

# **GE Healthcare Pension Plan**

## **Statement of Investment Principles**

### **Plan Investment Objective**

The Trustee of the GE Healthcare Pension Plan (the “Plan”) aims to invest the assets of the Plan prudently to ensure that the benefits promised to members of the Plan are provided.

### **INTRODUCTION**

This statement sets out the principles governing decisions made about the investment of the assets of the GE Healthcare Pension Plan. This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect with the Government's Voluntary code of conduct for Institutional Investment in the UK. The Plan Trustee also complies with the requirements to maintain and take advice on the Statement of Investment Principles by taking advice from its Strategic Investment Advisor.

The Plan Trustee has appointed Aon as their Strategic Investment Advisor and take advice from them on setting the investment strategy and all investment related strategic work.

The Plan Trustee has decided to delegate the strategy implementation process and has hired State Street Global Advisors and its affiliate SSGA Funds Management Inc as its Fiduciary Manager on a discretionary basis.

The Plan Trustee will review this Statement of Investment Principles at least every three years and immediately following any significant change in investment policy. The Plan Trustee will take investment advice from its Strategic Investment Advisor and consult with the Sponsoring Employer and the Fiduciary manager over any changes to the Statement of Investment Principles.

### **STRATEGY**

The investment strategy of the Plan aims to maximise the likelihood of achieving its long-term objectives. The Trustee will review the strategy as appropriate and following advice from its Strategic Investment Advisor, Aon, determine the appropriate strategic allocation.

The investment strategy, including hedge ratios, has been set to reflect the Plan's current objective of carrying out a full scheme buy-in in the near future. If for whatever reason the Plan does not proceed with the buy-in, the strategy below and associated hedge ratios will be reviewed to ensure they remain appropriate.

Asset Class	Target (%)	Control Ranges (%)	Sub asset Class	Sub asset class Target (%)	Sub asset class Control Ranges (%)
Property	0	0 - 5	Property	0	0 – 5
Investment Grade Credit	0	0 - 15	Fixed Interest Bond	0	0 – 15
LDI & Cash	100.0	85-100	GEHPP LDI	95.0	80–100
			Cash	5.0	0 – 10

The Plan has a small historical allocation to UK property assets which are currently being disposed and the proceeds are expected to be invested in line with the allocations outlined above.

The Plan Trustee wishes to target a 95% hedge as a percentage of the Plan's estimated solvency liabilities (excluding expenses).

As instruments which exactly match the Plan's cashflows are not available, an investable cashflow benchmark was constructed. The table below sets out the target hedge ratio and control ranges, relative to this investable cashflow benchmark:

Hedged Risk	Target (%)	Control Ranges (%)
Interest Rates	95.0	90 - 100
Inflation	95.0	90 - 100

There are many characteristics of the Plan liabilities that cannot be replicated with investable gilt-related instruments, including – caps and floors to pension increases; pension increases linked to CPI not RPI; very long duration liabilities. In addition, the liability cashflows will change because of changes in membership, and changes in actuarial assumptions, particularly mortality. These differences may mean that the hedging diverges from the Plan's actual liabilities. To mitigate this risk the cashflow benchmark will be recalculated annually and may be reviewed more frequently if circumstances warrant.

It is the Plan Trustee's policy to review and monitor on a regular basis that the Fiduciary Manager is maintaining the allocation within the control ranges. The targets and control ranges above are intended to reflect how Plan assets should be invested and maintained under normal conditions. They are not intended to constitute limits or obligations for which strict adherence is required especially when market movements or other events beyond the Fiduciary Manager's control may cause actual allocations to move outside the control ranges. The Fiduciary Manager should consider transaction costs when rebalancing or otherwise shifting the asset allocation and, where possible, try to minimize such transaction costs.

## **RISK**

The Plan Trustee recognises that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Plan Trustee has identified a number of risks which have the potential to cause deterioration in the Plan’s funding level and therefore contribute to funding risk and maintains a risk register covering investment risks. Key risks identified 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 Plan Trustee will take advice from its Strategic Investment Adviser on this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Plan’s immediate liabilities (“cash flow risk”). The Plan Trustee and its advisers will manage the Plan’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure to spread investment risk (“risk of lack of diversification”). The Plan Trustee will take advice from its Strategic Investment Adviser on this risk when setting the Plan’s investment strategy.
- The possibility of failure of the Plan’s sponsoring employer (“covenant risk”). The Plan Trustee will take account of its assessment of the covenant risk when setting investment strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Plan Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable provisions are included in all contracts for professional services received.

## **IMPLEMENTATION**

The Plan Trustee takes advice from its Strategic Investment Advisor, Aon, on setting the overall investment strategy.

The Plan Trustee has decided to delegate the strategy implementation process and has hired State Street Global Advisors as its Fiduciary Manager on a discretionary basis.

The Plan Trustee will review this Statement of Investment Principles at least every three years and immediately following any significant change in investment policy. The Plan Trustee will take investment advice from its Strategic Investment Advisor and consult with the Sponsoring Employer and Fiduciary Manager over any changes to the Statement of Investment Principles.

## **GOVERNANCE**

The Plan Trustee takes some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Plan Trustee has taken into account whether it has appropriate training and expert advice in order to take an informed decision. The following decision making structure has been established:

### **Plan Trustee**

- Select and monitor all investment advisors to the Plan Trustee.
- Set structures and processes for carrying out its role including establishment of relevant committees.
- Establish investment objectives for the Plan.
- Select and monitor asset allocation based on the Plan's investment objectives.
- Determine any strategic hedging policies.
- Maintain the Plan's Statement of Investment Principles.

### **Strategic Investment Advisor to the Plan Trustee**

- Review the Plan's investment strategy as part of the triennial valuation.
- Advise on strategic interest rate and inflation hedging levels.
- Design flight plan and triggers.
- Independent risk monitoring.
- Assist the Plan Trustee on Integrated Risk Management.
- Assist with standard regulatory requirements.
- Liquidity analysis and long term cash requirements.
- Review the Trustee's governance framework.
- Assist the Trustee on investment proposals from the Fiduciary Manager which deviate from the strategy.
- Provide a template and regular review and update of this Statement of Investment Principles.
- Provide training to the Plan Trustee.

### **Fiduciary Manager to the Plan Trustee**

- Implement and monitor asset allocation for the Plan.
- Select, implement and monitor any hedges, including derivatives overlays.
- Advise the Plan Trustee on investing the Plan's assets.
- Provide training to the Plan Trustee, to the extent they are qualified.

### **Arrangements with Asset Managers**

The Trustee has appointed State Street Global Advisors ('SSGA') as their fiduciary manager, who it considers to be their asset manager. References in this policy to 'underlying asset managers' refers to those asset managers which SSGA in turn appoints to manage investment on behalf of the Trustee.

The Trustee recognises that the arrangements with its fiduciary manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the fiduciary manager is incentivised to operate in a manner that generates the best long-term results for the Plan and its

beneficiaries, and that the fiduciary manager is aware of, and aligned with, the Trustee's policies and the Plan's investment objectives.

To this end, the Trustee receives quarterly reports and verbal updates from the fiduciary manager 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 Plan's long-term objectives and assesses the fiduciary manager over 3-year periods.

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

The Trustee shares its policies, as set out in this SIP, with the Plan's fiduciary manager and requests that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee is responsible for reviewing whether the managers are meeting the Trustee's expectations and providing an annual update to the Trustee for all delegated responsibilities in this regard.

#### Monitoring

The Trustee delegates the ongoing monitoring of underlying asset managers to the fiduciary manager. The fiduciary manager monitors the Plan's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Plan.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-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 believes that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager 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. The Trustee does not typically monitor the fiduciary manager against non-financial criteria of the investments made on the Plan's behalf.

Where the fiduciary manager is 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 engage with the fiduciary manager to understand the circumstances and materiality of the decisions made.

#### Duration of asset management arrangements

There is no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in,

although this is regularly reviewed as part of the portfolio management processes in place and by the Trustee's investment objectives. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

### **Responsible Investing and ESG**

The Trustee recognises its responsibility as an institutional investor to invest responsibly, and to support and encourage good corporate governance practices in the companies in which it invests. The Trustee considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society. Lack of good governance interferes with a company's ability to function effectively and is a threat to the Plan's financial interest in that company.

The Trustee further acknowledges that an understanding and consideration of environmental, social and corporate governance (ESG) issues can contribute to the identification of investment opportunities and material risks. This includes the risk that ESG factors, including climate change, could negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Plan's asset allocation, receiving updates from State Street Global Advisors (SSgA), and when monitoring performance.

### **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 Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

State Street Global Advisors are responsible for the fiduciary management of the Plan's assets. As part of its delegated responsibilities the Trustee expects State Street Global Advisors and the underlying fund managers to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Plan's assets;
- Take into account social, environmental and corporate governance considerations in the selection, retention and realisation of investments; and
- Report to the Trustee on stewardship activities undertaken by underlying asset managers as required

The Trustee receives annual reports on stewardship activity carried out by its fiduciary manager. These reports include voting and engagement information. Where possible, the transparency provided relating to the exercise of voting rights should include voting actions and rationale with relevance to the Plan, in particular where: votes were cast against management; votes against management generally were significant; or where votes were abstained.

Any voting and engagement decision should not apply ethical judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee is responsible for reviewing whether the managers are meeting the Trustee's expectations and providing an annual update to the Trustee for all delegated responsibilities in this regard.

### **Members' Views and Non-Financial Factors**

In setting and implementing the Plan's investment strategy, the Trustee does not explicitly take into account the views of Plan 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" in the 2018 Regulations).

### **Cost Monitoring**

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 Plan's assets. The Trustee recognises that, in addition to annual management charges, there are other costs incurred by the Plan's underlying asset managers that can increase the overall investment costs.

The Trustee of the Plan receives information regarding cost transparency.

The Trustee has received cost transparency reports relating to the underlying asset managers, with assistance from SSGA. These reports provide the Trustee with information in line with prevailing regulatory requirements for fiduciary managers. These reports set out:

- The total amount of investment costs incurred by the Plan;
- The fees paid to the fiduciary manager;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager
  - *The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;*
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Plan.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all underlying investment managers appointed on behalf of the Trustee.

### Evaluation of performance and remuneration:

The Trustee assesses the (net of all costs) performance of its fiduciary manager on a rolling three-year basis against the Plan's specific liability benchmark and investment objective. The Trustee monitors investment costs and performance trends over time.

### **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 responsibility for the investment is retained by the Plan Trustee e.g. the purchase of an insurance policy or AVC contract. The latter are known as **direct investments**.

The Plan Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. In respect of direct investments the Plan Trustee obtains written advice and considers delegated management of these investments to the fund manager(s).

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement and the criteria by which such investments should be assessed as set out in the Occupational Pensions Schemes (Investment) Regulations 2005 (regulation 4). The Plan Trustee's investment advisors have the knowledge and experience required under the Pensions Act 1995.

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

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Signed by Chair of Trustee

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Name of Chair of Trustee

**Seen by Sponsoring Employer:**

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Name

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Position

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Date