

## **GE Energy Pension Scheme** **Statement of Investment Principles**

### **Scheme Investment Objective**

The Scheme Trustee of the GE Energy Pension Scheme (the “Scheme”) aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members of the Scheme are provided. The asset allocation strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme’s liabilities.

### **INTRODUCTION**

This statement sets out the principles governing decisions made about the investment of the assets of the GE Energy Pension Scheme. This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect with the Government's Voluntary code of conduct for Institutional Investment in the UK. The Scheme Trustee also complies with the requirements to maintain and take advice on the Statement of Investment Principles by taking advice from its Strategic Investment Advisor.

The Scheme Trustee has appointed Aon as their Strategic Investment Advisor and takes advice from them on setting the investment strategy and all investment related strategic work.

The Scheme Trustee has decided to delegate the strategy implementation process and has hired State Street Global Advisors and its affiliate SSGA Funds Management Inc as its Fiduciary Manager on a discretionary basis.

The Scheme Trustee will review this Statement of Investment Principles at least every three years and immediately following any significant change in investment policy. The Scheme Trustee will take investment advice from its Strategic Investment Advisor and consult with the Sponsoring Employer and the Fiduciary Manager over any changes to the Statement of Investment Principles.

### **STRATEGY**

Investment exposure is gained through the purchase of units in the GE UK Common Investment Fund (“the CIF”). The Scheme may also use other liability matching instruments. The Scheme Trustee takes into account the asset allocation strategy within the CIF units when deciding whether to invest in each unit. However, the CIF Trustees and their advisors are responsible for setting the strategy within each CIF unit.

The strategic target split between the various CIF units is determined by the Scheme Trustee following advice from Aon. This is shown in the table below which represents the split of the assets as part of the scheme set up and the strategy will be reviewed in 2023:

Asset Class	Target (%)	Control Ranges (%)	Sub asset Class (via CIF units)	Sub asset class Target (%)	Sub asset class Control Ranges (%)
Equities	5.0	0 – 15	Global Equity Active	5.0	0 – 15
			Global Equity Passive	0.0	0 – 3
			Low volatility equity	0.0	0 – 3
			Emerging Market Equity	0.0	0 – 3
Investment Grade Credit	30.0	0 - 45	Fixed Interest Bond	30.0	0 – 45
Non-Investment Grade Credit	10.0	0 – 15	Alternative Credit	10.0	0 – 15
LDI & Cash	55.0	35 - 75	GEEPS LDI	53 .0	35– 75
			Cash	2.0	0 – 10
Other	0	0 -15	Other growth assets (as and when opportunities arise)	0.0	0 – 5
			Market positioning unit	0.0	0 - 10
			GEEPS Transition	0.0	0 – 10

The Scheme Trustee wishes to target a 90% hedge as a percentage of the Scheme’s “Gilts plus 0.5%” self-sufficiency liabilities, excluding the 4% prudence/expense reserve.

As instruments which exactly match the Scheme’s cashflows are not available, an investable cashflow benchmark was constructed. The table below sets out the target hedge ratio and control ranges, relative to this investable cashflow benchmark:

Hedged Risk	Target (%)	Control Ranges (%)
Interest Rates	90.0	85 - 95
Inflation	90.0	85 - 95
Currency	0	0 – 70 (a)

(a) *excluding fund investments already hedged to GBP, such as Alternative Credit accounts/funds.*

There are many characteristics of the Scheme liabilities that cannot be replicated with investable gilt-related instruments, including – caps and floors to pension increases; pension increases linked to CPI not RPI; very long duration liabilities. In addition, the liability cashflows will change because of changes in membership, and changes in actuarial assumptions, particularly mortality. These differences may mean that the hedging diverges from the Scheme’s actual liabilities. To mitigate this risk the cashflow benchmark will be recalculated annually and may be reviewed more frequently if circumstances warrant.

The split between the various investment classes is kept under regular review. The objectives of each CIF unit are discussed in the GE UK Common Investment Fund Investment Prospectus.

It is the Scheme Trustee's policy to review and monitor on a regular basis that the Fiduciary Manager is maintaining the allocation within the control ranges. The targets and control ranges (on page 2) are intended to reflect how Scheme assets should be invested and maintained under normal conditions. They are not intended to constitute limits or obligations for which strict adherence is required, especially when market movements or other events beyond the Fiduciary Manager's control may cause actual allocations to move outside the control ranges. The Fiduciary Manager should consider transaction costs when rebalancing or otherwise shifting the asset allocation and, where possible, try to minimise such transaction costs.

### **FUTURE STRATEGY**

The Scheme has a long term self-sufficiency funding target of 104% of liabilities on a Gilts +0.5% basis.

Over time, the aim is to de-risk the Scheme, reducing the target return so when the Scheme reaches its objective of being 104% funded on Gilts +0.5%, the target investment return of the investment strategy will be Gilts +1.0%. The Trustee intends to review the strategy and objective in 2023.

### **RISK**

The Scheme Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Scheme Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk and maintains a risk register covering investment risks. Key risks identified are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Scheme Trustee took advice from its Strategic Investment Advisor on this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Scheme Trustee and its advisors will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure to spread investment risk ("risk of lack of diversification"). The Scheme Trustee took advice from its Strategic Investment Advisor on this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). The Scheme Trustee took account of its assessment of the covenant risk when setting investment strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Scheme Trustee and the CIF Trustee have sought to minimise such risk by ensuring that all advisors and third party service providers are suitably qualified and experienced and that suitable provisions are included in all contracts for professional services received.

Additional risks are also considered within the CIF prospectus and these should be considered in conjunction with those listed above.

## **IMPLEMENTATION**

The Scheme Trustee takes advice from its Strategic Investment Advisor, Aon, on setting the overall investment strategy.

The Scheme Trustee has decided to delegate the strategy implementation process and has hired State Street Global Advisors as its Fiduciary Manager on a discretionary basis.

The Scheme Trustee will review this Statement of Investment Principles at least every three years and immediately following any significant change in investment policy. The Scheme Trustee will take investment advice from its Strategic Investment Advisor and consult with the Sponsoring Employer and Fiduciary Manager over any changes to the Statement of Investment Principles.

## **GOVERNANCE**

The Scheme Trustee has decided that it should participate in the CIF and is satisfied that it can achieve its own investment objective through these investments. Participation in and operation of the CIF is kept under regular review by the Scheme Trustee.

The Scheme Trustee takes some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Scheme Trustee has taken into account whether it has appropriate training and expert advice in order to take an informed decision. The following decision making structure has been established:

### **Scheme Trustee**

- Select and monitor all investment advisors to the Scheme Trustee.
- Set structures and processes for carrying out its role including establishment of relevant committees.
- Establish investment objectives for the Scheme.
- Select and monitor asset allocation based on the Scheme's investment objectives.
- Determine any strategic hedging policies.
- Consider recommendations from the CIF Trustees.
- Consider the asset mix of units offered by the CIF and ensure that this meets the Scheme's needs.
- Decisions regarding responsible ownership are delegated to the CIF Trustee.
- Monitor the effectiveness of the CIF.
- Maintain the Scheme's Statement of Investment Principles.

### **Strategic Investment Advisor to the Scheme Trustee**

- Review the Scheme's investment strategy as part of the triennial valuation.
- Advise on strategic interest rate and inflation hedging levels.
- Design flight plan and triggers
- Independent risk monitoring
- Assist Scheme Trustees on Integrated Risk Management
- Assist with standard regulatory requirements
- Liquidity analysis and long term cash requirements
- Review Trustee's governance framework

- Assist Trustee on investment proposals from the Fiduciary Manager which deviate from the strategy
- Provide a template and regular review and update of this Statement of Investment Principles.
- Provide training to the Scheme Trustee

#### **Fiduciary Manager to the Scheme**

- Implement and monitor asset allocation for the Scheme, including tactical asset allocation tilts.
- Select, implement and monitor any hedges, including derivatives overlays.
- Advise the Scheme Trustee on investing the Scheme's assets.
- Provide training to the Scheme Trustee, to the extent they are qualified.

#### **Arrangements with Asset Managers**

The Scheme Trustee has appointed State Street Global Advisors ('SSGA') as their Fiduciary Manager, who they consider to be their asset manager. References in this policy to 'underlying asset managers' refers to those asset managers which SSGA in turn appoints to manage investment on behalf of the Trustee.

The Scheme Trustee recognises that the arrangements with their Fiduciary Manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Scheme Trustee seeks to ensure that the Fiduciary Manager is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries, and that the Fiduciary Manager is aware of, and aligned with, the Scheme Trustee's policies and the Scheme's investment objectives.

To this end, the Scheme Trustee receives quarterly reports and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Scheme Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's long-term objectives and assesses the Fiduciary Manager over 3-year periods.

The Scheme Trustee also receives stewardship reports on the monitoring and engagement activities carried out by its Fiduciary Manager, which supports the Scheme Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year. Further detail on the Scheme Trustee's engagement policy is contained in the "Stewardship – Voting and Engagement" section".

The Scheme Trustee shares its policies, as set out in this SIP, with the Scheme's Fiduciary Manager and requests that they review and confirm whether their approach is in alignment with the Scheme Trustee's policies.

The Trustee of the Common Investment Fund is responsible for reviewing whether the managers are meeting the Trustee's expectations and providing an annual update to the Trustee for all delegated responsibilities in this regard.

#### **Monitoring**

The Scheme Trustee delegates the ongoing monitoring of underlying asset managers to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investments to consider

the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Scheme Trustee believes that having appropriate governing documentation, setting clear expectations to the Fiduciary Manager, and regular monitoring of the Fiduciary Manager's performance and investment strategy, is sufficient to incentivise the Fiduciary Manager to make decisions that align with the Scheme Trustee's policies, and are based on assessments of medium- and long-term financial and non-financial performance. The Scheme Trustee does not typically monitor the Fiduciary Manager against non-financial criteria of the investments made on the Scheme's behalf.

Where the Fiduciary Manager is considered to make decisions that are not in line with the Scheme Trustee's policies, expectations, or the other considerations set out above, the Scheme Trustee will engage with the Fiduciary Manager to understand the circumstances and materiality of the decisions made.

#### Duration of asset management arrangements

There is no set duration for arrangements with the Fiduciary Manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the Fiduciary Manager invests in, although this is regularly reviewed as part of the portfolio management processes in place and by the Scheme Trustee's investment objectives. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

#### **Responsible Investing and ESG**

The Scheme Trustee recognises its responsibility as an institutional investor to invest responsibly, and to support and encourage good corporate governance practices in the companies in which it invests. The Scheme Trustee considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society. Lack of good governance interferes with a company's ability to function effectively and is a threat to the Scheme's financial interest in that company.

The Scheme Trustee further acknowledges that an understanding and consideration of environmental, social and corporate governance (ESG) issues can contribute to the identification of investment opportunities and material risks. This includes the risk that ESG factors, including climate change, could negatively impact the value of investments held if not understood and evaluated properly. The Scheme Trustee considers this risk by taking advice from their Investment Advisor when setting the Scheme's asset allocation, receiving updates from State Street Global Advisors (SSGA), and when monitoring performance.

#### **Stewardship – Voting and Engagement**

The Scheme Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Common Investment Fund and State Street Global Advisors are responsible for the fiduciary management of the Scheme's assets. As part of their delegated responsibilities, the Scheme Trustee expects the Common Investment Fund, State Street Global Advisors, and the underlying fund managers to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Scheme's assets;
- Take into account social, environmental and corporate governance considerations in the selection, retention and realisation of investments; and
- Report to the Scheme Trustee on stewardship activities undertaken by underlying asset managers as required

The Scheme Trustee receives annual reports on stewardship activity carried out by their Fiduciary Manager via the Trustee of the Common Investment Fund. These reports include voting and engagement information. Where possible, the transparency provided relating to the exercise of voting rights should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; or where votes were abstained.

Any voting and engagement decision should not apply ethical judgements to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee of the Common Investment Fund is responsible for reviewing whether the managers are meeting the Trustee's expectations and providing an annual update to the Trustee for all delegated responsibilities in this regard.

#### **Members' Views and Non-Financial Factors**

In setting and implementing the Scheme's investment strategy, the Scheme Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors" in the 2018 Regulations).

#### **Cost Monitoring**

The Scheme Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Scheme Trustee recognises that, in addition to annual management charges, there are other costs incurred by the Scheme's underlying asset managers that can increase the overall investment costs.

The Scheme Trustee receives information regarding cost transparency from the Trustee of the Common Investment Fund.

The Trustee of the Common Investment Fund has received cost transparency reports relating to the underlying asset managers, with assistance from SSGA. These reports provide the Trustee of the CIF with information in line with prevailing regulatory requirements for fiduciary managers. These reports set out:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the Fiduciary Manager;
- The fees paid to the investment managers appointed by the Fiduciary Manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the Fiduciary Manager
  - *The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the Fiduciary Manager;*
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Scheme.

The Scheme Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all underlying investment managers appointed on behalf of the Scheme Trustee.

#### Evaluation of performance and remuneration

The Scheme Trustee assesses the (net of all costs) performance of its Fiduciary Manager on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective. The Scheme Trustee monitors investment costs and performance trends over time.

#### Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where responsibility for the investment is retained by the Scheme Trustee e.g. the purchase of an insurance policy or AVC contract. The latter are known as **direct investments**.

The Scheme Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. In respect of direct investments, the Scheme Trustee obtains written advice and considers delegated management of these investments to the fund manager(s).

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement and the criteria by which such investments should be assessed as set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The Scheme Trustee's investment advisors have the knowledge and experience required under the Pensions Act 1995.

The assets held for the individual members' AVCs reflect a simplified version of the asset allocation formerly held by the Scheme and is approximately 80% equities and 20% fixed income.

