Statement of Investment Principles

The KSB Pension Scheme

September 2020

Contents

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees of The KSB Pension Scheme (the "Trustees") on various matters governing decisions about the investments of The KSB Pension Scheme (the "Scheme").

1.2. Who has had input to the SIP?

This SIP has been formulated in consultation with Quantum Advisory ("Quantum") the Trustees' investment advisers, and after consulting KSB Limited (the "Sponsoring Employer") as required by the Pensions Act 1995 (the "Act") and subsequent legislation. Quantum has the knowledge and experience required under Section 36(6) of the Act.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the "Act") and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

2. What is the Trustees' overall investment objective?

2.1. Investment objective

The Trustees, with the help of its advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of its objectives and other related matters in 2009.

The Trustees noted the need to invest in assets in the best and sole interest of the members and beneficiaries and in a manner which helps ensure that the benefits promised to members are provided and that the powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Over the long term, this requires that a rate of return is achieved which supports the long term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

2.2. What did the Trustees consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustees considered:

- the investment objective;
- the Scheme's characteristics;
- the Annual Management Charges (AMC);
- the risks and rewards of alternative asset classes and investment strategies;
- the expectation that, over the long-term, equities and property are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate diversification between different asset classes, especially equity markets;
- the difficulty for active managers to outperform stock markets, net of fees;
- the financial strength of the investment manager;
- the financial strength of the investment manager's custodian; and
- the strength of the Sponsoring Employer's covenant to support the Scheme.

2.3. What risks were considered and how are they managed?

In order to achieve their objectives, the Trustees recognised the need to invest in both risky and safer assets. The Trustees identified the following investment risks:

- the risk of a deterioration in the funding level;
- the risk that investment returns in general will not achieve expectations;
- the risk that the investment manager will not achieve the expected rate of return;
- the risk that the value of liabilities will increase due to unknown factors such as increased inflation and/or life expectancy;
- the risk of mis-match between the value of Scheme assets and liabilities;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;

- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets;
- the ways in which risks are to be measured and managed; and
- the risk that Environmental, Social and Governance ("ESG") factors; including climate change; could adversely impact the value of the Scheme's assets if this is not given due consideration and/or is misunderstood.

The Trustees recognise these different types of risk and seek to minimise them as far as possible; by regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by the pursuit of returns from the fund as a whole which exceed that which is currently believed to be required. The Trustees also recognise that assets held to cover the Scheme's technical provisions must also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

2.4. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Scheme. Details of the fund managers, styles, benchmarks and target returns used can be found in Appendix 1.

The relationship with each investment manager is open ended and is reviewed on a periodic basis.

2.5. Cash flow management

Any investments and disinvestment, required for cash flow purposes, should be used to assist the Scheme in maintaining its strategic benchmark allocation within its core portfolio.

Investments are allocated to the most underweight holdings in sequential order. Disinvestments are made to assist the Scheme in maintaining the strategic benchmark and are made from the most overweight funds in sequential order. This is reviewed on a periodic basis.

2.6. Re-balancing

The allocation of the Scheme's assets will be reviewed periodically and will be rebalanced according to the central benchmark on an ad hoc basis, and when investing and disinvesting for cash flow purposes.

3. Additional Voluntary Contributions (AVCs)?

3.1. How was the investment strategy determined?

Until the Scheme closed to future accrual in 2009, members were able to supplement their pension accrual by paying AVCs.

The Trustees periodically review the suitability and performance of these investments to ensure they remain appropriate to the members' needs.

The AVC assets are currently invested with Scottish Life.

The relationship with the AVC provider is open ended and is reviewed on a periodic basis.

4. Appointment of investment managers

4.1. How many investment managers are there?

Details of the appointed investment managers, together with fund objectives and characteristics are outlined in Appendix 1.

4.2. What formal agreements are there with the investment manager?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed the appropriate policy documents, agreements and application forms with the investment managers, setting out in detail the terms on which the portfolio is managed, including the need for suitable and appropriately diversified investments.

The relationship with each investment manager is open ended. The Trustees keep the appointment of all investment managers and AVC providers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

4.3. What are the investment managers' responsibilities?

The investment managers are responsible for the day-to-day investment management of the investments and are responsible for appointing custodians if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

4.4. Custodian and administrator

The Scheme's investments are through pooled investment vehicles. Therefore, there is no need for the Trustees to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares.

However, the underlying managers have appointed custodians for the safe custody of assets and these are detailed in the Appendix.

4.5. What is the Trustees' policy on investment in the Sponsoring Employer?

The Trustees do not hold any direct investment in the Sponsoring Employer. The Trustees' policy is to keep any holding below 5% of the Scheme's overall assets, in line with the Regulations.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

The Scheme's assets are held in a pooled fund, which can be realised easily if the Trustees so require.

5.2 What is the Trustees' policy on financially material considerations, non-financial matters and stewardship policies?

5.2.1. Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme's investments (both in terms of risk and return) arising from financially material matters. The Trustees define these as including, but not limited to, ESG factors (including climate change).

For the Scheme's investments that are implemented on an active basis, the Trustees have determined that ESG is built into the core of its investment managers' investment processes.

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustees acknowledge that most of the Scheme's investments are implemented on a passive basis. This restricts the ability of the manager to take active decisions on whether to hold securities based on the investment manager's consideration of ESG factors. The Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers but may consider this in future.

5.2.2. Stewardship

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring the existing investment manager. The Trustees have provided the appointed investment manager with full discretion concerning the stewardship of their investments.

5.2.3. Non-financial matters

The Trustees consider non-financial factors (where members have been forthcoming with their views) however the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.

5.3. How are the various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated on a fixed fee basis where possible and, where that is not possible, on a time-cost fee basis, with budgets agreed for projects in advance. Quantum does not receive commission.

The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The growth funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total Scheme's funds it holds under management. This structure has been chosen to align the fund manager's interests with those of the Scheme. In addition, the fund managers pay commissions to third parties on many trades it undertakes in the management of the assets. The Trustees can obtain annual statements from the investment managers setting out all the costs of the investments of the Scheme.

5.4. Do the Trustees take any investment decisions of their own?

The Trustees are responsible for the investments of the Scheme's assets. They take some decisions themselves and delegate others.

When deciding which decisions to make themselves, and which to delegate, the Trustees consider whether they have the appropriate training and expertise in order to make an informed decision. The Trustees have established the following decision making structure:

<table>
<tr><th rowspan="2">Trustees</th><th>Investment managers</th></tr>
<tr><td>Operates within the terms of the written contracts.
Selects individual investments with regard to their suitability and diversification.
Advises Trustees on the suitability of its benchmark.</td></tr>
<tr><td rowspan="2">Set structures and processes for carrying out its role.
Select and monitor planned asset allocation.
Select direct investments (see below).
Select investment advisers and fund managers.
Agree structure for implementing investment strategy.
Monitor investment advisers and fund managers.
Monitor direct investments.
Make ongoing decisions relevant to the operational principles of this Statement.</td><th>Investment adviser</th></tr>
<tr><td>Advises on all aspects of the investment of the Scheme's assets, including implementation.
Advises on this Statement.
Provides required training.</td></tr>
</table>

5.5. Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly. The latter are known as direct investments.

The Trustees' policy is to review its direct investments (if any) and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, they will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.6. Conflicts of Interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustees' meeting and document these in the minutes. Investment managers report to the Trustees on conflicts of interest annually.

5.7. Capital Structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

6. Review

6.1. How often are investments reviewed?

Strategy reviews are undertaken periodically. Typically, a review of the will occur alongside triennial actuarial valuations; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

The Trustees will, after significant changes in policy and at least every three years, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate.

Performance is reviewed periodically, with assistance from Quantum.

6.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

6.3. How often is this SIP reviewed?

The Trustees will review this SIP periodically and without delay after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting with the Sponsoring Employer.

.... D. G. CROKER

Signature Name

28TH SEPTEMBER 2020

Date

For and on behalf of the Trustees of The KSB Pension Scheme

7. Appendix – Managers and fund details

Manager	Fund	Benchmark	Objective / Outperformance target	Inception Date
LGIM	UK Equity Index	FTSE All-Share Index	To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three.	February 2009
LGIM	North America Equity Index	FTSE North America Index	To track the performance of the benchmark to with +/- 0.5% p.a. for two years out of three.	February 2009
LGIM	Europe (ex UK) Equity Index	FTSE Developed Europe ex UK Index	To track the performance of the benchmark to within +/- 0.5% p.a. for two out of three years.	February 2009
LGIM	Japan Equity Index	FTSE Japan Index	To track the performance of the FTSE benchmark to within +/- 0.5% p.a. for two years out of three.	February 2009
LGIM	Asia Pac (ex Japan) Developed Equity Index	FTSE Developed Asia Pacific ex Japan Index	To track the performance of the benchmark to within +/- 0.75% p.a. for two years out of three.	February 2009
LGIM	Over 15 Year Gilts Index	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To track the performance of the benchmark to within +/- 0.25% p.a. for two years out of three.	February 2009
LGIM	Investment Grade Corporate Over 15 Year Index	Markit iBoxx £ Non-Gilts Over 15 Years Index	To track the performance of the benchmark to within +/- 0.5% p.a. for two out of three years.	February 2009
LGIM	Investment Grade Corporate All Stocks Index	Markit iBoxx £ Non-Gilts Index	To track the performance of the benchmark to within +/- 0.5% p.a. for two years out of three.	February 2009
LGIM	Over 15 Year Index Linked Gilts Index	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index	To track the benchmark to within +/- 0.25% p.a. for two out of three years.	February 2009
Newton	Real Return	1-month LIBOR	To outperform the benchmark by 4.0% p.a. over 5 years.	November 2009

Investment strategy

The Scheme's investment strategy is to invest 65% of assets in "growth" funds and 35% of assets in "liability matching" funds. Growth assets may include equity and Diversified Growth Funds and liability matching assets will include corporate and government bonds.