Sandvik UK Group Defined Benefit Pension Plan

Statement of Investment Principles – April 2024

1 Introduction

The Trustees of the Sandvik UK Group Defined Benefit Pension Plan (the "Plan") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustees' investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

This statement replaces the previous statement dated March 2021 and under the name, "The Sandvik Pension Plan 2001".

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the Sponsoring Company (the "Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements and, in particular on the Trustees' objectives.

The Trustees are also cognisant of any views on investment issues from the Sandvik Group Pension Committee ("GPC"), which has been established to provide a consistent framework for the Sandvik occupational pension schemes globally.

2 Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustees' strategy whereby the level of investment risk reduces as the Plan's funding level improves. In this capacity, and subject to agreed restrictions, the Plan's assets are invested in multi-client collective investment schemes ("Mercer Funds"). The Mercer Funds are domiciled in Ireland (for traditional asset classes) and in Luxembourg (for private markets assets). The Ireland-domiciled collective investment schemes are managed by a management company (Mercer Global Investments Management Limited ("MGIM")) and the Luxembourg-domiciled funds are managed by Mercer Alternatives (Luxembourg) S.à r.l. and, respectively, these entities have appointed Mercer Global Investments Europe Limited ("MGIE") and Mercer Alternatives AG ("Mercer AG") as investment managers of the Mercer Funds.

In practice, assets in the Mercer Funds are invested with third party fund managers based in countries such as Ireland, UK and USA. Mercer and its affiliates have 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 Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3 Investment Policy and Risk

Overall investment policy falls into two parts. The strategic management of the assets, that being the structure of the funding level de-risking triggers which determines the allocation between the growth and matching assets, which is fundamentally the responsibility of the Trustees acting on advice from their investment consultant, and is driven by their investment objectives as set out below. The remaining elements of policy are part of the day-to-day management of the assets; this is delegated to professional investment managers and described in the Statement of Investment Arrangements (“SIA”). The format of this SIP is designed to provide a logical statement rather than an ordered response to the Act. The Trustees believe, however, that it incorporates a response to all the requirements of the Act.

4 Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan’s funding level. The Trustees recognise that equity investment (and other growth assets) will bring increased volatility to the funding level, but in the expectation of improvements in the Plan’s funding level through growth asset outperformance of the liabilities over the long term.

The Trustees’ primary objective is to make sure the Plan can meet its obligations to the beneficiaries of the Plan. The long-term objective of the Trustees is therefore to reach a position such that the assets would be sufficient to meet the liabilities with the assets then invested in a low risk manner.

The Trustees recognise that this ultimately means investing in a portfolio of bonds and other liability driven investments but believe that at the current time some investment in equity and other growth assets (“Growth Portfolio”) is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed below.

The Trustees have agreed that the Plan should move progressively towards a long-term target of reaching a fully funded position, on a low risk basis, and moving to a bond-based investment strategy (“Matching Portfolio”) in order to minimise the volatility of the funding level relative to the liabilities. Further detail on the funding basis and timeframes are given in Section 6. The Trustees will monitor progress against this target.

The Trustees believe that the investment strategy adopted for achieving this objective will also be appropriate for achieving the objectives of avoiding significant volatility in the contribution rate over the longer term. The Trustees recognise that investment in the Growth Portfolio could potentially lead to volatility in the contribution rate over shorter time periods.

The objectives set out above and the risks and other factors referenced in section 5 of this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in section 12.

5 Risk Management and Measurement

There are various risks to which any pension plan is exposed. The Trustees' policy on risk management, over the Plan's anticipated lifetime, is as follows:

- The primary risk upon which the Trustees focus 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 Trustees recognise that whilst increasing investment risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.

- To control the risk outlined above, the Trustees, having taken advice, set the split between the Plan's Growth and Matching Portfolio such that the return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 4. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk. Mercer provides the Trustees with regular reports regarding the Plan's asset allocation.

- Whilst moving towards the target funding level, the Trustees recognise that even if the Plan's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between the assets in the Matching Portfolio and actuarial liabilities.

- The Trustees invest in leveraged LDI funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the Matching Portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk, the Trustees have delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification with the portfolio.

- To help the Trustees ensure the continuing suitability of the current investments Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of some active investment managers involves such a risk. However, for specific asset classes, the Trustees believe that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.

- To help diversify manager specific risk, within the context of the Growth and Matching Portfolios, the Trustees expect that the Plan's assets are managed by appropriate underlying asset managers. By investing in the Mercer Funds the Trustees have delegated the selection of these underlying asset managers to Mercer.

- By investing in the Mercer Funds, with the exception of those investments made within private markets assets, the Trustees do not make investments in securities that are not traded on regulated markets. The Plan's investments in securities not traded on regulated market are made in recognition of the associated risks (in particular liquidity and counterparty exposure) and for the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees ensure that the assets of the Plan are predominantly invested on regulated markets.

- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 12 sets out how these risks are managed.

- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. To limit currency risk, the Trustees invest in currency hedged share classes for funds in which these share classes are available.

- Longevity risk is a demographic risk that members live longer than expected in aggregate. To manage this, the Trustees hold a longevity swap with Zurich Assurance Limited that covers a portion of the Plan's benefits, the Trustees may consider the use of additional longevity hedges to further mitigate this risk where appropriate.

Should there be a material change in the Plan's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current strategy remains appropriate.

In addition, the investment strategy will be reviewed approximately annually.

6 Investment Strategy

The Trustees, with advice from the Plan's investment consultant and Scheme Actuary and in conjunction with the Company, regularly review the Plan's investment strategy. These reviews consider the Trustees' investment objectives, their ability and willingness to take risk (the risk budget) and how the agreed risk budget should be allocated and implemented (including de-risking strategies).

The current strategy reduces the risk in the Plan's assets relative to its liabilities over time using a trigger based framework. The approach relates the asset allocation to the Plan's funding level, currently, this is on an actuarial basis using a discount rate of 0.5% p.a. in excess of appropriate gilt yields.

In 2021, the Trustees agreed to delegate the decisions relating to the underlying composition of the Growth Portfolio to Mercer. The Trustees keep this decision under regular review.

The approach is based on the following principles:

- To hold sufficient growth assets to target full funding on a "gilts +0.5% p.a." basis by 2030-2035;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The funding level triggers which form the basis of the Plan's dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements.

Once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on a broadly annual basis to ensure that the triggers set remain appropriate and amended if required.

Responsibility for monitoring the Plan's asset allocation, and undertaking any rebalancing activity, is delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities.

7 Day–to-Day Management of the Assets

The Trustees have delegated day-to-day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying third party asset managers.

At the time of writing, the Plan maintains a holding in a pooled property fund with Lothbury Investment Management Ltd ("Lothbury"). However, this Fund is in termination and will be returning capital to the Plan as the Fund's assets are sold down. As such, the allocation will remain in place until such time as the assets are fully sold down and the Plan's pro-rata share of the redemption proceeds have been paid out. These proceeds will then be invested with Mercer. The Trustees therefore continue to delegate the day-to-day management of these assets to Lothbury (who also continue to be responsible for arranging the safe custody of these assets during the termination and redistribution of capital period).

8 Additional Assets

Under the terms of the Trust Deed the Trustees are responsible for the investment of AVCs paid by members. The Trustees review the investment performance of the chosen providers on a periodic basis and take advice as to the providers' continued suitability.

9 Realisation of Investments

The Trustees, on behalf of the Plan, hold shares in the Mercer Funds. The investment managers to the Mercer Funds (including the underlying third party asset managers appointed by MGIE and Mercer AG), within the 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.

10 Cashflow and cash flow management

In order to efficiently meet the Plan's ongoing cashflow needs, the Trustees seek to distribute income generated by the Plan's investments, where this facility is available.

However, from time-to-time the Trustees may need to make direct disinvestments from or investments into the invested assets to meet cashflow needs. Such transactions, whether positive or negative, are taken into account by Mercer when it rebalances the Plan's assets in line with the Plan's strategic allocation. Mercer is responsible for raising cashflows from the Plan's invested assets, but will only do so upon receipt of an appropriate instruction.

11 Rebalancing

As noted, responsibility for monitoring the Plan's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weighting, under the new de-risking band, as defined in the Statement of Investment Arrangements.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

12 ESG, Stewardship, and Climate Change

The Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have 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, such as the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustees thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, Mercer AG's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, MGIE, and Mercer AG, are expected to provide reporting to the Trustees 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 other asset classes where relevant and data is available and/or climate transition analysis for diversified growth portfolios.

Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Plan, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The results of the latest climate scenario modelling are within the TCFD compliant Climate Change Management Report. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2˚C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.

A detailed standalone sustainability monitoring report is produced for the Sustainable Global Equity fund invested in by the Plan on an annual basis. The approach considers revenues that positively and negatively contribute to environmental and social outcomes (also mapped to the SDGs). The fund includes an allocation to an impact strategy employing fundamental analysis to target companies that aim to achieve positive Environmental and Social Impact.

The Trustees recognises the conflict of interest which may arise in the context of responsible investment. Mercer, Mercer AG and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views
The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life are currently not taken into account in the selection, retention and realisation of investments but may be in the future. The Trustees will review their policy towards this on a periodic basis.

Investment Restrictions
The Trustees have considered MGIE's exclusion framework for the equity and fixed income portfolios. MGIE and Mercer AG has given their appointed third party asset managers investment restrictions in relation to particular products or activities. The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

13 Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 6, the Trustees are 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, long-term liabilities. Although making up a smaller proportion of the Plan's assets the Trustees have similar concerns regarding the incentives of Lothbury in their management of the Lothbury Property Trust, in which the Plan invests. However, at the time of writing, as this Fund is in termination with the redemption proceeds being paid out to the Plan and invested with Mercer, these concerns regarding incentives of Lothbury are considered minor and temporary.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 6. The Trustees have taken steps to satisfy themselves 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 Trustees' policies, it is open to the Trustees 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 Trustees receive**,** and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer, MGIE or Mercer AG 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 and Mercer AG 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 Trustees are, however, able to consider Mercer's, Mercer AG'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 Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement. Section 12 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 and Mercer AG may be based, at least in part, on their success in meeting expectations.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 4. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers the design and annual review of the de-risking 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.

Mercer AG fees are charged based on net commitment for the first four years following the final close and, thereafter, by reference to the Net Asset Value of the Mercer Fund.

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 Mercer AG's and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, 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 Fund's Supplements, the Report & Accounts and within the Plan's annualised, 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 Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Other than in respect of private markets investments where turnover in the Mercer Funds does not usually apply, performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

Similar to the Mercer Funds, the Plan's investment with Lothbury is made by way of a multi-client investment scheme. The same restrictions of the Trustees regarding the risk profile and return targets of this fund exists with the Lothbury invested assets as with those assets invested in the Mercer Funds. At the time of writing, as this Fund is in termination with the redemption proceeds being paid out to the Plan and invested with Mercer, these restrictions are no longer of any concern as the Fund's focus is now on payment of the redemption proceeds as opposed to generating returns.

14 Fee Structures

Details of fees in relation to the Mercer Funds are set out in section 13.

For longevity hedge contracts, risk transfer fees for the longevity hedge are embedded in the fixed leg payable by the Trustees under the longevity hedge agreed with the Insurer at the contract inception, and are a fixed percentage. Mercer agrees with the Trustees the scope of their services for supporting the ongoing running of the longevity hedge in periodic engagement letters which set out corresponding expected fees.

15 Review of this Statement

The Trustees will review this Statement at least once every three years and in response to any material changes to any aspects of the Plan, its liabilities, finances the attitude to risk of the Trustees and the Sponsor which they judge to have a bearing on the stated investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes 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 pension plan investments.

………………………………………… Signature	………………………………………… Signature
………………………………………… Name	………………………………………… Name
………………………………………… Date	………………………………………… Date

For and on behalf of the Sandvik UK Group Defined Benefit Pension Plan