Statement of Investment Principles

Danfoss Power Solutions Pension Plan

September 2023

1. INTRODUCTION

Under Section 35 of the Pensions Act 1995 as subsequently amended by the Pensions Act 2004 (the **‘Act’**), the Occupational Pension Schemes (Investment) Regulations 2005 (the **‘Investment Regulations’**), the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, Trustees are required to prepare a statement of principles governing decisions about investments for their pension funds. This Statement of Investment Principles (the **‘SIP’**) describes the investment policy, guidelines and procedures being pursued by the Trustees (the **‘Trustees’**) of the Danfoss Power Solutions Pension Plan (the **‘Plan’**). The Trustees believe this is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (the ‘Myners Principles’). This SIP has also been drafted in a manner to reflect the requirements of the Investment Regulations.

In accordance with the Act, the Trustees confirm that, before preparing the SIP, they have obtained and considered written advice from their appointed Investment Advisers, SEI Investments (Europe) Limited (‘SEI’) and have consulted with Danfoss Power Solutions Limited (the ‘Principal Employer’ of the Plan). The Plan Actuary has also been consulted to ensure that the potential returns available from the investment strategy remain consistent with the assumptions the Trustees have adopted for determination of the Plan’s Statutory Funding Objective and the associated Recovery Plan to repair any funding shortfall.

The Trustees believe SEI, in its capacity as Investment Adviser, is qualified by its ability and practical experience of financial matters, and has appropriate knowledge and experience of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan’s assets and arrange administration of the Plan. Where they are required to make an investment decision, the Trustees receive and consider advice from SEI first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services and Markets Act 2000 (‘FSMA’), the Trustees are responsible for setting a general investment policy, but have delegated the day-to-day investment of the Plan’s assets to the Investment Manager.

The Investment Manager (SEI) is authorised and regulated by the Financial Conduct Authority (‘FSA’) and provides the expertise necessary to manage the investments of the Plan.

Declaration

The Trustees confirm that this SIP reflects the investment strategy it has implemented for the Plan. The Trustees acknowledge that it is their responsibility, with guidance from their Investment Adviser, to ensure the assets of the Plan are invested in accordance with these principles.

Signed . . . . Date . . . .

For and on behalf of the Trustees of the Danfoss Power Solutions Pension Plan.

2. PLAN GOVERNANCE

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider the governance structure set out in this SIP to be appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy, whilst delegating the day-to-day aspects of investment management to the Investment Manager as appropriate. The responsibilities of each of the parties involved in the Plan's governance are detailed in Appendix B.

3. INVESTMENT OBJECTIVES

The overall objective of the Plan is to meet the benefit payments promised as they fall due.

4. INVESTMENT STRATEGY

The Trustees have decided to purchase a Bulk Annuity to match the liabilities. This is a contract with an insurer whereby, in exchange for an upfront premium, an insurer commits to make payments to the Plan in respect of the expected benefits due to specified members.

In addition to the Bulk Annuity, there is a cash holding to meet ongoing expenses and also to act as a buffer should there be adjustments to the expected benefits due to members.

4.1 Strategy Implementation

SEI is appointed to manage the assets outside the annuity. The Actuary will provide the Trustees with advice on the ongoing suitability of the annuity contract.

5. MONITORING

5.1 Investment Management

Under the Fiduciary Management Agreement, the Trustees have appointed SEI to provide investment advice, portfolio management and other services from time to time, as specified in the Fiduciary Management Agreement.

The Trustees will regularly review the activities of the Investment Manager to ensure they continue to perform in a competent manner and have the appropriate knowledge and experience to manage the assets of the Plan.

5.2 Statement of Investment Principles (SIP)

The Trustees will review this SIP on a regular basis or following any changes to the investment strategy, and modify it after consultation with the Investment Adviser and the Principal Employer. There will be no obligation to change this SIP or any adviser relationship as part of such a regular review. Following any changes to the investment strategy this SIP will require updating to reflect the revised investment strategy.

5.3 Trustees

The Trustees maintain a record of all decisions taken, together with the rationale in each case.

6. RISKS

The Trustees recognise there are a number of risks involved with the investment of fund assets. Examples of some of the potential risks to the investments are set out in Appendix C.

7. OTHER ISSUES

7.1 Statutory Funding Objective

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet the Statutory Funding Objective. The funding position is reviewed periodically by the Plan Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Plan Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

7.2 Corporate Governance, Social, Environmental and Ethical Issues

The Trustees are of the view that financially material considerations include (but are not limited to) environmental, social and governance (ESG) considerations. This includes the impact of climate change. Mitigating risk and capturing investment opportunities driven by the integration of ESG issues may have a material impact on investment returns.

However, as the Plan only invests in a bulk annuity and cash, it is not expected that these issues will have a material impact on the investment returns.

Non-financially material considerations, which are the views of the members, beneficiaries and the Sponsor on ESG matters, have not been taken into account in determining the investment strategy and the implementation thereof.

The Trustees will review their policy should the investment strategy change.

7.3 Stewardship & Engagement

The Plan does not invest in equities nor long-dated corporate bonds and hence engaging with the companies that issue such securities is not of relevance to the Trustees.

The Trustees will review their policy should the investment strategy change.

7.4 Additional Voluntary Contributions (AVCs)

Some members obtain further benefits by paying AVCs into the Plan. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. The Trustees’ objective is to provide a range of funds, which will provide a suitable long-term return for members, consistent with members' reasonable expectations. The Trustees have appointed Legal & General Investment Management as the provider of an AVC facility. Contributions can be invested in a range of their pooled funds.

7.5 Realisation of Assets

The bulk annuity is not a traded instrument. However, the insurer does provide for the policy to be surrendered for a value to be determined by the insurance company.

The cash assets are held in pooled funds, which can be realised easily if the Trustees so require.

7.6 Custody

The Trustees have appointed SEI as the custodian of the assets managed by SEI, excluding the bulk annuity. SEI uses the back-office services of its associate, SEI Private Trust Company ("SPTC"). SPTC acts as agent for SEI's associate, SEI Global Nominee Limited who holds the client assets of SEI.

Details of other custodians used by the Investment Manager who provides the AVC services for the Plan are set out in the agreement between that party and the Trustees on behalf of the Plan.

7.7 Borrowing

The Trustees do not intend to borrow or allow borrowing on behalf of the Plan.

7.8 Conflicts of Interest

The Trustees will ensure that any conflicts of interest are managed at all times in the best interests of the Plan. Furthermore, in their oversight of the Investment Adviser, the Trustees will ensure that there are no conflicts of interest between SEI's role as Investment Adviser (detailed in Appendix A) and SEI's investment management business.

8 Asset manager arrangements

<u>Incentivising and monitoring managers to align with the Trustees' investment strategy</u>

SEI is incentivised to align its investment strategy with the Trustees' policies mentioned in this SIP through the terms set out in the Fiduciary Management Agreement and through the Trustees' setting of investment objectives.

If the Fiduciary Manager does not meet its objectives it may ultimately result in the termination of its mandate. The agreement with SEI allows the Trustees to terminate with one month's notice.

SEI engages third party asset managers either through the use of third party pooled funds or through the appointment of asset managers within multi-manager pooled funds.

SEI will monitor the asset managers' performance on an ongoing basis against the particular investment strategy and objectives agreed with that manager. Where an asset manager is not performing or acting in a manner SEI feels is appropriate it may ultimately result in the termination of its mandate.

The fees paid to SEI, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the Plan. SEI is responsible for fee arrangements with asset managers, the costs of which are borne directly by the Plan.

Medium- to long-term and non-financial performance

Performance in the medium- to long-term can be improved where asset managers (i) make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity. The Trustees have delegated this to SEI and will monitor performance against this.

Monitoring portfolio turnover and costs

The Trustees have delegated the monitoring of the costs incurred by asset managers in the buying, selling, lending or borrowing of investments to SEI.

The Trustees recognise that portfolio turnover (being the frequency with which the assets are expected to be bought/sold) and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by SEI. However, SEI will incorporate portfolio turnover and resulting transaction costs in its advice on the Plan's investment mandates. When the Trustees agree a particular strategy and investment mandate, this will then set an expected level of turnover and transaction costs. The Trustees review and monitor the actual level of the costs and turnover against this expected level.

Monitoring manager performance and remuneration

The Trustees will as indicated above, regularly monitor and review SEI. Such review will also include how well SEI is aligned with the SIP, including in terms of ESG factors and the quality of service provided. Such assessment will include a review of actual fees paid relative to expected and contractual fee levels. In terms of third party asset managers appointed by SEI, SEI will monitor the managers' performance and fees on an ongoing basis against the particular investment strategy, objectives and fee arrangements agreed with that manager.

Duration of asset manager agreements

The agreement with SEI has an indefinite term but can be terminated by the Trustees giving one month’s notice. The Plan does not have any direct agreements with third party managers used by the Plan.

Appendix A – Responsibilities

Trustees

The Trustees of the Plan are responsible for, amongst other things:

i. Determining the investment objectives of the Plan and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Plan.

iii. Reviewing regularly the content of this SIP and modifying it if deemed appropriate, in consultation with the Investment Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Investment Advisers.

v. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, by way of meetings and written reports.

vi. Assessing the ongoing effectiveness of the Investment Advisers.

vii. Consulting with the Principal Employer when reviewing investment policy issues.

viii. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

ix. Advising the Investment Advisers of any changes to Plan benefits and significant changes in membership.

Investment Manager and Adviser

The Investment Manager and Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.

ii. Advising the Trustees how changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Advising the Trustees of any changes in the Plan's Investment Managers that could affect the interests of the Plan.

iv. Advising the Trustees of changes in the investment environment that could either present opportunities or problems for the Plan.

v. Undertaking reviews of the Plan's investment arrangements including reviews of the asset allocation policy and current funds the Plan is invested in, as appropriate.

vi. At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective.

vii. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:

    - A report of the strategy followed during the quarter.

- The rationale behind past and future strategy.
- A full valuation of the assets and a performance summary.

viii. Informing the Trustees, to the extent that the Advisor becomes aware, of:

- A breach of this SIP that has come to their attention.
- Any serious breach of internal operating procedures.
- Any material change in the knowledge and experience of those involved in managing the Plan's investments.
- Any breach of investment restrictions agreed between the Trustees and the Investment Managers from time to time.

Plan Actuary

The Plan Actuary will be responsible for, amongst other things:

i. Liaising with the Plan's Investment Adviser on the compatibility of the Plan's investment strategy with the funding strategy.
ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Plan at the triennial valuations.
iv. Advising the Trustees and the Investment Adviser of changes to contribution levels and funding level.
v. The provision of regular actuarial reports.

Custodian

The Custodian will be responsible for, amongst other things:

i. Safe-keeping and administration of all the directly held assets.
ii. Collecting income from assets and transferring it to the Trustees. For the avoidance of doubt, all income from the assets is to be transferred to the Trustees.
iii. Processing all tax reclaims in a timely manner.
iv. Reconciling records of assets.

Appendix B

Plan Actuary:

Mercer

Investment Adviser:

SEI Investments (Europe) Limited

Investment Managers:

SEI Investments (Europe) Limited

Legal & General Investment Management in respect of the AVC arrangements

Appendix C

The Trustees recognise that the following are some of the risks involved in the investment of assets of the Plan:

- **Cashflow risk**
  The risk of a shortfall of liquid assets relative to the immediate liabilities. Provided the insurer meets its obligations under the annuity contract this is not expected to be an issue as the insurer is obligated to pay in line with benefit liabilities.

- **Financial mismatching risk**
  The risk of a significant difference in the sensitivity of asset and liability values to changes in financial factors, in particular inflation and interest rates. The Trustees have mitigated this through the purchase of the annuity contract. The only risk is that there is a mismatch between the inflation linkage as set out in the annuity contract and what actually needs to be paid.

- **Demographic risk**
  Demographic factors include the uncertainty surrounding mortality projections such as future improvements in mortality experience. The annuity contract mitigates this risk.

- **Concentration and Credit risk**
  The Trustees do have concentrated risk on the insurer. This is mitigated by policyholder protection provided by the UK government together with the due diligence undertaken at the time the annuity was purchased by the Trustees' advisers on the transaction.

- **Custody risk**
  The Trustees will assess and consider the actions of the custodian of the Plan's assets, SEI Investments (Europe) Limited, at the outset and on an ongoing basis to mitigate the risk of misappropriation of assets, delivery that is not in accordance with the instructions, unauthorised use of assets for the benefits of other customers of the custodian, inadequate segregation of customer assets, failure to collect income, recover tax or respond to corporate events and custodian default.

  The Custodian ring fences the Plan's assets from its own assets and those of its other clients.

The Trustees will keep these risks under regular review.