

Meggitt Pension Plan – Statement of Investment Principles: March 2024

Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Meggitt Pension Plan ('the Plan'). It describes the investment policy being pursued by the Trustee of the Plan and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

Detail on how the Plan's investment strategy is implemented is set out in a separate Statement of Investment Implementation ('SII') document (which is maintained by the Trustee).

With effect from 6 April 2009 the Meggitt Executive Pension Plan was merged with the Meggitt Pension Plan. Following the merger the Meggitt Executive Pension Plan is defined as a legally separate section of the Plan. This SIP governs both sections.

The Trustee confirms that, before preparing this SIP, it has consulted with Meggitt Limited ('the Sponsoring Employer') and the Scheme Actuary and has obtained and considered written advice from the Investment Adviser (Schroders Solutions, a trading name of Schroders Investment Solutions Limited). The Trustee believes the Advisers (set out in the table below) to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Plan requires.

"The Advisers"	
Investment Adviser and Fiduciary Manager	Schroders Solutions
Scheme Actuary	Mercer
Covenant Adviser	Mercer
DC and AVC Adviser	Mercer
Independent Fiduciary Manager Oversight	Barnett Waddingham
Lawyer	Squire Patton Boggs

The Trustee is responsible for the investment of the Plan's assets and arranges administration of the Plan. Where it is required to make an investment decision, the Trustee always receives advice from the relevant Advisers first and they believe this ensures they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but has delegated the day-to-day investment of the Plan's assets to a Fiduciary Manager.

Declaration

The Trustee confirms this SIP reflects the Investment Strategy it has implemented for the Plan. The Trustee acknowledges it is their responsibility, with the guidance from the Investment Adviser, to ensure the assets of the Plan are invested in accordance with these Principles.

Signed: M. Saraje

Date: 18/6/24

For and on behalf of the Trustee of the Meggitt Pension Plan

Plan Governance

The Trustee is responsible for the governance and investment of the Plan's assets. The Trustee considers the governance structure set out in this SIP is appropriate for the Plan as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Fiduciary Manager.

The Trustee has appointed an Investment Committee (the 'IC') to deal with investment matters on its behalf. The IC deals with day to day investment matters and acts as a coordinator between the Fiduciary Manager and the Trustee.

The IC will report back to the Trustee at each of their meetings on the activities of the IC since the last meeting. All investment decisions relating to material changes in investment strategy remain the sole responsibility of the Trustee. The responsibilities of the IC are covered in the IC terms of reference. The Trustee may follow or reflect any or all advice offered by the IC. The IC maintains a Statement of Investment Implementation ("SII") which sets out the specifics of investment implementation. This document is referred to later in this SIP.

Details of the responsibilities delegated to the IC and those retained by the Trustee are detailed later in this SIP as well as the IC's Terms of Reference.

Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the Plan's liabilities.

The Trustee has taken advice from the Investment Adviser to ensure that the proposed strategy, and the assets held by the Plan through that strategy, are suitable given its liability profile, the Trustee's objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Plan (the Trust Deed).

Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements, including the Plan's Specific Funding Requirement.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

Investment Objectives

The overall objective of the Plan is to meet the benefit payments promised as they fall due. The Trustee has set the following qualitative objectives:

- To make sure the Trustee can meet its obligations to the beneficiaries of the Plan;
- To reach full funding on a Technical Provisions basis by the end of the recovery plan in February 2025.
- To pay regard to the Company's interests regarding contribution payments, and the potential volatility in funding levels and pension expense.

The Trustee is also consulting with the Sponsor on agreeing long-term funding targets for each Section of the Plan.

The objective for the investment strategy of each Section of the Plan is as follows:

- Main Section: gilts + 1.5% per annum
- Executive Section: gilts + 1.0% per annum.

Each Section's investment strategy is benchmarked against its Technical Provisions liabilities. The investment strategy targets an additional return per annum in excess of the Technical Provisions discount rate. This means outperformance of investment objectives can be translated into funding level improvements, all else being equal.

All references to 'Technical Provisions' in this document relate to the Technical Provisions liabilities as set out in the Plan's Statement of Funding Principles.

Implementation of investment strategy

The Trustee has delegated the investment of the Plan assets to the Fiduciary Manager. The Fiduciary Manager has discretion to invest these assets in underlying securities and funds, either directly or through the use of other investment managers ('Underlying Managers') to run the portfolio on a day-to-day basis.

The Trustee utilises the following building blocks within each Section of the Plan:

- **Growth assets:** Invested in a diversified range of return-seeking assets with asset allocation and manager selection delegated to the Fiduciary Manager, within asset class ranges set by the Trustee. This allocation seeks to generate returns of SONIA + 4.125% per annum (net of fees).
- **Structured equity:** Invested in a combination of gilts and equity derivatives. The equity derivatives provide exposure to equity market returns, with contractual downside protection so that losses are at least partially mitigated if underlying equity markets fall in value. Gilt collateral is used to support both the structured equity and the liability hedge, enabling an efficient use of capital. The management of this building block is delegated to the Fiduciary Manager. This allocation seeks to generate returns of SONIA + 3.625% per annum (net of fees).
- **Cashflow matching credit assets:** Invested in assets which distribute income/capital in order to reduce cash flow risk, whilst also mitigating some of the interest rate risk inherent in the liabilities. This allocation seeks to generate returns of approximately 1% p.a. above the return on gilts (net of fees) by holding Investment Grade bonds to maturity.
- **Liability hedging assets:** A bespoke segregated liability hedge designed to capture all or most of the risk inherent in the Technical Provisions liabilities from movements in interest rate and inflation expectations.

The Trustee has delegated the allocation between the various building blocks described above to the Fiduciary Manager subject to:

- the parameters set by the Trustee with minimum and maximum permitted allocations for the Fiduciary Manager to allocate to each building block
- the overall investment objective return target being met

Diversification

The choice of asset classes is designed to ensure the Plan's investments are adequately diversified given the Plan's circumstances. The Trustee will monitor the strategy regularly to ensure they are comfortable with the level of diversification. The assets are invested in a diversified range of suitable investments of different types across the investment strategy.

The range of, and any limitation to the proportion of, the Plan's assets held in any asset class will be agreed between the Fiduciary Manager and the Trustee. This range and set of limitations will be specified in the Fiduciary Management Agreement and may be revised from time to time according to

appropriate investment strategy advice provided to the Trustee and having regard to the investment powers of the Trustee as defined in the Trust Deed.

Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and have delegated responsibility to the Fiduciary Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

Rebalancing Policy

The Trustee has an informal rebalancing policy whereby the strategy will be rebalanced using cashflows in and out of the Plan.

Liquidity

The Trustee, together with the Plan's administrators, will ensure that they hold sufficient cash to meet the likely benefit outgoings.

The Trustee, together with the Plan's Fiduciary Manager, will ensure that they hold sufficient cash and liquid assets to meet collateral requirements to sustain the Plan's interest rates and inflation hedge targets.

Realisation of Assets

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so require. For the Main Section, the Fiduciary Manager is restricted on the proportion of the Growth Assets which can be held in illiquid investments, which the Trustee acknowledges can take additional time to realise. For the Executive Section, the Fiduciary Manager is winding down existing illiquid positions and is not permitted to invest further in illiquid assets. The Trustee has considered this risk against the possibility of needing to realise these assets and are comfortable it is a reasonable approach to take.

Custody

The Trustee has appointed a custodian for the Plan's assets as detailed in the SII.

Monitoring

The Trustee will monitor the performance of the Fiduciary Manager against agreed performance objectives.

The Trustee, or any other suitably qualified Adviser on behalf of the Trustee, will regularly review the activities of the Fiduciary Manager to satisfy themselves that the Fiduciary Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the assets of the Plan.

As part of this review, the Trustee considers whether or not the Fiduciary Manager:

1. Is carrying out its function competently.
2. Has regard to the need for diversification of investments.
3. Has regard to the suitability of each investment and each category of investment.
4. Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with the Fiduciary Manager, it will ask the Fiduciary Manager to take steps to rectify the situation. If the Fiduciary Manager still does not meet the Trustee's requirements, it will remove the Fiduciary Manager and appoint another.

Risks

The Trustee recognises a number of risks involved in the investment of assets for the Plan. These risks, and how they are measured and managed, include:

- i. Funding and asset/liability mismatch risk – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
 - Liability risk is addressed through the asset allocation strategy including the use of derivatives to hedge the interest rate and inflation risk (the Liability Hedge) and through regular investment reviews. These risks are quantifiably measured by consideration of the investment strategy performance against the liabilities. The Trustee keeps these risks under review and receives ad-hoc advice from the Fiduciary Manager. Before any change in strategy or asset allocation, the Trustee receives quantified risk measurement analysis on the impact of any changes from the Fiduciary Manager.
 - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than assumed in the Recovery Plan.
 - This risk is also monitored through regular actuarial and investment reviews.
- ii. Underperformance risk – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
 - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
 - The use of instruments and strategies designed to control the extent of market downside exposure.
 - The use of passive management for asset classes where the downside risk of active management is considered too high.
 - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate, and by use of more than one Manager to avoid over exposure to one organisation.
- iii. Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- iv. Concentration risk – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- v. Mismanagement risk – the risk of unsuitable investment activity by the Fiduciary Manager. This is addressed in the agreement with the Fiduciary Manager, and in turn by the Fiduciary Manager with the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Fiduciary Manager or Underlying Managers may invest in.
- vi. Default risk – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Fiduciary Manager and Underlying Managers, e.g. a minimum credit rating of the

bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.

vii. Organisational risk – the risk of inadequate internal processes leading to problems for the Plan. This is addressed through regular monitoring of the Fiduciary Manager and Advisers by the Trustee, and of the Underlying Managers by the Fiduciary Manager.

viii. Counterparty risk – the risk of the counterparty to an agreement not carrying out its side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made.

ix. Cash flow risk – addressed through the monitoring of the cash flow requirement of the Plan to control the timing of any investment/disinvestment of assets.

x. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Employer.

xi. Transition risk – the risk of paying unnecessary costs or being at increased risk of adverse market movements, when transitioning assets from one Manager or asset class to another. This risk is mitigated by organising transitions in a structured fashion with the advice of the Investment Adviser or by using a specialist transition Manager, if appropriate.

xii. ESG risk – the risk of adverse performance due to Environmental, Social and Governance (ESG) related factors including climate change. This is addressed by the Fiduciary Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio is included in the quarterly governance report.

xiii. Longevity risk – the risk of members living longer than assumed in the actuarial valuation. The Trustee does not hedge longevity risk today.

xiv. Collateral adequacy risk – the risk of exhausting liquid assets resulting in the Plan being unable to meet immediate collateral requirements relating to derivative positions, i.e. unable to post additional cash to the Liability Hedging Assets to retain the Plan's interest rates and inflation hedge targets.

The Trustee will keep these risks and how they are measured and managed under regular review.

Corporate Governance and Stewardship

The Trustee and Fiduciary Manager have agreed, and will maintain, formal agreements setting out the scope of the Fiduciary Manager's activities, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995. Further information can be found in the SII.

The Trustee has appointed the Fiduciary Manager to implement the Plan's investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Fiduciary Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically reviews the overall value-for-money of using Schroders Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. Ongoing management fees of the Fiduciary Manager are detailed in the SII. The Trustee is satisfied that these arrangements incentivise the Fiduciary Manager to:

- align its investment strategy and decisions with the Trustee's investment policies, such as its return target and the restrictions detailed in the Fiduciary Management Agreement, and
- assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Plan's performance, which is measured relative to the Trustee's long-term performance objectives.

The Plan's investments are generally made via pooled investment funds, in which the Plan's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to its Underlying Manager holdings to the Fiduciary Manager. The Fiduciary Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Fiduciary Manager are subject to additional sign-off by the appropriate representative from the Fiduciary Manager.

Following an exercise to understand the Fiduciary Manager's priority themes for engaging with Underlying Managers, the Trustee has set the following engagement priorities when engaging with the Fiduciary Manager:

- Climate
- Biodiversity and Natural Resources
- Human Rights

The Fiduciary Manager will report annually on how it has engaged on the Trustee's behalf in respect of these priorities with the Underlying Managers.

The Fiduciary Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Fiduciary Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee's objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Fiduciary Manager, as detailed above.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager directly monitors these as part of their regulatory filings (where available), the Fiduciary Manager also monitors this as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available publicly here:

<https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/>

The Fiduciary Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Fiduciary Manager's expectations. Where there are material deviations the Fiduciary Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

Portfolio turnover costs will be assessed at the discretion of the Investment Adviser and Fiduciary Manager, and the appropriate level of turnover costs will be considered on an individual asset class basis. The Investment Adviser and Fiduciary Manager will report back to the Trustee regarding portfolio turnover costs to assist in the Trustee's ongoing monitoring.

Financially material investment considerations

Factors including (but not limited to) environmental, social and governance (ESG) considerations (including, but not limited to, climate change), are considered to be financially material by the Trustee.

The Trustee believes certain ESG factors can have an impact on financial performance and part of its fiduciary duty is to incorporate this information into its investment decisions to reduce investment risk and enhance portfolio returns over the length of time needed for the funding of future benefits of the Plan. The Trustee considers a wide range of ESG risks, including corporate governance, human rights, labour and environmental standards and so on and it believes that climate risk presents a material financial risk to the assets invested in its portfolio.

The Trustee currently does not have standalone ESG policy but the Trustee's policy is to delegate the monitoring and overall management of financially material ESG risks and opportunities to the Fiduciary Manager. The Trustee is comfortable with the delegation given the approach the Fiduciary Manager takes towards ESG and climate related risks and opportunities is aligned with the Trustee's beliefs.

The Trustee receives regular training and updates on ESG-related topics such as portfolio ESG reporting, voting and engagement examples on a quarterly basis through Trustee meetings. In addition, on an annual basis, the Trustee reviews the ongoing suitability of the Fiduciary Manager's monitoring and management of ESG and climate-related issues via an ESG annual report and challenges or engages with the Fiduciary Manager as required on its approach.

The Trustee delegates the integration of climate related risks into the investment process to the Fiduciary Manager. The Fiduciary Manager provides regular updates for the Trustee to:

- Understand the exposure of its investments to climate change in the quarterly monitoring report, and
- Ensure that new and existing investments take account of climate change risks and opportunities.

The Trustee expects its Fiduciary Manager to take its policy into account as part of manager selection.

Non-financial matters

The Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.

Additional Voluntary Contributions (AVCs)

Under the Plan's Trust Deed and Rules, members are allowed to invest Additional Voluntary Contributions to improve the benefits they receive at retirement. The Trustee has selected a range of investment funds with Utmost Life, Friends Provident and Prudential for the AVCs to be invested in.

The Trustee reviews these arrangements from time to time having regard to their performance, the objectives and the views of its Adviser, Mercer.

Responsibilities

Trustee

The Trustee of the Plan is responsible for, amongst other things:

- i. Determining the investment objectives of the Plan and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Plan.
- iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the Fiduciary Managers by means of regular reviews of the investment results and other information, by way of meetings and written reports
- vi. Appointing and dismissing fiduciary Manager, the performance measurer, custodian(s) and transition Manager(s) in consultation with the Investment Adviser.
- vii. Assessing the ongoing effectiveness of the Advisers.
- viii. Consulting with the Employer when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x. Advising the Advisers of any changes to Plan benefits, significant changes in membership.

Investment Committee

The IC is a body comprising of a sub group of the Trustee as appointed by the Trustee and may invite representatives from the Employer to attend. The Investment Committee has responsibility for, amongst other things:

- i. Review and propose changes to (but not approve) the Plan's investment and liability hedging strategies, including setting of return targets, and Statement of Investment Principles in response to changing circumstances.
- ii. Assist the Plan in implementing its investment strategy – alongside the appointed Plan Fiduciary Manager, including the reallocation of funds between asset classes within the parameters agreed in the investment strategy and the Statement of Investment Principles.
- iii. Review the performance and fees of the Fiduciary Manager and, where appropriate, investment managers.
- iv. Help determine the use of any cash balances held by the Plan.
- v. Assist the Plan in implementing any liability hedging strategy agreed by the Plan
- vi. Advise the Trustee on the selection of investment advisers and seek their advice as appropriate once appointed by the Trustee.
- vii. Help to ensure that the investment managers appropriately take into account risk versus return requirements in managing the portfolio taking into account the status of the Plan's liabilities and investments.

- viii. Evolve proposals for incorporating ESG and climate change factors into the Plan's investments.
- ix. Report back to the Trustee of the Plan at each of its meetings on the activities of the IC since the last meeting, the performance of the investments and to provide new ideas and recommendations for broader consideration.
- x. Consult with the Parker Investment Committee on behalf of the Trustee on the Plan's investment strategy, liability hedging strategy and Statement of Investment Principles, ensuring that the Employer is fully consulted on these matters before the Trustee make any changes.

Fiduciary Manager

The Fiduciary Manager will be responsible for, amongst other things:

- i. At its discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class.
- ii. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:
 - 1. A report of the strategy followed during the quarter.
 - 2. The rationale behind past and future strategy.
 - 3. A full valuation of the assets and a performance summary.
 - 4. A transaction report and cash reconciliation.
 - 5. Corporate actions taken by the Investment Managers.
 - 6. Any changes to the process applied to the portfolio.
 - 7. Future intentions in the investment management of the Plan's assets.
- iii. Informing the Trustee immediately of:
 - 1. Any breach of this SIP that has come to their attention.
 - 2. Any serious breach of internal operating procedures.
 - 3. Any material change in the knowledge and experience of those involved in managing the Plan's investments.
 - 4. Any breach of investment restrictions agreed between the Trustee and the Investment Managers from time to time.
- iv. Participating with the Trustee in reviews of this SIP.
- v. Advising the Trustee how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.
- vi. Advising the Trustee of any changes in the Plan's Investment Managers that could affect the interests of the Fund.
- vii. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Plan.
- viii. Undertaking reviews of the Plan's investment arrangements including reviews of the asset allocation policy and the current Investment Managers, and selection of new Managers as appropriate.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- i. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- ii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Plan at the triennial valuations.
- iii. Advising the Trustee and Investment Adviser of any changes to contribution levels and providing final valuation documents as valuations are signed off.

Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

- i. Liaising with the Trustee to ensure legal compliance, including those in respect of investment matters.

