Brother Staff Retirement Benefits Scheme

Statement of Investment Principles

September 2020

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1. Introduction

Introduction

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the Brother Staff Retirement Benefits Scheme (the "Scheme").
- The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries.
- The Scheme provides benefits calculated on a defined benefit basis.
- Buck is the investment consultant to the Trustees.
- The Scheme is closed to future accrual.
- Where the term Sponsor is used in this document it refers collectively to Brother International Europe Limited as Principal Employer, together with Brother UK Limited and Brother Sewing Machines Europe GMBH as Participating Employers.

Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section**: This section covers the requirements of, and the Scheme's compliance with the provisions of the Pensions Act 1995 and subsequent legislation, principally the Occupational Pensions Scheme (Investment) Regulations 2005.
- **Appointments and Responsibilities Section**: This section includes additional non-statutory information that the Myners review of "Institutional Investing in the UK" recommended and are now included in Statements of Investment Principles.

2. Statutory Information

Introduction

- This section of the Statement covers the requirements of the Pensions Acts 1995 and subsequent legislation, principally the Occupational Pensions Scheme (Investment) Regulations 2005. In accordance with the legislation, the Trustees will review this Statement, in consultation with the investment consultant, the actuary and the sponsoring employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

Investment Objectives and Suitability of Investments

- The investment strategy for the Scheme has been agreed by the Trustees having taken advice from the investment consultant and actuary and takes due account of the liability profile of the Scheme along with the level of disclosed surplus or deficit.

- The primary objectives of the Trustees are:
  - To provide appropriate security for all beneficiaries.
  - To achieve long-term growth in the assets to help reduce the deficit within the Scheme.
  - To ensure that the Scheme is sufficiently funded to meet all liabilities as they fall due.

- The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in a separate document, "Strategic Benchmark and Objectives" which is available upon request.

- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to day investment management decisions has been delegated to investment managers authorised under the Act. Details of the investment managers are contained in the Strategic Benchmarks and Objectives document.

- The Trustees are responsible for reviewing both the asset allocation and the investment strategy of the Scheme following each actuarial valuation in consultation with the Scheme's investment consultant. The Trustees may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

Diversification

- The Trustees, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark. Details of this benchmark are contained in the Strategic Benchmark and Objectives document.

- Subject to their respective benchmarks and guidelines (shown in the Strategic Benchmark and Objectives document) the managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.

- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Scheme, the Trustees have decided to invest primarily on a pooled fund basis and any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.

- The Trustees are satisfied that the range of the Scheme's investments provides adequate diversification.

Balance between different kinds of Investments

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark. Within each major market each manager will maintain a diversified portfolio of stocks or funds through pooled vehicles.

Risk

- The Trustees have identified two risk-factors that are monitored, namely:

    i. The maintenance of sufficient assets to satisfy the funding requirements of the Scheme, which is monitored via quarterly ongoing funding checks.

    ii. The operation of an investment strategy that does not significantly diverge from the target allocation. The divergence of the actual distribution of the investments from the target allocation will be monitored by the Scheme's investment consultant via quarterly investment monitoring reports.

Expected Return on Investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach fully funded status under the agreed assumptions.

Kind of Investments to be held

- The Scheme may only invest in investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Scheme currently invests in UK equity, global equity, property, diversified growth, liability driven investment, private debt, corporate bond and cash funds. The Trustees consider all of these investments to be suitable to the circumstances of the Scheme.

- The Scheme will not hold more than 5% of assets in Brother or any associated company.
- The Trustees also operate a bank account for the day-to-day management of cash flow.

Realisation of Investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of assets are not expected to take an undue time to liquidate.

Financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees have been provided with the investment managers' policies in respect of financially material considerations and are satisfied that it is consistent with the above approach.
- The Trustees will take into account the managers' ESG policies when appointing and reviewing investment managers.

Non-financial matters

- The financial interests of the members is the Trustees' first priority when choosing investments. The Trustees will take members' preferences into account if they consider it appropriate to do so.

Stewardship in relation to the Scheme's assets

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment managers.

Engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and the Trustees expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

Voting rights

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the investment managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing investment managers.

Additional Voluntary Contributions ("AVCs")

- The Scheme historically provided a facility for members to invest Additional Voluntary Contributions (AVCs). This facility is no longer accepting contributions and is subject to regular review.

The Trustees' policy in relation to their investment manager

In detailing below the policies on the investment managers arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees' policies

- The Trustees have delegated the day to day management of the Scheme's assets to investment managers. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment managers, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

- The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies

- The Trustees expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustees review the investment manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustees determine that the investment managers are no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment managers and may ultimately disinvest.

- The Trustees pay their investment managers a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment managers.

How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment managers used by the Scheme.

- The Trustees expect turnover costs of the investment managers to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment managers should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with their investment managers and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

3. Appointments and Responsibilities

Trustees

The Trustees' primary responsibilities include:

- Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the sponsoring employer, investment consultant and actuary, at least every three years or more frequently if there has been a significant change in investment policy.

- Appointing investment managers, investment consultants and actuaries as necessary for the good stewardship of the Scheme.

- Reviewing the investment strategy following the results of each actuarial review, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, in consultation with the investment consultant and actuary.

- Assessing the performance and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information, in consultation with the investment consultant.

- Monitoring compliance of the investment arrangements with this Statement on a regular basis.

- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Scheme's equity holdings.

Investment Consultant

The main responsibilities of the investment consultant include:

- To assist the Trustees in the preparation and annual review of this Statement in consultation with the sponsoring employer and the actuary.

- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees.

- Advising the Trustees on the selection and review of investment managers.

- Monitoring and advising upon where contributions should be invested, or disinvestments made from, on a periodic basis.

Investment Managers

The investment managers' main responsibilities include:

- To ensure that investment of the Scheme's assets are invested in compliance with prevailing legislation and within the constraints detailed in this Statement.
- Providing the Trustees with quarterly reports including a review of the investment performance and any changes to their investment process.
- To attend meetings with the Trustees as and when required.
- To inform the Trustees of any changes in the internal performance objective and guidelines of any of the Scheme's investments as and when they occur.
- To exercise voting rights on share holdings in accordance with their general policy.

Custodian

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

Administrators

- The Scheme's pension administrator is Buck.

Scheme Actuary

The Scheme Actuary's main responsibilities include:

- Performing the triennial (or more frequently as required) valuations and advising on the appropriate level of contributions and the Scheme's funding level in order to aid the Trustees in balancing short-term and long-term objectives.
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall. The Scheme Actuary is employed by Buck.

The Trustees of the Brother Staff Retirement Benefits Scheme

Implemented by the Trustees on 24 September 2020