

# Statement of Investment Principles – Allegion UK Pension Plan

August 2020

## Introduction

- 1 This document is the Statement of Investment Principles ('SIP') made by the Trustees of the Allegion UK Pension Plan (the "Plan") in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took written advice from the Plan's fiduciary manager (the 'Fiduciary manager', currently Towers Watson Limited) and consulted Allegion (UK) Limited (the "Sponsoring Employer"). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.
- 3 The Allegion UK Pension Plan (the "Plan") was established with effect from 18 October 2013 by execution of the Definitive Trust Deed and Rules. The Plan was established for employees and former employees of Ingersoll-Rand Security Technologies Limited which was de-merged from the wider Ingersoll-Rand business on 1 December 2013.
- 4 The Plan's share of assets and liabilities of the Ingersoll-Rand Holdings Limited Retirement Benefits Plan (1974) (the "Legacy Plan") relating to the Sponsoring Employer were transferred to the Plan as at 17 December 2013.

## Plan objectives

- 5 Following review of the investment strategy in December 2017, the Trustees main aims are:
  - To ensure they can meet their obligations to the beneficiaries of the Plan;
  - To pay due regard to the Sponsoring Employer's interests on the size and incidence of Employer's contribution payments;
  - To target 105% funding on a gilts + 0.50% per annum measure of the liabilities; and
  - To generate a reasonable level of surplus, without undue exposure to risk.
- 6 In seeking to achieve these objectives, the Trustees are mindful of the need to:
  - Take account of current market conditions when positioning the portfolio at any time; and
  - Limit the risk of the assets failing to meet the liabilities over the long term, noting that future asset values will depend on both investment returns and future contributions.
- 7 In December 2015, following completion of the Plan's first actuarial valuation, the Trustees agreed to a journey plan which continued targeting an expected return of gilts + 2% per annum over the long term. The Trustees agreed to dynamic de-risking triggers under which the Plan

could “lock-in” unanticipated upside and risk can be reduced at opportune times, whilst still achieving the Journey Plan objectives. The agreed triggers are set at funding level intervals of around 5% above the Journey Plan. In January 2017, given the proximity to the first de-risking trigger, the Trustees and Company agreed to reduce risk moving to a journey plan that targets an expected return of gilts+1.5% per annum over the long-term. The Trustees have agreed to maintain this level of expected return to achieve its objectives.

- 8 The Trustees will review these objectives regularly and amend as appropriate.

## Investment strategy

- 9 The Trustees’ policy is to seek to achieve the Plan objectives through investing in a suitable mixture of asset classes. The Trustees recognise that return-seeking assets (such as equities) are expected to offer greater returns over the long term but they are also likely to be more volatile than liability-matching assets (such as index-linked gilts) which will provide a better hedge against the interest rate and inflation sensitivity of the Plan’s liabilities. The Fiduciary Manager’s discretion is subject to guidelines set by the Trustee within its Fiduciary Management Agreement (the FMA). The Fiduciary Manager is required to act in accordance with the FMA, including the guidelines and any restrictions set out therein, and in doing so is expected to give effect so far as reasonably practicable to the principles contained in this Statement. This ensures appropriate incentivisation and alignment of decision-making with the Trustee’s overall objectives, strategy and policies.
- 10 The Trustees have a desire to diversify the Plan’s risk exposures and to manage the Plan’s investments efficiently.
- 11 The investment strategy makes use of two main types of investments:
- A diversified range of return-seeking assets
  - A range of instruments that provide a better match to changes in liability values.
- 12 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Plan objectives.
- 13 The Plan will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.
- 14 The Trustees will monitor the liability profile of the Plan and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.
- 15 The expected returns of the Plan’s investments will be monitored regularly and will be directly related to the Plan’s investment objective.
- 16 The Trustees’ policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Plan’s overall investments, where possible. The Trustees, together with the Plan’s administrators and Fiduciary Manager, will hold sufficient cash to meet benefit and other payment obligations.

## Investment managers

- 17 The Trustees have delegated investment manager selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustees in the FMA. The Trustees regularly consider and monitor the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustees expect the Fiduciary Manager to ensure that, the Plan's investment portfolio, in aggregate, is consistent with the policies set out in this statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). Where relevant to the mandate. The Trustees expect the Fiduciary Manager to:
- check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustees' policies contained in this Statement;
  - set appropriate guidelines within the Investment Management Agreement for any segregated investments with a view to ensuring consistency with the Trustees' policies contained in this Statement.
- 18 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to the Fiduciary Manager who may sub-delegate this responsibility to third party investment managers. The Fiduciary Manager and such investment managers will provide the skill and expertise necessary to manage the investments of the Plan competently.
- 19 The Trustees and Fiduciary Manager are not involved in the investment managers day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Plan's long term objectives.
- 20 The Trustees expect the Fiduciary Manager to appoint investment managers with an expectation of a long-term partnership with the Trustees, which encourages active ownership of the Plan's assets. When assessing an investment manager's performance, the Trustees expect the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustees' position as a long term investor. Consistent with this view, the Trustees do not expect that the Fiduciary Manager would terminate an investment manager's appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustees adopt the same long term focus as part of its ongoing oversight of the Fiduciary Manager.
- 21 For most of the Plan's investments, the Trustees expect the Fiduciary Manager to appoint managers with a medium to long time horizon, consistent with the Plan. In particular areas such as equity and credit, the Trustees expect the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustees notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustees expects that the appropriateness of the Plan's allocation to such mandates is determined in the context of the Plan's overall objectives.

- 22 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Plan's investment managers. However, the Trustees and Fiduciary Manager recognise that a company's and/or a specific asset's long-term financial success is influenced by a range of financially material factors including appropriate management of Environmental, Social and Governance (ESG) issues.
- 23 Consequently, the Trustees (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out below) seeks to be an active long-term shareholder and investor. The Trustee's focus is explicitly on financially material factors. The Trustees' policy at this time is not to take into account non-financial matters.
- 24 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. The Trustees expect the Fiduciary Manager to assess the alignment of each investment managers' approach to sustainable investment (including engagement) with its own before making an investment on the Plan's behalf. In addition, the Trustees expect the Fiduciary Manager to engage with the Plan's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, stakeholders and ESG impact of underlying holdings. In addition, the Trustees expect the Fiduciary Manager to review the investment managers approach to sustainable investment (including engagement) on a periodic basis and engage with the investment manager to encourage further alignment as appropriate. Where an investment manager's processes are deemed insufficient by the Fiduciary Manager and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.
- 25 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.
- 26 The Fiduciary Manager expects the Plan's investment managers to sign up to their local Stewardship Code, in-keeping with good practice, subject to the extent of applicability for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external studies and initiatives.
- 27 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager has appointed Hermes EOS to undertake policy engagement on its behalf.
- 28 The Trustees expect the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial investment and on an ongoing basis. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustees expect the Fiduciary Manager to review and report on the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustees expect the Fiduciary Manager to have

regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Other matters

- 29 The Plan is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 30 The Plan's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustees are aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

## Risk measurement and management

- 31 The Trustees recognise a number of risks involved in the investment of the Plan's assets:
- Deficit risk:
    - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
    - is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
  - Manager risk:
    - is measured by the expected deviation of the return relative to the benchmark set.
    - is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Plan to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
  - Liquidity risk:
    - is measured by the level of cashflow required by the Plan over a specified period.
    - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
  - Currency risk:
    - is measured by the level of exposure to non-Sterling denominated assets.
    - is managed by the implementation of a currency hedging programme (through a combination of a segregated currency hedging overlay and currency hedging carried out by some of the Plan's investment managers) which reduces the impact of exchange rate movements on the Plan's asset value.
  - Interest rate and inflation risks:

- are measured by comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates.
- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Plan's assets to better-match movements in the value of the liabilities due to inflation and interest rates.
- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.
- Sponsor risk:
  - is measured by receiving regular financial updates from the Sponsoring Employer and periodic independent covenant assessments.
  - is managed through an agreed contribution and funding schedule.
- Derivatives risk
  - Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
  - Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Fiduciary Manager for the backing assets and the investment managers' asset management capabilities.
  - Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.