Snap-on Tools Limited Pension & Benefit Plan

Statement of Investment Principles

1. Introduction

The Trustees of the Snap-on Tools Limited Pension & Benefit 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 subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Plan's investment arrangements, based on the principles set out in this Statement, are outlined in the Investment Implementation Policy Document ("IIPD"), which is available to Plan members on request.

The Trustees have obtained and considered written professional advice from Mercer Limited (the "Investment Consultant") in preparing this Statement. The Trustees believe that the Investment Consultant meets the Act and subsequent legislation. In matters where the investment policy may affect the Plan's funding policy, input has also been obtained from the Plan Actuary. The Trustees will obtain similar advice whenever it reviews this Statement.

The Trustees seek to maintain a good working relationship with the Principal Employer and will discuss any proposed changes to the Statement with the Principal Employer. However, the Trustees' fiduciary obligations to the Plan's members will take precedence over the Principal Employer's wishes, should these ever conflict.

The Trustees will review this Statement in response to any significant changes to any aspect of the Plan, its liabilities, finances and the attitude to risk of the Trustees and the Principal Employer that it judges to have a bearing on the Statement. This review will occur no less frequently than triennially.

2. Structure of the Plan

The Plan has both Defined Benefit ("DB") and Defined Contribution ("DC") Sections. This Statement covers both the DB and DC Sections.

3. Process for Choosing Investments

The stewardship of the Plan's investment arrangements falls into the following three main areas of responsibility:

i. The *strategic management* of the assets, which is fundamentally the responsibility of the Trustees, acting on expert advice, and is driven by the investment objectives set out in Section 4 below.

ii. The *day to day management* of the assets, which is largely delegated to the Trustees' selected investment managers. Details are outlined in Section 5 below, with full details in the IIPD.

iii. The *ongoing measurement and monitoring* of the performance of the appointed managers against predetermined benchmarks. Again, this is the responsibility of the Trustees.

In considering investments for the Plan, the Trustees obtain and consider written advice from the Investment Consultant, who 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 Act (as amended).

4. Investment Objectives and Risk Management

4.1 DB Section

Investment Objectives

The Trustees aim to invest the DB Section's assets in the best interests of the members and beneficiaries. The Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control the various risks to which the DB Section is exposed. The Trustees' primary objectives are as follows:

- To ensure that members and beneficiaries receive their promised benefits.

- To pay due regard to the Principal Employer's requirements relating to the amount and frequency of contributions to the DB Section.

At the latest actuarial valuation, the Actuary assumed that the DB Section's assets will achieve an investment rate of return on assets which exceeds that available from gilts. Based on advice from the Investment Consultant about realistic long-term assumptions, the Trustees expect the investment return resulting from the strategy adopted to at least meet the prudent expectations of the Actuary.

Risk

The Trustees recognise that it is not necessarily possible, or even desirable, to select investments that exactly match the DB Section's estimated liabilities. Given the ongoing commitment of the Principal Employer, a degree of investment risk can be taken on, in the expectation of generating excess returns relative to the lowest risk strategy, since it is also acceptable to the Principal Employer.

The Trustees are aware that accepting a degree of investment risk means that there is a chance that one or more of the Trustees' objectives will not be met. Accordingly, the Trustees have considered the following risks to which the DB Section is exposed:

- The risk of deterioration in the DB Section's ongoing funding level. Volatility in the DB Section's funding level may be minimised by adopting a "least risk" investment strategy (i.e. one invested entirely in government bonds, whose value best matches fluctuations in the liabilities). However, in order to seek higher returns the Trustees must, to some extent, invest in riskier assets. This increases the risk that the funding level will deteriorate and may also increase the short-term volatility of the Principal Employer's contribution rate.

- The risk of a shortfall of assets relative to the liabilities as determined if the DB Section were to wind up.

- The risk that the day-to-day management of the assets will not achieve the rate of investment return within each asset class expected by the Trustees.

The Trustees have taken advice on these issues from the Investment Consultant and the Plan Actuary. It has also held related discussions with the Principal Employer.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Principal Employer and its willingness to contribute appropriately to the DB Section. The financial strength and perceived commitment of the Principal Employer to the DB Section is monitored and the Trustees will review the level of investment risk relative to the liabilities should either of these deteriorate.

There are various risks to which any pension plan is exposed. The Trustees consider the risks set out below to be financially material to the DB Section and has therefore adopted various policies in order to manage these risks over the DB Section's anticipated lifetime:

- The risk arising through a mismatch between the DB Section's asset and liabilities. The Trustees aim to mitigate this risk by investing a proportion of the DB Section's assets in instruments that are expected to react in a similar way to movements in long term interest rates and inflation expectations as the DB Section's liabilities.

- The Trustees also recognise the market risk associated with the different asset classes in which the DB Section invests. The Trustees believe that diversification by asset class limits the impact of any single risk. The Trustees therefore aim to ensure that the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the DB Section's assets, and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The Trustees acknowledge that currency risk may also arise due to investment in overseas markets and has sought to mitigate this risk by establishing a currency hedging policy (details of which are outlined in the IIPD).

- The Trustees recognise that there is a risk in holding assets that cannot easily be sold, should the need arise, and therefore looks to invest in funds which are readily marketable. Where this is not the case, consideration is given to the overall liquidity of the DB Section's assets with the aim of ensuring that there is sufficient liquidity to meet the DB Section's ongoing cash flow requirements.

- The Trustees believe that Environmental, Social and Governance ("ESG") issues, including climate change, may have substantive impacts on the global economy and therefore investment returns. The Trustees seek to minimise the risks associated with such issues by taking them into account in the selection, retention and realisation of the investment managers. Section 7 of this Statement documents the Trustees' policy on ESG integration.

The Trustees acknowledge that the above list of risks is not exhaustive and it is not possible to monitor all risks at all times. However, the Trustees only seek to take on those risks it expects to be rewarded for over time, in the form of excess returns, in a diversified manner.

Investment Strategy

The exact details of the DB Section's investment strategy are outlined in the IIPD. The Trustees implement an investment strategy consistent with its investment objectives. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

4.2 DC Section

Investment Objectives

The Trustees recognise that members of the DC Section of the Plan have differing investment needs and that these may change during the course of members' working lives.

The Trustees believe that members should be encouraged to make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment funds that will suit members' needs and risk tolerances through their working life.

The Trustees recognise that members may not believe themselves qualified, or may not wish to make their own investment decisions. As such, the Trustees make available a Default Investment Strategy. The Trustees acknowledge that this strategy will not meet the needs of every individual member.

Risk

The Trustees have considered risk from a number of perspectives when considering the appropriate range of funds to offer members. In particular:

- *Market risk*: The value of securities, including equities and interest bearing assets, can go down as well as up. The Trustees provide members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.

- *Risk of erosion by inflation*: If investment returns, when combined with sufficient contribution rates over members' working lives, lag behind inflation over the period of membership, the real (i.e. post inflation) value of the members' individual accounts may not be adequate. The Trustees have provided members with a default option, which has an explicit allocation to assets that are expected to outperform inflation over the long term. Members are also able to self-select funds, some of which are expected to outperform inflation over the long term.

- *Risk of returns from day-to-day management not meeting expectations*: This will lead to lower than expected returns to members. The Trustees recognise that the use of active investment management involves such a risk and have also made passive investment funds available. The Trustees monitor the performance of the investment funds.

- *Liquidity risk*: This refers to the ease with which assets are marketable and realisable. The Trustees review the pricing and dealing terms of the funds made available to the members.

- *Risk of selecting an inappropriate investment*: All members will have their own risk tolerances specific to their personal circumstances. Investment selections should be appropriate to such circumstances.

- *Retirement benefit risk*: The Trustees make available a default strategy that adopts a lifestyle approach to manage risk (relative to members' expected choice of retirement benefits) throughout a member's lifetime. The suitability of the default investment option is reviewed at least triennially.

- *ESG Risk*: ESG factors can have a significant effect on the performance of the investments offered to DC members. The Trustees have given discretion to the investment manager for evaluating ESG factors. Section 7 of this Statement documents the Trustees' policy on ESG integration.

The risks identified above are considered by the Trustees to be ‘financially material considerations’. The Trustees believe the appropriate time horizon for which to assess these considerations should be viewed at a member level. This will be dependent on the member’s age, as well as their selected retirement age. The default lifestyle option aims to cater for the differing time horizons of members who do wish to make their own investment decisions.

Investment Strategy

The Trustees have selected a range of investment options for members to utilise in structuring their assets according to their individual objectives. Details of the fund options, including the investment strategies of the default option, can be found in the IIPD.

4.3 Default Investment Option

Typically, a proportion of members will actively choose the default option because they feel it is most appropriate for them. However, it is expected that the vast majority of members will not make an active investment decision and will therefore automatically be invested in the default option.

The default option aims to generate investment returns over the working lives of members and has been designed for members who want to take their savings as cash when they retire.

Objectives of the default option

The Trustees’ objectives in relation to the default option, and the ways in which the Trustees seek to achieve these, are detailed below:

- To provide long-term investment growth through exposure to a diversified range of asset classes, with some protection against inflation erosion, and an element of diversification to reduce volatility and downside risk.

  The lifestyle investment strategy offers members the potential to grow the pension pot in the long term, by investing in a diversified range of assets.

- To counter the greater impact of investment risk on member outcomes, as retirement savings grow, and reduce investment risk as each member approaches retirement.

  As a member gets closer to retirement the member’s pension pot is gradually moved into lower risk funds in order to provide capital protection. This is achieved via automated lifestyle switches over a three year switching period. This strategy aims to reduce the risk of a sharp fall in markets reducing the value of a member’s pension pot as the member approaches retirement.

- To offer to members a portfolio of assets at retirement that are appropriate for an individual intending to take their pension pot as cash.

  At the selected retirement date, 100% of the member's assets will be invested in a cash fund.

Policies in relation to the default option

The default option manages investment and other risks throughout a member's lifetime by investing members' assets in a diversified portfolio. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The expected return targeted for each underlying fund is outlined in the IIPD.

In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns. The Trustees have considered risks from a number of perspectives, with the main risks that the Trustees consider to be 'financially material' noted in this Statement.

Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. Assets are also invested mainly on regulated markets (those that are not are kept to prudent levels).

Member views on non-financial matters are not taken into account in the selection, retention and realisation of investments.

If members wish to, they can opt to choose their own investment strategy on joining, but also at any other further date.

Suitability of the default option

Based on the Trustees' understanding of the Plan's membership, an investment strategy that targets a cash lump sum at retirement is expected to be broadly appropriate to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement, it merely determines the investment strategy that will be in place pre-retirement.

Assets in the default option are invested in the best interests of members and beneficiaries, taking into account the profile of members. Considering the demographics of the Plan's membership and the Trustees' views of how the membership might behave at retirement, the Trustees believe that the current default option is appropriate and will continue to review this regularly, and more strategically at least triennially, or after significant changes to the Plan's demographic (if sooner).

5. Day to Day Management of the Assets

5.1 DB Section and DC Section

The Trustees delegate the day to day management of the assets to a number of investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience to manage the Plan's investments and that they are carrying out their work competently.

Each investment manager is regulated by a recognised authority body and the Trustees assess the suitability of regulation in place prior to investing with any manager.

The Trustees review the continuing suitability of the Plan's investments, including the appointed managers, which may be adjusted from time to time.

Details of the appointed managers for the DB and DC Sections, as well as the investment options available for the DC Section, can be found in the IIPD.

5.2 Additional Voluntary Contributions

Arrangements in respect of members' Additional Voluntary Contributions are set out in the IIPD.

6. Realisation of Investments

In general, the Plan's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments within the parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The investment managers are responsible for generating any cash required to pay benefits and other expenditure on the instruction of the Trustees.

7. Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and ESG issues, including climate change, can have a financially material impact on the risk and return outcomes of investment portfolios and should therefore be considered as part of the Plan's investment process.

The Trustees believe that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments.

The Plan's voting rights are exercised by its investment managers in accordance with their own corporate governance policies. The Trustees expect the Plan's managers to take into account current best practice, including the UK Corporate Governance Code and the UK Stewardship Code, of which the Trustees are supportive. Equity managers who are registered in the UK are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees monitor how ESG, climate change and stewardship is integrated within the investment processes adopted by its investment managers and considers these issues as part of the criteria when appointing new investment managers.

Member views and non-financially material issues are not currently explicitly taken into account in the selection, retention and realisation of investments.

8. Compliance with and Review of this Statement

The Trustees will monitor compliance with this Statement regularly.

The Trustees will review the Statement at least every three years and without delay after any significant changes in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustees and the Principal Employer which they judge to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and the Principal Employer will be consulted.

For and on behalf of the Trustees of the Snap-on Tools Limited Pension & Benefit Plan

Dates of amendment:

- Drafted August 2010
- Amended September 2012
- Amended October 2014
- Amended September 2019