The Apollo Pension and Life Assurance Plan

Statement of Investment Principles – July 2023

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 on request.

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’ overarching 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 have a medium term objective of securing the benefits with an insurer (i.e. through a buy-in/buy-out contract). The Trustees have implemented de-risking activity over 2022 and 2023 to reflect the significant funding level improvement since the 2021 Actuarial Valuation. The current focus is on designing an appropriate strategy and 'journey plan' with a view to achieving the medium term objective.

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 and inflation expectations; as such, a material proportion of the Plan's assets are invested in mandates that share these sensitivities, to manage a large 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 level of risk has reduced substantially since the 2021 Actuarial Valuation to reflect the strength of the funding position.
- 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, particularly for those asset classes that are typically expected to exhibit lower risk (e.g. bonds).
- 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 relatively small in the context of the overall investment strategy.
- The Trustees recognise that the Plan's assets that are invested in corporate bonds 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 on a regular basis.
- The safe custody of the Plan's assets is delegated to professional custodians 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 the target 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, alongside other key risk metrics (e.g. collateral sufficiency, counterparty exposure). The investment strategy has been designed with a view to facilitating a high allocation to the LDI mandate (resulting in a lower degree of

portfolio leverage to achieve the target hedge ratios). 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 Plan'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") (at the time of writing), Legal and General Investment Management ("LGIM"), Mercer Global Investments Europe ("MGIE") and Mercer Private Markets ("MPM"). 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 set out overleaf. This strategy was adopted following an investment strategy review undertaken in 2022 and a further review in 2023, with multiple stages of de-risking implemented to take advantage of the significant improvement in the funding position since the 2021 Actuarial Valuation.

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. There are currently no tolerance ranges in place between the Private Market and Matching Portfolios, given the illiquid nature of the Private Market mandates means it is not possible to implement rebalancing from these holdings.

Within the Matching Portfolio, the allocations may drift over time but will be rebalanced periodically in order to achieve the objectives of the strategy (i.e. the target interest rate and inflation hedge ratios). The target interest rate and inflation hedge ratios for the aggregate

Matching Portfolio are 95%, as a proportion of gilts+0% liabilities. This is expected to be sufficiently high to substantially reduce the funding level volatility associated with interest rate and inflation risk, as the Trustees work towards the medium term objective.

Asset Class	Target investment strategy (%)	Tolerance ranges (%)
Schroder Property Fund [1]	0.0	-
MPM Senior Private Debt [1] [2]	5.0	-
MPM Infrastructure [1] [2]	5.0	-
Total Private Markets (Including Property) [2]	**10.0**	**-**
LGIM Liability Driven Investment (“LDI”) Portfolio	50.0	-
LGIM Global Buy & Maintain Credit Fund	40.0	-
Total Matching Portfolio	**90.0**	**-**
Total	**100.0**	**-**

[1] Private Market mandates are expected to be redeemed over the medium term, subject to market conditions and the ability to source a suitable price on the secondary market for the holdings, and progress in working towards achieving the buy-in/buy-out objective. The existing strategic allocation benchmarks have been retained until the redemption proceeds are closer to being received. The strategic allocation has been removed for Property as the Plan is already in the manager ‘queue’ for redemptions.

[2] Despite the intention to redeem over the medium term, the investments in the MPM mandates are still being 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 a liquid feeder fund, invested in a Passive Global Equity Fund (Hedged) with MGIE.

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.

Performance targets and Benchmarks

Asset Class	Target / Benchmark
Schroders Property Fund	Target: Outperform the benchmark by +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 *	Internal Rate of Return (“IRR”) target: +4.0% - 6.0% p.a. net of fees (over the life of the fund).
MPM Infrastructure *	IRR target: +7.0% - 10.0% p.a. net of fees (over the life of the fund).

Asset Class	Target / Benchmark
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 Plan's liabilities as interest rates and inflation expectations rise or fall. The Plan targets an interest rate and inflation hedge ratio of 95%, as a proportion of the liabilities on a gilts+0% basis.
LGIM Sterling Liquidity Fund	To sit within the collateral framework structure whilst providing modest low risk returns on any excess collateral.
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.

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).

A small balance of assets is also held in deposit and current bank accounts to facilitate benefit payments.

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), with a view to targeting a position where buy-in/buy-out is achievable over the medium term. 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 target hedge ratios for the Plan are 95% (as a proportion of the liabilities on a gilts+0% basis). The Plan-specific benchmark is reviewed regularly based on changes to market conditions and member experience (typically annually).

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 Investment and 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 (costs and charges) 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 typically 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. If an exit is required from the asset class (as is possible given the medium term objective), the Trustees can look to sell their holdings on the secondary market.

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	Natwest
LGIM (Credit, LDI funds)	Citibank, N.A.
LGIM (Sterling Liquidity Fund)	Northern Trust Fiduciary Services (Ireland) Limited
MGIE	State Street Custodial Services (Ireland) Limited
MPM	ING Luxembourg

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 2021 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.

Kath Taylor 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.

Consistent with the CMA Order, Mercer have been set objectives in terms of their role as Investment Consultant. These are reviewed at least every three years, and Mercer’s performance against the CMA Objectives is formally assessed on an annual basis.

13. Compliance with this Statement

The Trustees typically 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 and Life Assurance Plan – July 2023