The Apollo Pension and Life Assurance Plan

Statement of Investment Principles – September 2020

1. Background

The Trustees of The Apollo Pension and Life Assurance Plan ("the Plan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments.

In preparing this Statement, the Trustees of the Plan have consulted with Apollo Fire Detectors Limited ("the Company"), the Plan's principal employer, to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements. The Trustees have also obtained and considered written professional advice from Mercer Limited ("Mercer"), the investment consultants in connection with the Plan. The Trustees will review this statement at least once every three years, or more frequently if there are significant changes in the Plan's circumstances.

The Trustees' investment responsibilities are governed by the Plan's trust deed. A copy of the relevant clauses, of which this Statement takes full regard, is available for inspection.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the approximate level of risk that is consistent with meeting the objectives set;
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) whilst considering the targeted level of risk.

In considering the appropriate investments for the Plan 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 Policy

The Trustees' objective is to invest the Plan's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest 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 Plan is exposed. The Trustees' primary objectives are as follows:

- To make sure that the assets can meet the obligations to the beneficiaries of the Plan; and
- To pay due regard to the Company's interests in the size and incidence of the employer's contribution payments.

The Trustees try to achieve these aims by seeking to maximise the overall return on the Plan's assets, whilst maintaining a prudent and balanced investment exposure.

4. Risk Management and Measurement

There are various risks to which any pension plan 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 Plan's assets and its liabilities. The Plan's liabilities are sensitive to changes in interest rates, inflation expectations and (depending on the approach taken at each Actuarial Valuation) credit spreads; as such, a proportion of the assets are invested in mandates that share these sensitivities, to manage a portion of this mismatch risk.
- The Trustees recognise that whilst increasing 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 Plan's accruing liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The Trustees recognise the exchange rate risk associated with investments in unhedged overseas investments. The Trustees, from time to time, hedge currency exposures.
- The Trustees have adopted an investment strategy that makes due allowance of the need for liquidity of the Plan's assets. Where allocations have been made to illiquid assets, these are small in the context of the overall investment strategy.
- The Trustees recognise that the Plan's assets invested in corporate bonds, multi-asset credit and senior private debt expose the Plan to the risk that coupon and/or principal payments may not be made (i.e. there is risk of "default") within the Plan. The risk is mitigated through diversification across managers, issuers, sectors and regions.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.
- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees meet regularly with the Plan's investment managers and receive reports from all the investment managers and the Investment Consultant.
- The safe custody of the Plan's assets is delegated to a professional custodian via the use of pooled vehicles.
- The use of leverage is permitted within the Plan's Liability Driven Investment portfolio (within pooled funds) to enable hedge ratios (for interest rate and inflation exposure) to be achieved and maintained. A formal target has not been set with respect to the use of leverage but actual leverage will be monitored over time. Additional borrowing is not permitted except as to cover short term liquidity requirements.
- Environmental, Social and Governance risks (including but not limited to climate change) – the Trustees recognise that these risks are considered to be financially material. Further information is set out in Section 11.

The risk and other factors set out above are those that the Trustees determines to be financially material over the Fund's anticipated lifetime.

Should there be a material change in the Plan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Plan's investments subject to the overriding constraint that at the total Plan level the expected level of risk is consistent with that detailed in Section 4:

- There is a role for active management; however, for each asset class the Trustees consider whether exposure can be gained in a lower cost (passive) way.

- At the total Plan level and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

6. Investment Strategy

The below policy has been determined following consultation with the Company and taking into consideration the Plan's liability profile, the funding position, the covenant of the Company and the Trustees' risk/return objectives.

The Trustees believe that the investment risk arising from the investment strategy combined with the risks arising from active management are consistent with the overall level of risk being targeted.

The Plan investments are held with Schroder Investment Management Limited ("Schroders"), Baillie Gifford & Co Limited ("Baillie Gifford"), Legal and General Investment Management ("LGIM"), Mercer Global Investments Europe ("MGIE") and Mercer Private Markets ("MPM"). Some of the Plan's assets with MGIE are invested on a temporary basis, in order to automatically meet capital calls for the MPM Senior Private Debt and Infrastructure portfolios.

The Plan's strategic asset allocation is as follows. Any deviation between the actual asset allocation and the strategic asset allocation will be monitored and reviewed by the Trustees on an ad-hoc basis. A breach of a tolerance range may result in a recommendation to rebalance the portfolio, depending on market conditions and implementation considerations.

Asset Class	Target investment strategy (%)	Tolerance ranges (%)
Schroder QEP Global Blend Fund[1]	5.6	
Schroder QEP Global Blend Fund - Currency Hedged[1]	5.6	
LGIM FTSE RAFI Multi Factor Developed Equity Index Fund [1]	5.6	
LGIM FTSE RAFI Multi Factor Developed Equity Index Fund - Currency Hedged [1]	5.6	
LGIM World Emerging Market Equity Index Fund	5.6	
Total Equity	**28.0**	**25.0 - 31.0**
Schroder Diversified Growth Fund	8.75	
Baillie Gifford Diversified Growth Fund	8.75	
Total Diversified Growth	**17.5**	**14.5 – 20.5**
Mercer Multi-Asset Credit Fund	7.5	
Total Multi-Asset Credit	**7.5** [2]	**5.0 – 10.0**
Schroder Property Fund	2.0	
Mercer Senior Private Debt [3]	5.0	
Mercer Infrastructure [3]	5.0	
Total Private Markets (Including Property) [4]	**12.0**	**-**
LGIM Liability Driven Investment ("LDI") Portfolio	17.5	
LGIM Global Buy & Maintain Credit Fund	17.5	
Total Matching Portfolio	**35.0**	**31.0 - 39.0**
Total	**100.0**	

[1] The target currency hedge for the Schroders and LGIM developed market equity allocations is 50%. In reality there is no rebalancing between these portfolios, and as such the currency hedge ratio will draft over time with market movements.

[2] Mandate has been funded with an initial allocation of 5% of Plan assets, and consideration will be given to adding to this over time depending on how market conditions develop over the remainder of 2020.

[3] The investments in Private Markets are drawn down over time, through capital calls. Prior to the money being drawn down into the Senior Private Debt and Infrastructure mandates, the committed capital is allocated to two liquid feeder funds (a Passive Global Equity Fund and a UK Government Bond Fund).

[4] The Private Markets (including Property) allocation doesn't have tolerance ranges in place, due to the illiquidity of the investments.

7. Day-to-Day Management of Assets

The Trustees delegate the day-to-day management of the assets to the investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustees regularly review the continuing suitability of the Plan's investments, including the appointed managers. However, any such adjustments would be done with the aim of ensuring the overall level of risk and return is consistent with the objectives as set out in Section 3.

The Trustees have entered into signed Agreements with the managers which comply with the principles contained in this Statement as far as is reasonably practicable.

The Agreements provide important protections for the Plan itself and for the Trustees. They also set out the terms on which the assets are managed and the investment briefs, guidelines and restrictions under which the managers work.

Outperformance targets and Benchmarks

Asset Class	Target / Benchmark
Schroder QEP Global Blend Fund	Target: +3.0% p.a. gross of fees over rolling 3-year periods. Primary Benchmark: MSCI World (NDR) GBP Hedged Secondary Benchmark: MSCI AC World GBP Net TR
Schroder QEP Global Blend Fund- Currency Hedged	Target : +3.0% p.a. gross of fees over rolling 3-year periods. Primary Benchmark: MSCI World (NDR) GBP Hedged Secondary Benchmark: MSCI AC World GBP Hedged Net TR
LGIM FTSE RAFI Multi Factor Developed Equity Index Fund	Target: To track the benchmark Benchmark: RAFI Multi-Factor Index
LGIM FTSE RAFI Multi Factor Developed Equity Index Fund - Currency Hedged	Target: To track the benchmark Benchmark: RAFI Multi-Factor Index – currency hedged
LGIM World Emerging Market Equity Index Fund	Target: To track the benchmark Benchmark: FTSE Emerging Markets Index
Schroders DGF	Target: Retail Price Indices +5.0% p.a. net of fees, over 5 year periods Benchmark: Retail Price Index
Baillie Gifford DGF	Target: UK Base rate + 3.5% p.a. net of fees, over 5 year periods Benchmark: UK Base rate
MGIE Multi-Asset Credit Fund	Target: LIBOR + 3.0% - 5.0% p.a. net of fees, over rolling 5 year periods
Schroders Property Fund	Target: AREF/IPD UK Quarterly Property Fund Index – All Balanced Property Fund Index Weighted Average.+0.5% p.a. gross of fees over rolling 3 year periods. Benchmark: AREF/IPD UK Quarterly Property Fund Index – All Balanced Property Fund Index Weighted Average
MPM SPD*	Target: +4.0% - 6.0% p.a. net of fees (over the life of the fund)
MPM Infrastructure *	Target: +7.0% - 10.0% p.a. net of fees (over the life of the fund)
LGIM LDI Portfolio	The LDI Portfolio doesn’t have a formal performance target or benchmark, as it is used to broadly match the change in value of a portion of the Scheme’s liabilities as interest rates and inflation expectations rise or fall. The Plan targets an interest rate and inflation hedge ratio of 50%, as a proportion of Technical Provisions liabilities.
LGIM B&M Credit Fund*	The fund aims to capture the credit risk premium through a globally diversified portfolio of predominately investment grade credit, and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.

*There is no formal benchmark in place for these mandates.

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions are separately invested with insurance companies using the appropriate contract for the members concerned.

With the assistance of the Plan's consultants, these arrangements are reviewed from time-to-time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.

A low balance of assets is also held in deposit and current bank accounts to facilitate benefit payments. Standard Life Investments Limited is the Plan's current AVC provider. Some members also have AVCs with Utmost Life and Pensions (following the business transfer of the Equitable Life Assurance Society to Utmost).

8. Buying and Selling Investments

The Trustees have delegated the day-to-day responsibility for buying and selling investments to the investment managers.

The day-to-day activities which the investment managers carry out on behalf of the Trustees are governed by the Agreements between both parties, which are reviewed from time-to-time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

9. Expected Return

The Trustees expect to generate a return over the long term above the liability discount rate, to seek to improve the funding position over time (along with the impact of contributions from the Company). It is recognised that over the short term performance may deviate significantly from the long term target.

10. Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilise the investment consultant's manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on the investment consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management. The Trustees exercise due diligence by considering these research ratings and questioning managers with regard to the ratings during presentations to the Trustees.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the Trustees' wider investment objectives.

Some mandates are actively managed and where appropriate, the managers are incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustees will review the appropriateness of using actively managed funds as part of the wider monitoring of the Plan's managers.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, nor to influence investment managers to align their decisions with the Trustees' policies set out in this statement. However, appropriate mandates can be selected to align with the Trustees' overall investment strategy.

With respect to the LDI portfolio, the manager has been appointed to manage the assets in line with a Plan-specific benchmark based on the underlying liabilities of the Plan.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will look to replace the manager.

Evaluating investment manager performance

The investment consultant will assist the Trustees in fulfilling their responsibility for monitoring the investment managers. The investment consultant provides the Trustees with a consolidated investment report on a half-yearly basis, and an asset and performance summary on an ad hoc basis.

The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over various time periods), on a net of fees basis. The Trustees' focus is primarily on long term performance but short term performance is also monitored to ensure any concerns can be identified in a timely manner.

The Trustees also rely upon investment consultant's manager research capabilities.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees instead of terminating the appointment.

Responsible Investing engagement with investment managers

The Trustees will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments. Further information is set out in Section 11.

Portfolio turnover costs

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees receive MiFID II reporting from their investment managers and the investment consultant (where applicable).

The Trustees ask the credit investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustees will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover across the same asset class on a year-on-year basis, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus. The Trustees do not explicitly monitor portfolio turnover costs across the whole portfolio but this is considered by the investment consultant and forms part of their research views.

Manager turnover

The Plan is a long-term investor and the Trustees are not looking to change the investment arrangements on a frequent basis.

For open-ended funds, the Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate;

For closed-ended funds (Private Markets), the Plan is invested for the lifetime of the fund. At the time of appointment, the Trustees receive an indication of the expected investment duration of their funds. In order to maintain a strategic allocation to these asset classes, the Trustees may choose to stay with the manager in a new closed fund (if available) for that asset class or appoint a different manager.

11. Financially Material & Non – Financially Material Factors

Financially material considerations, including (but not limited to) ESG considerations (including but not limited to climate change) are considered by the Trustees.

The Trustees believe that Environmental, Social, and Corporate Governance ("ESG") factors may have a material impact on investment risk and return outcomes, and seek to integrate ESG into their decision making and reporting processes. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Plan when considering how to integrate these issues into the investment decision making process.

The Trustees have given their investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercise stewardship obligations attached to the Trustees' investments in accordance with current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Manager's engagement policies are expected to include all relevant matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

As the Trustees invest in pooled fund arrangements they have not set any investment restrictions on the appointed investment managers in relation to particular products or activities. However, with the assistance of the investment consultant, the Trustees monitor the activities of the investment managers in relation to ESG factors and risks, including engagement with investee firms and the exercise of voting rights. The Trustees use these assessments in decisions around selection, retentions and realisation of manager appointments.

The Trustees do not explicitly take into account any non-financial matters (for example the views of members of the Fund) in the selection, retention and realisation of assets.

12. Advisors

12.1 Custodian

The role of a custodian is to ensure the safekeeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments.

Investment Manager	Custodian
Schroders	Chase Nominees Limited
Baillie Gifford	Bank of New York Mellon (International) Limited
L&G (UK Assets)	HSBC Global Investor Services
L&G (Overseas Assets)	Citibank N.A.
MGIE	State Street Bank & Trust
MPM	Alter Domus Luxembourg S.a r.l.

12.2 Actuary

The actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The latest actuarial valuation was performed as at 1 April 2018 by the Plan Actuary. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the employer's contribution rate.

Mark Whitcombe of Mercer Limited is the appointed Plan Actuary.

12.3 Investment Consultant

Whilst the day-to-day management of the Plan's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from the Investment Consultant. Mercer has been appointed for this purpose.

13. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtains written confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

14. 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 scheme investments.

Ratified and adopted by the Trustees of the Apollo Pension & Life Assurance Plan – September 2020

Appendix

Role of Investment Consultant

Mercer Limited are employed as Investment Consultants to the Plan. The Investment Consultant provides advice to the Trustees but does not have responsibility for decision making in any area. The role encompasses, but is not limited to, the following areas:

- Assistance in helping the Trustees formulate investment objectives;
- Advice on investment strategy;
- Advice on devising an appropriate investment manager structure;
- Assistance in selecting and monitoring of investment managers.