XPS Investment

Statement of Investment Principles relating to the Default Arrangement

For the Trustees of the Andreas Stihl 1994 Pension Plan

September 2019

Contents

01 Introduction

Purpose

This Statement describes the investment policy of the Trustees of the Plan and is issued by the Trustees to comply with the Act and the Regulations.

The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments, in preparing this Statement the Trustees have consulted the Principal Employer on the Trustees' investment principles.

Plan details

The exclusive purpose of the Plan is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension Scheme, registered under Chapter 2 of Part 4 of the Finance Act 2004.

Advice and consultation

Before preparing this Statement, the Trustees have sought advice from the Plan's Investment Consultant, XPS Investment Limited. The Trustees have also consulted the Principal Employer. The Trustees will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Plan's Trust Deed and Rules set out the investment powers of the Trustees. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restrict the Trustees' investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustees set general investment policy but delegates responsibility for the selection of the specific securities and any financial instruments in which the Plan invests to the Investment Managers.

Review of the Statement

The Trustees will review this Statement at least every three years or immediately following any significant changes in investment policy, or changes in the demographic profile of relevant members.

The Trustees will receive confirmation of the continued appropriateness of this Statement annually, or more frequently if appropriate.

Definitions

Capitalised terms in this document mean the following:

Act - The Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004)

Default Arrangement – For members who make no deliberate choice as to where their monies should be invested, the Trustees have selected a Default Arrangement from the range of options offered to members. The Default Arrangement is the strategy as set out in Appendix I

Investment Manager - A person or organisation appointed by the Trustees to manage investments on behalf of the Plan

Principal Employer – Andreas Stihl Limited

Regulations - The Occupational Pension Schemes (Investment) Regulations 2005 (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015);

Plan - The Andreas Stihl 1994 Pension Plan;

Statement - This document, including any appendices, which is the Trustees' Statement of Investment Principles in relation to the Default Arrangement;

Trustees – The group of individuals responsible for the investment of the Plan's assets and managing the administration of the Plan.

02 Division of responsibilities

The Trustees are accountable for all aspects of the Plan's investments, however, as permitted within the Trust Deed and Rules, the Trustees have delegated some of the decision making powers and other responsibilities as set out below.

Trustees

The Trustees have retained the following responsibilities and powers for themselves:

> The content and the reviewing of this Statement.
> Reviewing the investment policy.
> Assessing the performance and investment process of the Investment Managers.
> Consulting with the Plan Sponsor when reviewing investment policy issues.
> Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

In addition, the Trustees of the Plan will make decisions relating to the Default Arrangement's investments, including issues such as:

> The kinds of investments to be held.
> The balance between different kinds of investments.
> The types of risk the Default Arrangement may expose members to and the types of risk these may afford members protection against.
> The Investment Manager arrangements.
> The performance target of the Investment Managers.

Investment Consultant

The Investment Consultant's responsibilities include:

> Participating with the Trustees in regular reviews of this Statement, and in the review of investment related issues as described in this Statement.

> Undertaking project work as required, including reviews of the range of assets covered by the investment options available to members and reviews or selection of Investment Managers.

Investment Managers

Each Investment Manager's responsibilities will include:

> Investing in diversified portfolios of assets suitable for Pension Plans in accordance with any guidelines given by the Trustees.
> At their discretion, but in accordance with the guidelines given by the Trustees, implementing changes in the asset mix and selecting individual securities and financial instruments within each asset class.
> Providing the Trustees with regular portfolio valuations and records of transactions, along with a report at least annually, on actions and future intentions, and any changes to the processes, objectives and guidelines applied to their management of the Default Arrangement's assets to enable the Trustees to review the Investment Manager's activities.
> Exercising the rights attached to the shareholdings of the Default Arrangement so as to protect and enhance the long-term value of a stock holding for the Plan.
> Reporting in person at a meeting of the Trustees as requested.

Custodian

Each Custodian's responsibilities include some or all of the following:

> The safekeeping of all of the assets of the Plan.
> Providing the Investment Managers with statements as required of the assets, cashflows and schedules of transactions.
> Undertaking all appropriate administration relating to the Plan's assets.
> Processing all dividends and tax reclaims in a timely manner.
> Dealing with corporate actions.
> For pooled assets, the Custodian is invariably appointed by the Investment Managers with the above functions undertaken on behalf of the pooled fund as a whole. Record keeping of the Plan's entitlement within the pooled fund is the responsibility of the pooled fund administrator or registrar.
> Member records are held by the Plan administrator.

03 Strategic investment policy and objectives

Choosing investments

The Trustees rely on professional Investment Managers for the day-to-day management of the Plan's assets.

In view of the requirements in respect of the efficient administration of individual entitlements for each member, all the investments are made on a pooled basis. Decisions about the particular pooled investment vehicles, used within the Default Arrangement are made by the Trustees.

The Trustees' policy is to regularly review the investments over which it retains control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The Trustees' long-term objective in respect of the Default Arrangement is to provide members with an investment strategy that will enable them to optimise the real return on investments in order to build a fund which will be used at retirement to transfer to an income drawdown product, purchase an annuity, and/or be taken as a cash lump sum. The Trustees have therefore selected the Default Arrangement:

- In the best interests of members
- In a manner calculated to ensure their security, quality, liquidity and profitability.

The Trustees recognise that the types of investment directly impact the Plan members invested in the Default Arrangement and their expectation for their retirement provision.

The Trustees have therefore set three investment objectives for the Default Arrangement:

- *Fiduciary* To ensure an appropriate investment vehicle is used.
- *Funding* By investing in a mixture of assets to give members a vehicle that enables them to maximise the returns achieved at acceptable levels of risk.
- *Stability* By investing in a mixture of assets to provide members with an investment vehicle that offers protection against volatility in the capital value of their fund.

Expected returns

By undertaking the investment policy described in this Statement, the Trustees anticipate that the Default Arrangement and the associated future absolute investment returns will allow members to maintain the real value of their fund whilst at the same time providing them with a means of building up an element of cash which they may wish to take as a lump sum upon retirement.

Investment Policy

In order to meet the above objectives, the Trustees have selected as the Default Arrangement a vehicle that is allocated predominantly to equities for the majority of a members' working life, with the rest invested in fixed income and property, gradually switching into 75% fixed income and 25% cash as the member nears retirement.

Range of assets

The Default Arrangement provided by the Trustees encompasses a range of assets.

The Trustees will ensure that the Default Arrangement made available to members hold a suitably diversified range of securities, avoiding an undue concentration of assets. In addition, the Trustees will ensure the range of assets is otherwise suitable to meet the investment objectives as set out in Appendix II.

04 Responsible investment

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Plan and believes there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Plan's Investment Managers. The Trustees require the Plan's Investment Managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

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

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the Investment Managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

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

05 Risk measurement and management

The Trustees recognise a number of risks involved in the investment of the assets of the Plan. The Trustees measure and manage these risks as follows:

Solvency risk- the risk of not maintaining the real purchasing power of assets is addressed through the use of a growth orientated fund;

Market risk - the risk of exposure to volatile markets, which may be less acceptable to some members, particularly near retirement, is addressed through the use of funds which invest in fixed interest securities and cash for a proportion of assets as the member nears retirement;

Manager risk – the risk of an Investment Manager failing to meet the stated objectives is addressed through the use of passively managed funds. In monitoring the performance of the Investment Managers the Trustees measure the performance of the vehicles in which they are invested, the returns relative to benchmark and objective and the volatility of returns. In addition, the Trustees will regularly review the Manager's approach to risk in order to highlight any unintended risk being taken. For example:

> for equities, the Trustees will review the risk through the weightings to individual regions, sectors and stocks;

> for bonds, the Trustees will review the risks of the underlying assets held within the fund;

> for cash, the Trustees will review the risk through the type of cash instruments held and the term of these instruments;

Inappropriate investments - The risk that an Investment Manager invests in assets or instruments that are not considered to be appropriate by the Trustees is addressed through the Trustees' policy on the range of assets in which the Plan can invest (see section 3);

Political risk – The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries;

Custodian risk – this is addressed through the agreement with the third party custodian and ongoing monitoring of the custodial arrangements. In pooled arrangements this is invariably delegated to the Investment Manager;

Counterparty risk – This is addressed through the Investment Managers' guidelines with respect to cash management;

Fraud/Dishonesty - this is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made;

Administration risk – the risk of administrative errors leading to inaccurate member records is addressed through controls built into the cash collection/allocation procedure and through monthly reconciliations of the administration records with those held by the investment manager. In accordance with XPS's ISO 9001:2008 accredited Business Process Management System, every event is recorded and documentary evidence retained as part of an audit trail.

06 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustees will monitor closely the extent to which any assets which are not readily realisable are held within the Default Arrangement and will limit such assets to a level where they are not expected to prejudice the proper operation of the Plan.

The Trustees have considered how easily investments can be realised for the types of assets in which the Default Arrangement is currently invested. As such, the Trustees believe that the Default Arrangement currently holds an acceptable level of readily realisable assets. The Trustees will also take into account how easily investments can be realised for any new investments it considers including within the Default Arrangement, to ensure this position is maintained in the future.

Investment Restrictions

The Trustees have established the following investment restrictions:

> The Trustees may not hold in excess of 5% of the Plan's assets in investments related to the Principal Employer.

> Whilst the Trustees recognises that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustees have received advice from the Investment Consultant that the Plan's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer.

> The Trustees will ensure that the assets of the Default Arrangement are predominantly invested in regulated markets to maximise the security of the members' entitlements.

> Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

> The Investment Managers impose internal restrictions that are consistent with their house style. In some instances the Trustees may impose additional restrictions and any such restrictions are specified in Appendix II.

07 Investment Manager Arrangements and fee structure

Delegation to Investment Manager(s)

In accordance with the Act, the Trustees, in the selection of the Default Arrangement, delegated to one or more Investment Managers the responsibility for investing the assets of the Default Arrangement in a manner consistent with this Statement.

The Investment Managers are authorised and regulated to provide investment management services to the Plan. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which members invest may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Default Arrangement.

Performance objectives

The individual benchmarks and objectives against which each fund held under the Default Arrangement is assessed are given in Appendix II.

Review process

The Trustees will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policy in relation to the Default Arrangement.

(De)selection criteria

The criteria by which the Trustees will select (or deselect) the Investment Managers include:

> Past performance.

> Quality of the investment process.

> Role suitability - e.g., level of fees, reputation of the Investment Manager, familiarity with the mandate, internal objectives and restrictions of any pooled funds.

> Service - e.g., reporting, administration.

> Personnel - e.g., the individual fund managers working for the Plan in respect of the Default Arrangement.

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:

> The Investment Manager fails to meet the performance objectives set out in Appendix II.

> The Trustees believe that the Investment Manager is not capable of achieving the performance objectives in the future.

> The Investment Manager fails to comply with this Statement.

Investment Managers' fee structure

The Investment Managers are remunerated by receiving a percentage of the assets under management within the Default Arrangement. Details of the fee arrangements in place for each Investment Manager are set out in Appendix II.

It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustees.

Investment Consultant's fee structure

The Investment Consultant is remunerated for work completed on a time-cost basis or via a project fee.

It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustees undertaking their responsibility as described in Section 2.

08 Compliance Statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the Trustees of a pension Scheme, they must have consulted with the Principal Employer and obtained and considered the written advice of a person who is reasonably believed by them 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 the investments of such Schemes.

The Investment Consultant hereby confirms to the Trustees that they have the appropriate knowledge and experience to give the advice required by the Act and have provided the necessary written advice to the Trustees.

Signatures

On behalf of XPS Investment Limited

Jonathan Lawlor

Jonathan Lawlor AIA

Date: 27-9-19

On behalf of the Trustees

Victoria Gilliland

Appendix I
The structure and type of funds available in the Default Arrangement

The Default Arrangement is a lifestyle strategy which is invested as follows:

	Drawdown Lifestyle
Targeting at retirement	Drawdown
Growth Phase Investment Funds	50% Long Term Growth Fund 50% Absolute Return Fund
Phasing Period	5 Years
Retirement Phase Investment Funds	75% Absolute Return Fund 25% Cash Fund

Appendix II
Fund benchmarks, objectives and fees

Prudential Absolute Return Fund

Benchmark	UK CPI + 5% p.a. (Target Return)
Objective	To target a return of 5% per year above Inflation (CPI) over a 5-year rolling period
Fees	AMC: 0.70% p.a. OCF: 0.70% p.a.
Execution cost	0.07% p.a.

Prudential Long Term Growth

Benchmark	Mix of FTSE and MSCI regional indices
Objective	To match the performance of the benchmark as closely as possible
Fees	AMC: 0.65% p.a. OCF: 0.65% p.a.
Execution cost	-0.19% p.a

Prudential Cash Fund

Benchmark	London Interbank LIBID 7 Day Deposit Rate
Objective	To outperform the benchmark before charges over a 3-year rolling period
Fees	AMC: 0.75% p.a. OCF: 0.75% p.a.
Execution cost	0.00% p.a

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