Legrand UK Limited Pension Scheme

Statement of Investment Principles – September 2020

Introduction

The Trustees of the Legrand UK Limited Pension Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. In preparing this Statement the Trustees have consulted Legrand Electric Limited ("the Employer") on the Trustees' investment principles.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives and the covenant of the sponsoring employer; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustees must take professional advice. The Trustees' investment consultants, Capita Employee Solutions ("Capita"), are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Scheme's assets in the best interests of the members, and their main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Scheme's assets which is sufficient (in conjunction with the employers existing contributions) to pay all members' benefits in full and is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustees understand, following discussions with the Employer, that it is willing to accept a degree of volatility in the Employer's contribution requirements in order to aim to reduce the long-term cost of providing the Scheme's benefits. The Trustees are comfortable that the covenant of the Employer is strong enough to support this approach.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Scheme's liability profile. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Scheme's liabilities.

- The Trustees recognise that whilst increasing risk would be expected to increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- The Trustees recognise that the use of active management involves a risk that the assets do not achieve the expected return. However, they believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. The Scheme's assets are managed both actively and passively, but the Trustees can change this at any time after taking investment advice.

- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether the current risk profile remains appropriate.

Financially material considerations over the Scheme's time horizon

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme's members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the scheme. The Trustees recognise that this is a defined benefit scheme open to accrual, closed to new entrants and with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Scheme could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest. However, the Trustees will consider these policies in all future selections and will seek to deepen their understanding of their existing managers' policies by reviewing these at least annually. In cases where they are dissatisfied with a manager's approach they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf). The Trustees are also keen that their managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustees expect the Scheme's Investment Managers to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

The Trustees will monitor the voting being carried out by their Investment Managers and custodians on their behalf. They will do this by receiving reports from their Investment Managers which should include details of any significant votes cast and proxy services that have been used.

Non-financial matters, including members' views are currently not taken into account.

Investment Strategy

Given their investment objectives the Trustees have agreed to the strategic asset allocation detailed in the table below, further details are shown in the appendix. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class	Strategic Asset Allocation (%)	Control Limits (%)
Global Equities	20.0	
Diversified Growth Funds	35.0	
Growth Assets:	**55.0**	**+/- 5.0**
Absolute Return Bond Fund	20.0	
Nominal LDI	10.0	
Real LDI	15.0	
Matching Assets:	**45.0**	**+/- 5.0**
Total:	**100.0**	

Cash Flows and Rebalancing

The Trustees will monitor the Scheme's actual asset allocation at least quarterly and subject to stated control limits, will decide how to proceed. This may involve redirecting cash flows, a switch of assets, or taking no action. For cash flows and general rebalancing events, the Trustees have agreed that the cashflow policy should look to rebalance towards the benchmark subject to the following:

- For Matching Assets, disinvestment or investments should only be taken from or made into the absolute return bond funds and not LDI unless advised otherwise.

The LDI funds employ leverage (i.e. the level of protection provided against changes in longer-term interest rates/inflation expectations is greater than the amount invested). Should the leverage within one of the LDI funds deviate substantially from the fund's target leverage level, BMO will rebalance the LDI fund back to the target leverage level. These LDI leverage rebalancing events could result in money being requested or released from the LDI funds. The Trustees have agreed that cash flows for LDI leverage rebalancing will be directed towards and taken from the Newton Global Dynamic Bond Fund.

The Trustees may decide to change this cash flow and rebalancing policy from time to time, subject to receiving the necessary advice from the investment consultant.

Further details on the investment funds and control ranges can be found in the Appendix.

Expected Return

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect to generate a return, over the long term, of circa 2.1% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Scheme's liability value. This return is a "best estimate" of future returns that has been arrived at given the Scheme's long term strategic asset allocation and in the light of advice from the investment consultant.

The Trustees recognise that over the short term performance may deviate significantly from this long term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Investment Mandates

The Trustees have selected Legal & General Investment Management ('LGIM'), BMO Global Asset Management ('BMO'), Schroder Investment Management ('Schroders'), Invesco Perpetual ("Invesco"), BNY Mellon Investment Management ("BNY Mellon") and Payden & Rygel Investment Management ('Payden') as the appointed Investment Managers ('the Investment Managers'). The Investment Managers are regulated under the Financial Services and Markets Act 2000.

The Trustees have rolling contracts with their Investment Managers.

The Trustees monitor the performance of their Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their investment consultants.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that are paid to their Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, it will ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the Investment Managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the Investment Managers are incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the Investment Managers provides these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then they will monitor compliance with these targets.

Employer-Related Investments

The Trustees' policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Investment Managers are paid a management fee on the basis of assets under management. The investment consultant is paid on a fixed fee basis for providing 'core services'. Payment to the investment consultant may also be made on a project basis which may be a fixed fee or based on time cost for additional services as agreed by the Trustees in the interests of obtaining the best value for the Scheme.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in 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 believe 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 scheme investments.

Peter Beddall

On behalf of Trustees

11 November 2020

Date

For and on behalf of the Trustees of the Legrand Limited UK Pension Scheme

Appendix – Investment Mandates

The Trustees have appointed the Investment Managers to manage the assets of the Scheme. The Investment Managers are regulated under the Financial Services and Markets Act 2000. The Investment Managers' mandates are set out below:

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Strategic Allocation (%)	Control Limits (%)
Growth Assets				**55.0**	**+/- 5.0**
Global Equities	LGIM	Global Equity Fixed Weights (60:40) Index Fund	Passive	20.0	
Diversified Growth Fund	Schroders	Diversified Growth Fund	Active	35.0	
	Invesco	Global Targeted Returns Fund	Active		
Matching Assets				**45.0**	**+/- 5.0**
Absolute Return Bonds	BNY Mellon	Global Dynamic Bond Fund	Active	10.0	
	Payden & Rygel	Absolute Return Bond Fund	Active	10.0	
LDI – Nominal*	BMO	Nominal Dynamic LDI Fund	Passive (mechanistic)	10.0	
LDI – Real*	BMO	Real Dynamic LDI Fund	Passive (mechanistic)	15.0	
TOTAL				**100.0**	

*The BMO Dynamic LDI funds invest in a combination of both gilts and swaps.