

Husqvarna UK Limited Pension Scheme
Statement of Investment Principles June 2023

Scheme Investment Objective

The Trustees aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

STRATEGY

The long term strategic asset allocation is set out in the table below.

The Trustees also have an objective of investing the Scheme's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Scheme's liabilities. In setting this strategy, the Trustees assumed that equities will deliver a return higher than the return achievable from government bonds over the long term.

Asset Class	Target Weighting (%)	Control Range (%)
Liability Driven Investment	90.0	85.0 – 95.0
Leveraged gilts and index-linked gilts and liquidity funds	70.0*	65.0 – 75.0
Corporate Bonds	30.0*	25.0 – 35.0
Alternatives	10.0	5.0 – 15.0
Multi-Asset Credit	100.0	n/a

*weights are approximate allocations. There is no explicit target weight within the LDI portfolio

The Liability Driven Investment portfolio looks to protect the Scheme from 95% of its interest rate and inflation risk (expressed as a percentage of Solvency liabilities), allowing for interest rate sensitivity within the corporate bond holdings.

The Trustees may also take medium term tactical asset allocation positions away from the strategic asset allocation from time to time to take advantage of market opportunities.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustees considered written advice from their investment advisers when choosing the Scheme's planned asset allocation strategy. It is the Trustees' policy to consider:

- A full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

RISK MEASUREMENT AND MANAGEMENT

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustees have identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These 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 Trustees and its advisers considered this mismatching risk when setting the investment strategy. The Trustees have sought to minimise this risk by implementing a liability driven investment mandate which will protect the Scheme from 100% of its inflation and interest rate risk (expressed as a percentage of assets).
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustees and their advisers 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 by the fund managers to achieve the rate of investment return assumed by the Trustees (“manager risk”). This risk is considered by the Trustees and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustees and their advisers considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s sponsoring employer (“covenant risk”). The Trustees and their advisers considered this risk when setting the investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable compensation clauses are included in all contracts for professional services received.
- The risk of the extent to which ESG factors are not appropriately reflected in asset prices and/or not considered in investment decision making processes leading to underperformance relative to targets.

Due to the complex and interrelated nature of these risks, the Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review (normally triennially). However, some aspects of these risks were modelled explicitly in setting the current investment strategy. In addition, risk is measured in terms of the performance of the assets compared to the liabilities on a regular basis, usually quarterly.

The Trustees receive quarterly advice relating to:

- Performance versus the Scheme’s investment objective.
- Performance of the fund manager(s) versus targets.
- Any significant issues with the fund manager(s) that may impact their ability to meet the performance targets set by the Trustees.

GOVERNANCE

The Trustees of the Scheme are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

Trustees <ul style="list-style-type: none">• Set structures and processes for carrying out their role• Select and monitor planned asset allocation strategy• Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy• Selection and monitoring of investment advisers and fund managers• Select and monitor direct investments (see below)
Investment Adviser <ul style="list-style-type: none">• Advise on all aspects of the investment of the Scheme's assets, including implementation• Advise on this statement• Provide required training
Fund Managers <ul style="list-style-type: none">• Operate within the terms of this statement and their written contracts• Select individual investments with regard to their suitability and diversification

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 a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**.

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

IMPLEMENTATION

Aon Investments Limited ("Aon") has been selected as investment adviser to the Trustees. Aon operates under an agreement to provide a full service designed to ensure that the Trustees are fully briefed both to take the decisions they take themselves and to monitor those they delegate. Aon is paid on a time cost basis for all the work it undertakes for the Scheme although fixed fees may be negotiated by the Trustees for certain projects

The fund manager structure and investment objectives for each fund manager ("mandates") are shown below.

<u>Asset Class</u>	<u>Fund Manager</u>
<u>Liability Driven Investment - Corporate bonds</u>	<u>Legal & General Investment Management</u> To perform in line with the iBoxx Sterling Non Gilts ex BBB 15 Yr+ index
<u>Liability Driven Investment – Leveraged gilts and index-linked gilts</u>	<u>Legal & General Investment Management</u> To maintain a smooth match of the Scheme's liability profile and to hedge 100% of the Scheme's interest rate and inflation risk (expressed as a percentage of assets), allowing for the interest rate sensitivity from the corporate bond holdings
<u>Sterling Liquidity Fund</u>	<u>Legal & General Investment Management</u> To provide capital stability and liquidity, whilst delivering a competitive return in relation to SONIA
<u>Multi-Asset Credit</u>	<u>Adept Investment Management</u> To achieve long-term returns in excess of SONIA

Legal & General Investment Management operates a portfolio of holdings in passively managed pooled funds for the Scheme, and the Trustees have a policy of assurance rather than segregated assets.

Adept Investment Management operates a portfolio of fixed income securities and collective investment schemes within a pooled fund structure with investments being made in line with societal, environmental goals and ESG-related matters to drive better environmental and social outcomes.

Legal & General Investment Management operates a portfolio of leveraged and unleveraged assets within a pooled fund structure with investments being made in line with a bespoke benchmark that reflects the Scheme's liability profile.

The Trustees have delegated all day-to-day decisions about the investments that fall within the mandate to the fund managers, Legal & General Investment Management and Adept Investment Management. These duties include

- Realisation of investments
- Taking into account socially responsible factors
- Voting and corporate governance in relation to the financial potential of the Scheme's assets (where applicable)

The Trustees expect the fund manager to manage the assets delegated to them under the terms of the contract and to give effect to the principles in this statement so far as is reasonably practical.

Each of the managers is remunerated on an ad valorem fee basis.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees receive regular statements from the investment adviser setting out all the costs of the investment of the Scheme. They use this statement to ensure that the costs incurred are commensurate with the goods and services received.

Appropriate arrangements are in place for independent custody of investments managed by the managers. The custodians provide safekeeping for all the Scheme's assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustees will review this SIP at least every three years and following any significant change in the investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

MONITORING ARRANGEMENTS WITH ASSET MANAGERS

The Trustee monitors the Schemes investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term 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 Trustee is supported in this monitoring activity by its investment consultant.

The Trustee receives at least quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives, and assesses the asset managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

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

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

The Trustee does not regularly monitor asset managers against non-financial criteria of the investments made on their behalf.

RESPONSIBLE INVESTMENT (INCLUDING ENVIRONMENTAL, SOCIAL AND GOVERNANCE “ESG” CONSIDERATIONS)

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

To this end, the Trustee invests in the Adept Investment Management Sustainable Multi-Asset Credit (Strategy 18) solution. This product will primarily invest in Funds that are net positively aligned to societal or environmental goals to drive better environmental and social outcomes. The manager will use various techniques, either individually or combined, such as use of ESG ratings, screening tools, quantitative and qualitative research and active engagement when identifying suitable investments. The manager will regularly monitor the product's compliance to its ESG-related investment strategy through proprietary ESG ratings, third-party ESG ratings, industry body ESG assessment scores and active engagement.

Stewardship – Voting and Engagement

The 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 ultimately this creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee's voting rights in relation to the Scheme's assets (where applicable).

The Trustee has identified climate change as an area of priority when engaging with the Scheme's investment managers on stewardship related matters. This reflects the Trustee's own focus as well as aligning priorities with its relevant investment manager and the Sponsor.

The Trustee recognises the risk that environmental, social and governance factors can negatively impact the value of investments held if not understood and evaluated properly, with risks associated climate change deemed to be the most financially material to the Scheme

The Trustee accepts that there may be circumstances where managers are unable to exercise their voting power due to the underlying nature of assets held.

For assets where voting is deemed applicable, the Trustee accepts responsibility for how the manager steward's assets on its behalf, including the casting of votes in line with each managers' individual voting policies. Prospective investment managers are also expected to provide information on their voting and engagement policies in advance of any new appointment. Managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

The Trustee regularly reviews the suitability of the Schemes appointed asset managers and takes advice from its investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in its policy,

the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Schemes asset managers and ensure its managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change. The Trustee will engage with its investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

It is the expectation of the Trustee that the Scheme's asset managers will actively monitor environmental, social and governance risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

The transparency offered for engagements should include objectives and relevance to the Scheme, method of engagement, progress and perspectives around shortcomings, outcomes to date, escalation points and procedures as necessary. The transparency for voting 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 and/or votes were abstained.

Where voting is concerned, the Trustee expects its asset managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the 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"¹).

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

COST TRANSPARENCY

The Trustee recognises the importance of monitoring the level of investment costs incurred in the management of its assets and the impact these can have on the value of the assets.

Cost Transparency

The 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 Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by its asset managers that can increase the overall cost.

The Trustee collects annual cost transparency reports covering all of its investments and asks that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying its investment managers.

Portfolio Turnover

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme's investment consultant monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

Evaluation of Performance and Remuneration

The Trustee will review the investment managers relative to their objectives to ensure that the net of fees performance has met its requirements.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Act 1995 and 2005, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary code of conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.