SGS United Kingdom Limited Retirement Benefits Plan

Statement of Investment Principles

JULY 2023

1. INTRODUCTION

1.1 The Trustee Board ("the Trustee") of the SGS United Kingdom Limited Retirement Benefits Plan ("the Plan") has prepared this Statement of Investment Principles ("SIP") to govern the investment decisions of the Plan in order to meet its investment objective.

1.2 In preparing the SIP the Trustee has obtained and considered appropriate written advice from BlackRock (the "Manager"), and the Trustee will obtain and consider such advice before revising the SIP in the future.

1.3 In preparing the SIP the Trustee has consulted SGS United Kingdom Limited, the Plan's employer, and the Trustee will consult the employer before revising the SIP in the future.

1.4 It is the Trustee's policy to review the SIP every three years and without delay after any significant change in investment policy. As a minimum, the Trustee will review the SIP every three years.
The Trustee will notify the Manager of any material changes to the Plan's circumstances. Furthermore, any material changes to the employee covenant or Plan will trigger a strategy review, at which point the Trustee will notify the Manager.

1.5 The SIP has been prepared in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005.

1.6 The SIP will be made available on a publicly accessible website.

2. PLAN DETAILS

2.1 The Plan operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

2.2 It is a defined benefit pension scheme which is closed to new members.

2.3 The Trustee provides an Additional Voluntary Contribution ("AVC") facility, which is currently offered through Prudential and Equitable Life. The AVC arrangements are reviewed on a periodic basis to ensure that the investment performance achieved is acceptable and the investment profile of the funds remain consistent with the objectives of the Trustee and needs of the members.

3. GOVERNANCE

3.1 The Trustee is responsible for setting the general investment policy and ensuring that it is consistent with the Plan's funding objectives and its assessment of the employer covenant.

3.2 The Trustee has appointed the Manager to manage the Plan's assets in line with the Investment Management Agreement between the Trustee and the Manager (the "IMA").

3.3 The Trustee delegates the day-to-day investment decisions and management of the fund to the Manager. In particular, the selection of particular investments is left to the Manager.

3.4 The Manager will be responsible for having regard to the need for diversification of investments so far as appropriate and to the suitability of investments, and for giving effect to the principles contained in the SIP as far as reasonably practicable.

3.5 The Manager will also be responsible for participating with the Trustee in reviews of this SIP in consultation with the Plan's employer.

4. OBJECTIVES

4.1 The objective of the Plan is to invest the assets prudently with the intention that the benefits promised to members are provided.

5. INVESTMENT STRATEGY

5.1 The Trustee has reflected its investment strategy and investment objective in the IMA with the Manager whereby, within certain permitted ranges, the Manager determines an appropriate asset allocation which seeks to achieve such investment objective. In doing so the Manager takes into account the restrictions contained within the IMA, which outlines the parameters the Manager must operate within. The IMA is subject to change over time as the strategy evolves.

5.2 Further details of the investment strategy are set out in the Appendix to the SIP.

5.3 The Trustee seeks to achieve the Plan's investment objective through investing in a diversified mix of assets that balances investment return against volatility, and to balance the investments held against the current and future needs of the Plan.

6. RISK MANAGEMENT

6.1 The Trustee recognises that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Plan's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ("cash flow risk"). The asset allocation has taken into account the Plan's liability cashflow profile from the most recent Actuarial Valuation. This should offer sufficient liquidity to meet liquidity needs. Should liquidity requirements change then the Trustee will notify the Manager and update the IMA accordingly.
- The failure by the Manager to achieve the rate of return required to meet the investment objective ("manager risk"). This risk is considered by the Trustee upon the initial appointment of the Manager and on an ongoing basis thereafter (for example by regular monitoring).
- The failure to spread investment risk ("risk of lack of diversification"). The Plan's assets are invested across a range of pooled fund investments representing different assets classes in order to target the Plan's objective, as set out in the IMA.
- The possibility of failure of the Plan's sponsoring employer ("covenant risk"). The Trustee considered this risk by taking external advice when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk that exposure to overseas currencies has an adverse influence on investment values ("currency risk"). The Trustee considered this risk when setting the Plan's investment strategy and this is managed risk by hedging a proportion of the overseas currency exposure.
- The risk that environmental, social and governance factors have an adverse effect on the long-term performance of the Plan assets ("ESG Risks"). The Trustee will ensure that the Fiduciary Manager explicitly incorporates ESG information into investment decisions when considering the appointment and de-selection of investment managers.
- The risk that a custodian defaults ("custodian risk"). Assets are managed primarily within pooled funds and custody-related risks in relation to underlying pooled fund investments are managed by management companies or operators of such pooled funds. Outside of the pooled fund investments, the Trustee has appointed a Plan custodian (BNY Mellon) to manage cashflows and settle trades on time.
- The risk that events outside the control of the Plan have an adverse influence on investment values ("event risk"). The Trustee periodically reviews stress tests on the portfolio to understand the effect that extreme events could have on the Plan's funding level so that they are able to plan accordingly. In addition, the Plan invests in a diversified portfolio of assets to help manage volatility.
- The risk that a counterparty fails to fulfil its side of the agreement it makes in connection with derivative transactions ("counterparty risk"). The Trustee has appointed the Manager to mitigate this risk by assessing the credit quality of the counterparties it transacts with, ensures appropriate counterparty diversification and that collateral payments are made where required.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

6.2 The Trustee considers risk holistically across the Plan's portfolio and hence the Plan's assets are invested across a diverse range of investments.

Asset classes and instruments that may be used as part of the investment strategy include, but are not limited to, the following:

- Equities – both active and passive strategies invested across different regions;
- Credit – both active and passive across the spectrum of risk including Investment Grade, High Yield, Emerging Market;
- Alternatives – these are often less liquid than other risky assets where an illiquidity premium is rewarded. These are designed to offer a diverse return stream to traditional risky assets such as equity. The Manager will seek approval from the Trustee prior to investing in this asset class;
- Liability Driven Investments – using derivatives and physical assets; and
- Derivatives – the Manager may transact forwards and futures instruments.

6.3 The Trustee, with the aid of the Manager, monitors risk on both a qualitative and quantitative basis.

6.4 Implementing portfolio investments has been delegated to the Manager under the IMA.

7. RESPONSIBLE INVESTING

7.1 The Trustee recognises that ESG risks could impact the ability of the Plan to meet its investment objectives and therefore the Trustee has considered how to evaluate and manage these risks when setting its investment strategy as set out in the following paragraphs (along with other matters).

7.2 The Trustee will ensure that the Plan's Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes,

7.3 The Trustee will request that:

- the Manager, as part of its due diligence, assesses the approach of all the Plan's investment managers in integrating ESG risks considerations into the selection, retention and realisation of investments, before appointing them;
- the Manager, as part of its ongoing monitoring, will review the adherence of the Plan's investment managers to their ESG principles and, on at least a quarterly basis, will report on key ESG metrics for

the Plan's investment managers and aggregate these to portfolio level where appropriate;

- the Manager, as part of its ongoing monitoring, reviews the execution of voting and engagement responsibilities and periodically reports back its findings to the Trustee (for example where the Plan invests in pooled funds, the Plan's investment managers are responsible for exercising voting rights and reporting on how they have exercised those rights); and
- where UK-domiciled investment managers are not signatories to the FRC's UK Stewardship Code, the Manager shall consider the investment manager's rationale for this position and, where appropriate, report back its findings to the Trustee.

7.4 The Trustee does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life.

8. STEWARDSHIP

8.1 The Trustee understands that stewardship can enhance value over the long term and recognises that it has a responsibility to act as a good steward and protect and grow the long-term value of the Plan for the benefit of the Plan's members.

8.2 In order to be a good steward, the Trustee has set a policy which states that it expects the Plan's respective stakeholders undertake activities in relation to issues that have a material impact on the long-term value of the Plan's investments.

8.3 The Trustee expects the Manager to ensure that the stewardship policy is appropriately implemented as far as is reasonably practicable, though the Trustee retains ultimate responsibility for the way in which each appointed manager acts as a steward of the Plan's assets.
The policy includes ensuring to the extent possible that the underlying or external managers exercise on the Trustee's behalf rights and duties as an investor. This should include, where appropriate, voting and engaging with underlying investee companies, as part of an effective stewardship approach that meets the Trustee's expectations.

The Trustee expects that voting and engagement activities are carried out in the best financial interests of the assets being managed.

8.4 The Trustee has delegated monitoring of underlying or external managers to the Manager. As part of this responsibility, the Manager is expected to:

- Request voting and/or stewardship policies of the underlying or external managers.
- Enquire about underlying manager's voting activity with respect to their stated policies, where appropriate.
- Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.
- Provide a summary to the Trustee of the overall level of voting activity on an annual basis.

8.5 The Trustee will engage with the Manager to understand any reports which have been provided and challenge any outcomes which it feels are not in keeping with policy. The Manager is expected to engage with the underlying or external managers as and when required to facilitate this. Where an underlying or external manager is not adhering to this policy in line with the Trustee's expectations, the Trustee would expect the Manager to consider appropriate actions having regard to the long-term financial wellness of the Plan.

9. ARRANGEMENTS WITH MANAGERS

9.1 The Trustee recognises that the arrangements with all of the managers of the Plan are important to ensure that its interests are aligned as far as is reasonably practicable. This includes arrangements with the Manager and the underlying or external managers. In particular, the Trustee seeks to ensure that the Manager is incentivised to act in a way which generates the best long-term results for the Plan.

9.2 The Trustee agrees to share the SIP with the Manager and request that the Manager reviews the SIP and confirms that the investment strategy is aligned with the Trustee's policies.

9.3 The Trustee's policy on arrangements with asset managers will take into account the following five considerations:

- How the arrangement with the Manager incentivises the Manager to align its investment strategy and investment decisions with the Trustee's investment policies.
- How that arrangement incentivises the Manager to make decisions based on assessments about the medium to long-term financial and non-financial performance of issuers of debt or equity.
- How the method and time horizon of the evaluation of the Manager's performance and the remuneration for services are in line with the Trustee's investment policies.
- How the Trustee monitors "portfolio turnover costs" incurred by the Manager, and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangement with the Manager.

9.4 The Trustee recognises that there are different ways to engage with its managers including legal documentation as well as more informal arrangements such as ad hoc communication and reporting and monitoring deliverables provided by each manager.

9.5 The Trustee recognises that the predominant manager it has arrangements with is its Manager. The arrangement is governed by the IMA between the Trustee and the Manager. The Trustee ensures that appropriate restrictions are outlined in the IMA in order to seek to ensure that the decisions which the Manager makes are in line with the long-term interests of the Plan

9.6 This includes, but is not limited to, setting a clear investment objective, eligible instruments, asset allocation ranges and which asset classes are in scope for active and/or passive strategies.

9.7 The Trustee has also ensured that the IMA (and the supplemental disclosures provided by the Manager) include conflicts of interest policies in order to seek to ensure that incentives are aligned between the Trustee and the Manager as far as is reasonably practicable.

9.8 The Manager provides the Trustee with an annual cost transparency report.

The report provides information in line with latest regulatory requirements for Managers. The cost reporting will include detail on the portfolio turnover costs which the Trustee defines as the costs incurred in buying and selling underlying securities held within each of the funds managed by the underlying managers. On a quarterly basis the Manager reports total performance net of fees so that the Trustee is able to take into account the impact of fees and costs when evaluating performance. The Trustee believes that in order to appropriately assess the performance of its managers, the net of costs performance returns should be monitored over various time periods to ensure that managers are evaluated in line with the Trustee's policies.

9.9 The Trustee will review the arrangements with the Manager on a regular basis, however there is no restriction on the duration of any arrangement.

9.10 The Trustee expects the Manager to review arrangements with the underlying or external managers which also have no restriction on duration of any arrangement. The Manager is expected to review these arrangements on an ongoing basis and take action to seek to revise any arrangements where it is understood to be in the best long-term interests of the Plan.

9.11 The Manager is expected to take into consideration the Trustee's investment objective as well as Responsible Investing and Stewardship policies when selecting and/or appointing new underlying or external managers. The Manager is also expected to monitor the underlying managers or external managers and take into consideration the investments that they are permitted to make in order to seek that they are aligned with the long-term interests of the Plan.

9.12 The Trustee believes that they have a governance framework in place in order to seek to ensure that the Manager's actions are aligned with the five arrangements policies listed above. If the Trustee has reason to believe that the Manager is acting outside of the Trustee's policies, the Trustee will bring this to the attention of the Manager as soon as is reasonably practicable and engage with the Manager so that the parties can understand such actions and seek to resolve any concerns.

10. REALISATION OF ASSETS

10.1 Assets can be held in pooled funds across a range of liquid and illiquid strategies which can be liquidated in accordance with the dealing cycle of the pooled funds that are invested in by the Plan. Any allocation of Plan assets to illiquid strategies will be considered with the Plan's overall cashflow position in mind and requires prior Trustee approval.

10.2 In the event of a large change in yields, the Trustee recognises that the Manager, subject to the constraints within the IMA, has authority and discretion to sell the Plan's assets to meet recapitalisation requirements.

11. MONITORING

11.1 The Trustee monitors the performance and risk exposures of the portfolio on a regular basis. The Trustee receives periodic reports showing:

- Commentary over the period covering performance, macroeconomic factors and portfolio positioning;
- Risk decomposition across the portfolio, including scenario stress tests;
- Return attribution across the portfolio, including underlying pooled fund monitoring;
- Estimated funding ratio change, including a summary of contributors/detractors;
- Review of the funding level including any de-risking triggers;
- Asset allocation summary versus the permitted ranges; and
- Interest rate hedge ratios versus target.

11.2 Monitoring of the underlying investment managers' suitability is delegated to the Manager. The Manager has been delegated the responsibility for ensuring the underlying pooled fund investments are satisfactory and appropriate for the investment strategy.

APPENDIX

INVESTMENT STRATEGY

The investment strategy for the Plan is to:

- The Client's objective is for the Manager to target a return of gilts +0.75%
- Invest in a portfolio of assets which aims to immunise a proportion of the interest rate risk inherent within the Plan's liabilities (the "matching portfolio");
- Invest in a diversified portfolio of assets to achieve an efficient risk / reward trade off with the objective of generating sufficient returns to close the Plan's funding deficit (the "growth portfolio"); and
- When the funding level has achieved a predetermined level (as set out in the journey plan table in this appendix), the Plan will seek to achieve a target level of interest rate hedging, subject to it being with pre-defined tolerances.

As at the date of the SIP, the Trustee has instructed the Manager under the IMA to manage the asset allocation in such a way to aim to achieve the Investment Objective taking into account the restrictions set out in the Asset Allocation Table and Growth Strategy Permitted Ranges Table below:

PORTFOLIO STRATEGY	PERMITTED RANGES	
	MINIMUM (%)[1]	MAXIMUM (%)[1]
Growth Strategy	0%	75%
Liquid Assets	0%	75%
Matching Strategy	25%	100%

[1]As a percentage of Total Portfolio assets by market value

The Journey Plan defines how the strategy will evolve over time to aim to achieve the investment objective. As part of this process the Manager will rely on certain assumptions to determine the expected return across the portfolio of assets relative to the Plan's liabilities. The Trustee recognises that this is not an exact science and will constantly evolve, hence assumptions will be reviewed from time to time and updates will be factored in where appropriate.

The journey management funding ratio triggers and associated levels of hedging are set out in the table below.

ASSET CLASS	INITIAL	THRESHOLD 1	THRESHOLD 2	THRESHOLD 3
Funding Ratio Threshold Level	95%	97%	99%	100%
Minimum Interest Rate Hedge Ratio	80%	90%	94%	95%
Minimum Inflation Hedge Ratio	80%	90%	94%	95%

The Manager has discretion to adjust the hedge ratio above the minimum amount specified at each Threshold.

The Funding Ratio Trigger Level calculates the value of liabilities using a gilts flat discount rate which uses the Manager's pricing source.

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WHEN YOU NEED TO BE SURE