

The Spirax-Sarco Employees Pension Fund (the "Fund")

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Spirax-Sarco Employees Pension Fund (the "Fund") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. The Trustees' investment responsibilities are governed by the Fund's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Spirax-Sarco Limited (the Sponsor), the Participating Employers, Spirax-Sarco Engineering PLC, and the Scheme Actuary.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustees' strategy whereby the level of investment risk reduces as the Fund's funding level improves.

In this capacity, and subject to agreed restrictions, the Fund's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, the UK and the USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Fund's assets on a day to day basis.

In considering appropriate investments for the Fund, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees have agreed, with the support of the Sponsor, to take some investment risk in order to improve the Fund's ongoing and solvency funding positions. The Trustees recognise that equity investment will bring increased volatility to the funding level but also the expectation of improvements in the Fund's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees' primary objective is to invest the Fund's assets in the best interests of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' further objectives are as follows:

- *To ensure that they can meet their obligations to the beneficiaries of the Fund.*
- *To achieve a funding position on an economic basis (gilts + 0.25%) of at least 100% by 2037.*
- *To monitor the progress of the funding level against a pre-agreed table and to capture improvements in the funding level and opportunistically reduce the degree of risk in the Fund's investment arrangements, thereby helping to protect the Fund's improving funding position.*

The Trustees recognise this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risks and these risks are discussed below.

The Trustees have agreed a target of reaching a suitably strong funding level to allow a move to a primarily bond based investment strategy. The Trustees will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determines to be financially material considerations. Non-financial considerations are discussed in section 9.

4. Risk Management and Measurement

There are various risks to which any pension fund is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Fund's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustees recognise that whilst investment risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's accruing liabilities as well as producing more volatility in the Fund's funding position.
- The Trustees have delegated the asset allocation to Mercer, other than in relation to shares held in Spirax-Sarco Engineering plc. To control the risk outlined above, the Trustees, having taken advice, set the split between the Fund's Growth and Matching assets such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.
- Whilst moving towards the target funding level, the Trustees recognise that even if all of the Fund's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Fund's

assets and the Fund's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.

- The Trustees monitor the holding of Spirax-Sarco shares (including any held by the investment managers) against the total value of Fund's assets and take action to reduce them if the holding proportion exceeds 5% of total Fund's assets.
- The Trustees have decided that given the strength of the Employer Covenant, it is not necessary at the current time to have a policy of implementing short-term downside protection.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Growth and Matching portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.
- To help diversify manager-specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Fund's assets will be managed by appropriate underlying asset managers. By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Trustees Fund's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure) such investments would normally only be made with the purpose of reducing the Fund's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Fund are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Fund's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Fund is subject to currency risk because some of the investment vehicles in which the Fund invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of

non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Fund is subject to longevity risk – the risk that members live longer than expected. The Trustees do not currently take any steps to mitigate longevity risk as they believe it is a relatively small risk compared to the other risks facing the Fund.

Should there be a material change in the Fund's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustees, with advice from the Fund's investment consultant and Scheme Actuary, reviewed the Fund's investment strategy most recently in December 2019. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies). The Trustees decided to retain Mercer to implement their de-risking strategy by way of its Dynamic De-risking Solution. The approach undertaken relates the asset allocation to the Fund's funding level (on an actuarial basis using a single discount rate of 0.25% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.25% basis"). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to meet the Trustees' funding objectives;
- To reduce the volatility in the funding level by reducing unhedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Fund's initial funding level on a gilts + 0.25% basis and is based on a model of the progression of the Fund's funding level over the period to 2037, taking into account the expected contributions from the Sponsor as agreed at the latest triennial actuarial valuation.

The de-risking triggers which form the basis of the Fund's dynamic investment strategy are set out in a separate document – the Investment Management Agreement ("IMA").

Once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and the triggers will be amended if required.

Responsibility for monitoring the Fund's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities. All applicable restrictions and guidelines are set out in the Investment Management Agreement ("IMA") between the Trustees and Mercer.

6. Realisation of Investments

The Trustees, on behalf of the Fund, hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Fund's assets in line with the Fund's strategic allocation. In practice, this means that inflows to the Fund are used to "top up" allocations to asset classes / managers which are underweight when compared to the target benchmark weights, and outflows will be taken from those asset classes / managers which are most overweight when compared to target benchmark weights.

Mercer is responsible for raising cash flows to meet the Fund's requirements.

8. Rebalancing

Rebalancing ranges have been set within the Growth and Matching Portfolios. The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weighting, under the new de-risking band, as defined in the IMA.

9. ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Fund's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, are expected to

provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

The Trustees believe that their ESG policies are broadly aligned with the Company's views on ESG.

Member views

Neither members' views or the Trustees' opinions of members' views are taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future. However, in some of the underlying funds, Mercer specifically prevents the underlying investment managers investing in companies which derive a high proportion of their revenue from certain activities such as the manufacturing of controversial weapons.

10. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Fund, in particular, the long-term liabilities.

As Mercer manages the Fund's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Fund's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the

relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Fund.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Fund's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Fund. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Fund's annualized, MiFID II compliant Personalised Cost & Charges statement. The Fund's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary

transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

11. Additional Assets

Under the terms of the Trust Deed, the Trustees are responsible for the investment of Additional Voluntary Contributions (“AVCs”) paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers’ continued suitability.

Both existing and new members may pay AVCs into a range of investment funds with The Standard Life Assurance Company to enhance their benefits at retirement. There is, however, also a facility for legacy investors to pay AVCs into a with-profits fund with Utmost Life and Pensions. The Trustees’ policy is to make The Standard Life Assurance Society AVC Scheme available to all members, providing them with suitable long-term returns, and the Utmost arrangement additionally available to legacy investors.

12. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes 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 fund investments.

Signature

Print Name

Signature

Print Name

18th September 2020

Date

For and on behalf of the Trustees of the Spirax-Sarco Employees Pension Fund