

# **Standex UK Retirement Plan**

## **Statement of Investment Principles – June 2023**

### **1. Introduction**

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustee of the Standex UK Retirement Plan (the “Plan”). The Statement sets out the principles governing the Trustee’s decisions about the investment of the Plan’s assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with the principles set out herein.

The Statement is designed to meet the requirements of Section 36 of the Pensions Act 1995 as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments.

As required under the Act, the Trustee has consulted a suitably qualified person and has obtained written professional advice from Mercer Limited (“Mercer”). The Trustee, in preparing this Statement, has also consulted Standex International Corporation (“the Principal Employer”) as Sponsor of the Plan. The Principal Employer has no objections to the contents, and any proposed changes to this Statement will be discussed with them. However, the Trustee’s fiduciary obligations to the Plan will take precedence over the Principal Employer’s wishes should these ever conflict.

The format of this Statement is designed to provide a logical statement rather than an ordered response to the Act. The Trustee believes, however, that it incorporates a response to all the requirements of the Act.

The Trustee does not expect to revise this Statement frequently because the Statement covers broad principles. The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the risk tolerance of the Trustee and the Principal Employer that it judges to have a bearing on the Statement. This review will occur no less frequently than triennially. Any such review will again be based on written expert advice and will be in consultation with the Principal Employer.

### **2. Investment Policy and Scheme Governance**

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee, acting on advice from its investment consultant, Mercer, and is driven by its investment objectives as set out below. The remaining elements of policy are part of the day-to-day management of the assets, which is delegated to professional investment managers whose roles and responsibilities are set out in Section 3.

Mercer has been appointed by the Trustee to provide advice on the Plan’s investment strategy and strategic asset allocation. The Trustee has also delegated the selection, appointment, removal and monitoring of the underlying Defined Benefit investment managers to Mercer. Mercer will attend Trustee meetings as appropriate.

The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisers.

### **3. Defined Benefit Section (“DB Section”)**

#### **3.1 Strategic Management**

##### **3.1.1 Process for Choosing Investments**

The Trustee has appointed Mercer to act as discretionary investment manager tasked with implementing the Trustee’s investment strategy. In this capacity, and subject to agreed restrictions, the Plan’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to highly rated third party investment managers and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Plan’s assets on a day to day basis.

In considering appropriate investments for the Plan, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

##### **3.1.2 Investment Objectives**

Over the long-term, the Trustee’s primary investment objective is to invest the Plan’s DB Section assets in such a way that members’ benefit entitlements can be paid as and when they fall due. The DB Section of the Plan has now closed to future accrual, and is therefore steadily maturing. As such, the Trustee’s objectives (given below) have been adapted to reflect the finite life of the Plan and the need to consider its “end game”.

The Trustee’s objectives are therefore:

- To monitor the solvency of the Plan, with the aim of the Plan being close to fully funded on a solvency basis before all members have reached retirement;
- To have 100% of assets invested in assets that provide a low level of investment risk relative to the Plan’s liabilities, before all members have reached retirement.

To achieve and maintain a 100% funding level on the self-sufficiency (gilts + 0.5% p.a.) basis Given the desire to consider the Plan’s “end-game”, the Trustee has noted that in setting the investment strategy, the solvency funding basis is a prudent measure of the financial strength of the Plan and best reflects its mature status.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in Section 3.5.

##### **3.1.3 Risk Management and Measurement**

The primary risk upon which the Trustee focuses is that arising through a mismatch between the Plan's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

The Trustee recognises that there are also a number of risks involved in the investment of the Plan's assets:

- a. *Funding level and mismatching risk* – As described by the Trustee's investment objectives, the Trustee invests in asset classes which are expected to demonstrate volatility when compared to the development of the Plan's liabilities. The Trustee has considered a number of investment strategies with varying degrees of risk relative to the Plan's liabilities. In determining an appropriate level of risk (or expected volatility) the Trustee has considered:
  - a) The strength of the Principal Employer's covenant and attitude to risk.
  - b) Likely fluctuations in funding level.
  - c) The required investment returns to restore the funding level over a set period in conjunction with the funding policy.
  - d) The Trustee's tolerance to deterioration in the funding level as a result of taking risk.
  - e) The term and nature of the Plan liabilities.

To monitor the success or otherwise of the investment decisions, the Trustee routinely monitors the development of the estimated funding level.

- b. *Manager risk* – The Trustee monitors the managers' performance on a quarterly basis, and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. To a larger extent, the Trustee has delegated the selection, monitoring and replacing of the investment managers to Mercer.
- c. *Liquidity risk* – The Trustee has adopted a strategy that makes due allowance of the need for liquidity of the Plan's assets.
- d. *Concentration risk* – The Trustee has adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:
  - by asset class
  - by region
  - by investment manager

The Trustee recognises that Environmental, Social and Governance (ESG) factors, including climate change, may have a financially material impact on returns. Section 3.5 sets out how these risks are managed.

The Trustee continues to monitor these risks.

To help the Trustee ensure the continuing suitability of the current investments the Trustee has delegated the responsibility for the hiring, firing and ongoing monitoring of the investment managers for the various Mercer Funds used by the

Trustee. Mercer provides the Trustee with quarterly reports regarding the appointed underlying investment managers to ensure the risks taken and returns achieved are consistent with those expected.

A Mercer Fund is defined as any collective investment for which Mercer Global Investments Europe Limited or any affiliate thereof, serves as investment manager, including without limitation, MGI Funds plc, Mercer PIF Fund plc, Mercer QIF Fund plc and Mercer QIF CCF. Each of the Mercer Funds have appointed State Street Custodial Services (Ireland) Limited ("State Street") to act as custodian of all of the relevant Mercer Fund's assets. The primary responsibility of the custodian is to ensure the safekeeping of the cash and assets of the relevant Mercer Fund. Mercer is responsible for keeping the suitability of State Street under ongoing review. The Trustee subscribes for units/shares in the relevant Mercer Funds.

Should there be a material change in the Plan's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered.

#### **3.1.4 Investment Strategy**

The Trustee has considered in general terms, based on the advice of Mercer, the possible impact of a number of different strategies in relation to the funding risks identified above and concluded that the following asset strategy is appropriate for meeting the objectives, as set out in 3.1.1.

- To invest in a diversified portfolio of credit-based assets, including Multi-Asset Credit, Investment Grade Corporate Bonds, Secured Finance and Gilts/LDI (Liability Driven Investment) with the aim of generating modest investment outperformance relative to the liabilities, whilst also generating cashflows to help meet benefit payments as they fall due.
- To fully hedge, to the extent possible, the impact of changes to interest rate and inflation expectations on the Plan's liabilities (measured on a gilts +0.5% basis).

The Trustee considers this strategy to provide a suitably diversified overall portfolio and is appropriate for meeting their objectives and controlling the risks identified in 3.1.2 and 3.1.3.

### **3.2 Investment Restrictions**

The assets held with Mercer are invested in pooled vehicles. Investment restrictions will be as stated in the respective pooled vehicles' governing documents.

### **3.3 Realisation of Investments**

The Trustee on behalf of the Plan hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

### **3.4 Environmental, Social, and Corporate Governance, Stewardship, and Climate Change (for the DB Section only)**

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and

that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship are integrated within Mercer's, and MGIE's, investment processes and those of the underlying managers in the monitoring process. Mercer and MGIE are expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

### **Member views**

Member views are not taken into account in the selection, retention and realisation of investments.

### **Investment Restrictions**

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

## **3.5 Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs (for the DB section only)**

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 3.1.4, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, its long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds. However, the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy and objectives. The Trustee has taken steps to satisfy itself that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives and considers investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 3.4 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and is not looking to change the Plan's investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors and evaluates the fees it pays for asset management services on an ongoing basis, taking into account the progress made in achieving its investment strategy objectives. The fees of both Mercer and MGIE are based on a percentage of the value of the Plan's assets under management, which covers the design and annual review of the investment strategy and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a regular investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the de-risking mandate. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

/s/ SEAN VALASHINAS

\_\_\_\_\_  
**For and on Behalf of the Trustee of the Standex UK Retirement Plan**

\_\_\_\_\_  
**Date**