Tyco Holdings (UK) Limited CARE Pension Scheme

Statement of Investment Principles

April 2023

Contents

01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Tyco Holdings (UK) Limited CARE Pension Scheme ('the Scheme'). It describes the investment policy being pursued by Johnson Controls UK Trustees Limited (‘the Trustee’) and is in accordance 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.

The Scheme Actuary is John Batting of XPS Pensions Group and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustee confirms that, before preparing this SIP, it has consulted with the employer, Tyco Holdings (UK) Ltd ('the Employer') and the Advisers and has obtained and considered written advice. The Trustee believes the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustee is responsible for the investment of the Scheme's assets and the administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives advice from the Advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

The Trustee has appointed investment managers to manage the assets through a combination of direct investment and investment in pooled funds. Decisions about which funds to invest in are made after receiving investment advice from an FCA regulated firm.

01.01 Declaration

The Trustee confirms that this Statement of Investment Principles reflects the Investment Strategy it has decided to implement. The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 **Scheme governance**

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

The Trustee has decided to appoint an Investment Sub-Committee to deal with investment matters.

03 Investment objectives and key considerations

The Trustee’s objective is to invest the assets in the best interests of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee’s investment policy is guided by the following objectives:

> To achieve over the long-term a return on the investments consistent with the long-term assumptions made by the Scheme Actuary in determining the funding of the Scheme.

> To maintain a level of risk which is supported by the Employer covenant. In doing so the Trustee seeks to minimise risks where it is possible to do so, including the use of Liability Driven Investment (LDI) to reduce the Scheme’s exposure to interest rate and inflation risk. However, the Trustee is also prepared to take on some risk by investing in return enhancing asset classes such as, but not limited to, equities, multi-sector credit, non-government bonds and property, and by using active fund managers to manage some of the assets.

04 Asset allocation strategy

The Scheme's allocation between different asset classes will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the investment objectives. The current benchmark and target allocation is set out in Appendix A and any changes in such allocations will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives. The Trustee, in conjunction with the Investment Adviser, will regularly monitor the actual asset allocation of the Scheme's assets in each asset class against this benchmark and will look to increase the allocation to off-risk assets as the funding position improves.

The Investment Managers and funds that the Trustee has selected to achieve the investment objectives are detailed in Appendix B. If any changes are required to be made to the Investment Managers or funds, the Trustee will first consult with the Investment Adviser but for the avoidance of doubt any such change will not in and of itself constitute a change of investment policy requiring a revision to this SIP.

04.01 Alignment of incentives

Based on the structure set out in the Appendix, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in the guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Scheme is invested.

The Trustee will ensure that the Scheme's assets are predominately invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

Asset allocation strategy continued...

As covered in more detail in this document and in the Scheme's separate Responsible Investment Policy, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

04.02 Rebalancing policy

The Trustee, in conjunction with the Advisers, will monitor the actual asset allocation of the Scheme on a regular basis via regular investment updates received from the Advisers. If the actual allocation has moved significantly from that set out in Appendix A, the Trustee will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.03 Expected returns

The benchmark and target rates of return expected are detailed in Appendix B for each fund.

04.04 Diversification

The choice of asset classes is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustee will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Liquidity

All of the Scheme's assets are held in pooled funds with frequent redemption dates that are sufficiently liquid to be realised ahead of any planned or unexpected demand for cash. Furthermore, the majority of underlying investments are traded regularly on a public exchange, with the exception of the Scheme's 10% strategic allocation to property, and accordingly there are no foreseeable circumstances in which redemption requests could not be met.

04.06 Additional Voluntary Contributions

Some members of the Scheme have paid Additional Voluntary Contributions ("AVCs") into the Scheme, which are invested and will be used to increase benefits at retirement, or in the event of death. These facilities are now closed to future contributions. The Trustee selected a range of investment funds to which members were able to pay AVCs. The Trustee monitors the performance of these funds and ensures that the investment profile of the funds remains consistent with the objectives of the Trustee and needs of the members.

05 **Monitoring**

05.01 Performance and remuneration reporting

The Trustee receives regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one year and three year periods.

This monitoring helps to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

The Investment Adviser has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

05.02 Advisers

The Trustee will monitor the quality of advice given by the Advisers on a regular basis.

05.03 Portfolio turnover costs

The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence

05.04 Investment manager duration

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities.

05.05 Other

The Trustee is required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

06 Fees

06.01 Funds

The Trustee will seek to ensure that the fees charged for the funds they use and their expense ratios are consistent with levels typically available in the industry for such funds. The current fee basis for each of the funds is set out in Appendix B.

The Trustee is aware of the Investment Managers' policies regarding commission arrangements. The Investment Managers disclose their fees, use of commissions, and other transaction costs in accordance with the Financial Conduct Authority ('FCA') Rules.

06.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

06.03 Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets. As all of the Scheme's investments are in pooled funds, the custodianship arrangements are those operated by the Investment Managers for all clients investing in their funds. There is no custodian appointed directly by the Trustee.

06.04 Trustee

The Trustee may be paid for their roles.

07 **Risks**

The Trustee recognises a number of risks involved in the investment of assets of the Scheme:

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustee will regularly monitor the investments to mitigate this risk.

ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy, for example LDI, and through regular actuarial and investment reviews and the funding target.

iii. Risk of lack of diversification of investments – addressed through investment in funds with diversification requirements and through the asset allocation policy.

iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of liquid funds with frequent dealing dates.

v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Country/political risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

vii. Organisational risk – the risk of losses arising through operational mistakes or errors is addressed through regular monitoring of the Investment Managers and the Advisers.

viii. Sponsor risk – the risk that the Employer ceases to exist or otherwise is unable to fully support the Scheme is measured by reference to the strength of the Employer covenant and is managed by ensuring the asset allocation strategy takes into account the level of sponsor risk.

ix. Recapitalisation risk – Leveraging in an LDI solution gives typically 2-4 times the sensitivity to interest and inflation rates compared to normal bonds, this can also lead to the effective value of the LDI investments falling to zero relatively quickly or even going negative. Should interest rates rise significantly the Trustee may need to sell some of the Scheme's other assets to recapitalise the LDI investments. The Trustee will keep these risks under regular review.

x. Market risk - the risk of the Scheme failing to meet its investment objectives due to a general decline in markets is measured by reference to the expected volatility of return-seeking assets relative to equity markets and is managed by investing across a diverse selection of return seeking assets which are expected to have uncorrelated returns.

xi. Credit risk - the risk that a bond issuer will default on its obligations is measured by reference to the exposure of funds to corporate or emerging market debt and is managed by investing in funds with a diversified list of credits.

xii. Counterparty risk - the risk that a counterparty fails whilst owing money on a derivative contract is measured by reference to the exposure to such counterparties and is managed by ensuring the Investment Managers choose counterparties with a strong credit rating.

xiii. Currency risk - the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates is mitigated, where deemed undesirable, by investing in Sterling hedged funds and the use of a bespoke currency hedging mandate.

08 **Other issues**

08.01 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 statutory funding requirements. 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 requirement.

08.02 Environmental, social and governance issues

The Trustee has considered their approach to environmental, social and corporate governance ("ESG") factors and climate change and believes there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustee requires the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

Where the Scheme invests in pooled funds, the Trustee's acknowledge that they cannot directly set requirements for the investment managers and their funds. However, the Trustee is clear that ESG factors and climate change specifically represent material financial risks to the Scheme, and therefore the Trustee has established a separate Responsible Investment ("RI") Policy. The Policy details more explicit actions of the Trustee, considerations for the Scheme's assets overall and expectations of managers to ensure ESG and climate change risks are effectively managed for the long-term benefit of members.

Oversight of investment manager approach
In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

08.03 Voting Rights

As the Scheme invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practises of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Manager.

The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matter such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impacts and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

08.04 Member views

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.

Appendix A
Strategic asset allocation

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustee has decided upon the following benchmark allocation as being the basis for measuring investment performance

Asset class	Benchmark asset allocation (%)
Growth	**10.0**
Global Equities	5.0
Pan-European Core Real Estate	5.0
Risk-reducing /matching	**90.0**
Multi-sector credit	15.0
Buy and maintain credit	30.0
LDI/ILG	45.0
Total	**100.0**
Hedge ratios (Technical Provisions Liabilities)	**100.0%**

The target allocation to LDI/ILG includes a 5% strategic allocation to Asset Backed Securities held with Insight.

De-risking policy

The Trustee is in the process of discussing a de-risking policy for the Scheme, which is based on the Scheme's estimated funding level on a low dependency (self-sufficiency) basis, which may change from time to time.

Appendix B
Implementation details

Investments

The Scheme's investments have the following fees and performance targets:

Asset class	Fund Name	Benchmark	Active / Passive	Target / Objective
Global equities	BlackRock MSCI World Fund	MSCI World Net Total Return	Passive	Track the performance of the benchmark (less withholding tax where applicable) to within +/- 0.5% p.a. gross of fees for two years out of three.
	BlackRock MSCI World Fund (GBP Hedged)	MSCI World Net Total Return in GBP	Passive	Track the performance of the benchmark (less withholding tax where applicable) to within +/- 0.5% p.a. gross of fees for two years out of three.
LDI	Insight LDI Active 55 Fund, sub-fund of LDI Solutions Plus ICAV	Bespoke Liability Benchmark	Active	To outperform the bespoke liability benchmark gross of fees by delivering returns linked to, amongst other things, nominal rate, real rate and financial market movements and will seek to do so by primarily investing in sale and repurchase agreements, UK government bonds and swaps.
Buy and maintain credit	Insight LDI Active 55 - Maturing Buy and Maintain Portfolio, sub-fund of LDI Solutions Plus ICAV	iBoxx GBP Corp 2021-2025[2] iBoxx GBP Corp 2026-2030[2] iBoxx GBP Corp 2031-2035[2]	Active	To provide investors with access to investment grade corporate bonds with maturities to meet a specific cash flow profile or credit exposure. The portfolio invests in underlying bucket funds with different maturity profiles. The maturity profiles of the funds are 2021-2025, 2026-2030 and 2031-2035.
Currency Hedging Mandate	Insight LDI Active 55 - Currency Hedging Portfolio, sub-fund of LDI Solutions Plus ICAV	Bespoke currency benchmark	Active	To hedge the non-GBP currency exposure of the CBRE Pan European Core Fund.
Multi-sector credit	Allianz Global Multi-Asset Credit Fund	3 Month LIBOR	Active	Outperform the benchmark by 3.0% p.a. gross of fees over a credit cycle.
	Brandywine Global Multi-Sector Income Fund	3 Month LIBOR	Active	Outperform the benchmark by 4.5% p.a. gross of fees over a credit cycle.

Pan-European Core Real Estate	CBRE Pan-European Core Fund	MSCI PEPFI Index (EUR) Index	Active	Return 8-10% p.a. gross of fees (over the lifetime of the Fund).
Cash	Insight Government Liquidity Fund[3]	SONIA	Active	To maintain capital and provide daily liquidity.
Cash	BlackRock ISC Sterling Liquidity Fund[3]	SONIA	Active	To maximise income whilst maintaining capital and ensuring its underlying can easily be bought or sold in the market.

Notes:

1. Insight have created a customised series of indices (calculated independently by iBoxx) to provide clients with the market context in which to better understand the performance of their maturing buy and maintain credit funds. However, Insight do not position or run these funds against these indices, and they do not take relative positions in a sector or an issuer in order to “outperform” these indices.

2. These Scheme does not have a strategic allocation to these two institutional liquidity funds. However, as and when required, the Scheme may have a short-term allocation to each fund to meet short-term cashflow needs and to assist with the transfer of monies between investment managers.

Contact us

xpsgroup.com