance Limited ("Aviva") to pay to the Scheme an amount equal to the contractual payments specified under the policy. The premium in respect to the insurance policy were paid in September 2024.

The primary responsibility of Aviva is to ensure that the correct amounts specified in the contract are paid to the Scheme, and this was the primary concern of the Trustee when it took out the policy and the strategic reason for investing in a buy-in policy. Aviva's charges for managing the policy were crystallised into the up-front premium that the Trustee paid when purchasing the policy.

Apart from the additional cost of GMP / Barber equalisation and the potential for a true-up premium upon completion of the data validation exercise, no further premiums will be payable to Aviva. The Trustee therefore notes that it is in

Aviva's best interests to make assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

Aviva is authorised by the PRA and the FCA.

## 3.4 SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the investment adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall (if in existence)
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

## 3.5 ADMINISTRATOR

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the investment manager according to the Trustee's instructions

## 3.6 INSURER

The primary responsibility of Aviva is to ensure that the correct amounts are paid to the Scheme on a timely basis as set out in the buy-in contract.

# 4 INVESTMENT STRATEGY

## 4.1 SETTING INVESTMENT STRATEGY

The Trustee has determined its investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, its own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustee has also received written advice from its Investment Adviser.

The Scheme has two components to its investment strategy:

- **Buy-in policy:**

The Trustee has determined that the best way to secure the payment of benefits for the Scheme's members is to purchase an insurance policy with a reputable insurance company.

- **GMP equalisation reserve**

The basis of the Trustee's strategy for the allocation in respect of the GMP equalisation reserve is to position the Scheme so that it can achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due following the completion of the GMP equalisation exercise, whilst ensuring that the assets are liquid enough to meet the liabilities when required.

The Trustee regards the distribution of these assets to be appropriate for the Scheme's objectives and liability profile.

The Trustee has established benchmark allocation for the “GMP equalisation reserve” as set out in Appendix 1.

The Trustee has set out a simple approach for investments and disinvestments (as set out in Appendix 2).

## 4.2 INVESTMENT DECISIONS

The Trustee distinguishes between three types of investment decision: strategic, tactical and stock-level.

### Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee takes all such decisions itself. It does so after receiving written advice from its investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the suitability of entering into insurance policies for the Scheme
- Determining the allocation to asset classes for the GMP equalisation reserve
- Determining the Scheme's benchmarks
- Reviewing the investment objectives and strategic asset allocation

### Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustee.  However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

**Stock Selection Decisions**

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

## 4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustee is permitted to invest across a wide range of asset classes.

All of the funds in which the Scheme invests are pooled and unitised.  The use of derivatives is permitted by the guidelines that apply to the pooled funds.  Details relating to the pooled funds can be found in Appendix 3.

## 4.4 FINANCIAL CONSIDERATIONS

The Trustee understands that it must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance ("ESG") factors.

The Trustee recognises that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustee further recognises that investing with an investment manager who approaches investments in a responsible way and takes account of ESG related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken

The Scheme's assets are invested in pooled funds and a buy-in policy, and therefore the Trustee accepts that they have no influence on the ESG policies and practices of the companies in which their investment manager and the insurer invests. The Trustee will therefore rely on the policies and judgement of their investment manager and insurer.

The Trustee notes that the majority of the Scheme's uninsured assets are invested in fixed interest and index-linked gilts issued by the UK Government, and that ESG considerations do not readily apply to these investments.

The Trustee has reviewed the ESG policies of their investment manager and concluded that they are appropriate. These are available online via the investment manager's website.

The Trustee will therefore rely on the policies and judgement of their investment manager when assessing the impact on the value of the Scheme's investments.

The Trustee reviews ESG considerations as appropriate to make sure that their policy evolves in line with emerging trends and developments.

## 4.5 NON-FINANCIAL CONSIDERATIONS

The Trustee only considers factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations are not taken into account in the selection, retention and realisation of investments. For this purpose, non-financial matters mean 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.

## 4.6 STEWARDSHIP

The Scheme has purchased an insurance policy with Aviva and is invested in pooled investment funds (in respect of the GMP equalisation reserve. None of these assets hold equities and therefore the Scheme has no voting rights.

The Trustee's policy is therefore to invest with an investment manager where responsible investment is embedded appropriately in its approach to investment, including engaging with and monitoring investee companies.

The Trustee notes that the investment manager's approach to responsible investment and engaging with investee companies on the investment manager's website: https://www.lgim.com/uk/en/responsible-investing/.

# 5 RISK

The Trustee is aware, and seeks to take account of a number of risks in relation to the Scheme's investments, including the following:

Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. These are set out below.

### Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed via the purchase of a buy-in policy, securing the Scheme's liabilities.
- These are also managed by setting a scheme-specific strategic asset allocation with a low level of risk in relation to the non-insured assets.

### Manager Risk

- In relation to the buy-in, this is managed by investing with an appropriately regulated insurance company, and taking professional advice as part of the process.
- In relation to the non-insured assets, this is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

### Liquidity Risk

- Is monitored according to the level of cashflow required by the Scheme over a specified period.
- The insurance policy is a contract to pay to the Scheme an amount equivalent to the pensions at the time of taking out the policy, and their dependants (which is not realisable).
- In terms of the non-insured assets, it is managed by holding an appropriate amount of readily realisable investments. These Scheme assets are invested in pooled funds which are readily realisable.

### Political Risk

- Is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is (predominantly) managed by the purchase of an insurance policy covering the vast majority of the Scheme's liabilities.
- For the non-insured assets, it is managed by regular reviews of the investments and through assessment of the levels of diversification within the investment policy.

### Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- Is managed by investing in an investment manager where responsible investment is embedded appropriately in their approach to investment.

## Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is (predominantly) managed by the purchase of an insurance policy covering the vast majority of the Scheme's liabilities.

## Legislative Risk

- This is the risk that legislative changes will require action from the Trustee so as to comply with any such changes in legislation.
- The Trustee acknowledges that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

## Credit Risk

- Is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustee acknowledges that the assessment of credit risk on individual debt instruments is delegated to the investment manager.
- In terms of the non-insured assets, it is managed by: (A) investing the assets in respect of the GMP equalisation reserve in fixed interest/index-linked gilts.
- In addition, the Scheme is exposed to direct credit risk in respect of the insurance policy with Aviva, in the event of Aviva failing. In order to manage this risk, the Trustee carried out appropriate due diligence when selecting Aviva and they note that there are considerable protections in place through the regulatory regime that applies to insurance companies.

## Market Risk

- Is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk:

### Currency Risk

- Is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the Scheme may be invested in overseas assets, which are either directly or indirectly linked to a currency other than sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to sterling, thus negatively impacting the overall investment return.
- This is managed by investing solely in Sterling denominated investments.

### Interest rate and Inflation risk

- Is the risk that an investment's value will change due to a change in the level of interest/expected inflation rates. This affects debt instruments more directly than growth instruments (of which the Scheme has a zero allocation to).
- The Trustee recognises that the Scheme's liabilities are exposed to a significant level of interest/expected inflation risk and have therefore taken out an insurance policy to remove such risks.
- The Scheme's non-insured assets are invested in assets exposed to interest/inflation rate risks akin to the GMP equalisation liabilities.

### Other Price Risk

- Is the risk that principally arises in relation to the growth portfolio, to which the Scheme has a zero allocation.

### ESG Risk

- This is the risk that Environmental, Social or Corporate Governance concerns, including climate change, have a financially material impact on the return of the Scheme’s assets.
- The Trustee has managed this risk by securing the vast majority of the Scheme’s liabilities via the purchase of insurance policies.

# 6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

## 6.1 INVESTMENT ADVISER

The Trustee continually assesses and reviews the performance of its adviser in a qualitative way, and undertakes a formal review annually. In doing so, the Trustee considers the objectives it sets for the investment adviser, which it reviews on an ongoing basis and at least every three years.

## 6.2 INVESTMENT MANAGERS

The Trustee receives quarterly monitoring reports on the performance of the investment manager from Mobius, which present performance information over 3 months, 1 year, 3 years, and 5 years.

The Trustees review this to ensure is it in line with expectations, and they take a long-term view when assessing whether to replace the funds. Such decisions would not be based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of CT by Mercer. This in turn would be due to a significant reduction in Mercer's confidence that CT will be able to perform in line with its mandates over the long term.

If considering replacing the investment manager, the Trustees would take advice from the Mercer.

Changes will also be made to the investment manager if there is a strategic change to the overall strategy that no longer requires exposure to that asset class or investment manager.

## 6.3 PORTFOLIO TURNOVER COSTS

The Trustee does not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although note that the performance monitoring report which they receive is net of all charges, including such costs. Portfolio turnover cost means the cost incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustee is also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

However, given that the non-insured assets are invested in pooled gilt and index-linked gilt funds, the Trustees do not consider that this requirement is appropriate to the Scheme's circumstances.

The Trustee further notes that they have no oversight of the assets backing the insurance policies Aviva and therefore consider that these requirements are not relevant to them.

# 7 CODE OF BEST PRACTICE

The Trustee notes that in March 2024, the Pensions Regulator released the General (single) Code of Practice: https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice.

The Trustee has worked with their investment adviser to ensure that the Scheme has complied with the guidance as far as is appropriate to the Scheme's circumstances.

Now that the Scheme's liabilities have been secured through a buy-in policy with Aviva, the Trustee notes that much of the guidance is no longer relevant.

The Trustee meets with their investment advisor as appropriate to monitor developments both in relation to the Scheme's circumstances and in relation to evolving guidance and will revise the Scheme's investment approach if considered appropriate.

# 8 COMPLIANCE

The Scheme's Statement is available to members on request. The Statement is also published on the Sponsoring Employer's website.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Scheme's auditors and the Scheme Actuary.

This Statement, taken as a whole with the Appendices, supersedes all others and was approved by the Trustee.

**Approved by the Trustee on** 2 June 2025

# APPENDIX 1: ASSET ALLOCATION BENCHMARK

- **Insured members**

The assets held in respect of the insured members are in the form of an insurance policy in the name of the Trustee.

- **GMP equalisation reserve**

The Scheme's strategic asset allocation benchmark in respect of the GMP equalisation reserve is as follows:

| Asset Class | Strategic Allocation (%) |
|---|---|
| Over 5 Year Index-Linked Gilts | 20.0 |
| All Stocks Index-Linked Gilts | 15.0 |
| Over 15 Years Gilts | 30.0 |
| All Stocks Gilts | 35.0 |
| **Total** | **100.0** |

The asset allocation will naturally drift as investment market conditions change.

# APPENDIX 2: CASHFLOW AND REBALANCING POLICY

- **Cashflow**

Where possible, cash outflows will be met from cash balances held by the Scheme in order to minimise transaction costs.

The Trustee will review the cashflow policy from time to time to ensure that it remains appropriate.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

- **Rebalancing**

There will be no automatic rebalancing of the portfolio in respect of the GMP equalisation reserve.

# APPENDIX 3: INVESTMENT MANAGER INFORMATION

- **Insured members**

The assets held in respect of the insured members are in the form of insurance policies with Aviva.

The Scheme's non-insured assets are managed by L&G held via the Mobius Platform.

- **GMP equalisation reserve**

Details of the mandates with L&G in respect of the GMP equalisation reserve assets are shown in the table below:

| Investment Manager / Fund | Benchmark | Objective | Dealing Frequency | SORP/IFRS Class |
|---|---|---|---|---|
| **L&G**<br>AA – All Stocks Gilts Index Fund | FTSE Actuaries UK Conventional Gilts All Stocks Index | To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3 | Daily | Level 2 |
| **L&G**<br>AF - Over 15 Year Gilts Index | FTSE Actuaries UK Conventional Gilts Over 15 Years Index | To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3 | Daily | Level 2 |
| **L&G**<br>AP - Over 5 Year Index-Linked Gilts Index | FTSE Actuaries UK Index Linked Gilts Over 5 Years Index | To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3 | Daily | Level 2 |
| **L&G**<br>Y – All Stocks Index Linked Gilts Index Fund | FTSE Actuaries UK Index Linked Gilts All Stocks Index | To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3 | Daily | Level 2 |