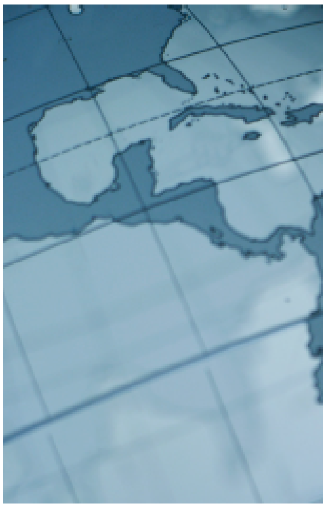

Statement of Investment Principles

Honeywell UK Pension Scheme

Date of draft: May 2024

Date adopted: May 2024

Contents

Section 1: Introduction

Pensions Acts

1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustee of the Honeywell UK Pension Scheme ("the Scheme").

1.2 The Trustee have consulted Honeywell UK Limited ("the Employer") on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme's investment consultants (currently Towers Watson Limited). The Trustee will review this document regularly, more often than every three years, and without delay following a significant change in investment policy.

Financial Services and Markets Act 2000

1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme details

1.5 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members").

1.6 The Scheme is a defined benefit (DB) scheme and is made up of five sections:

- Honeywell
- First Technology
- MK Executive
- McKechnie
- FKI

1.7 Members are contracted-out of the State Second Pension under the Pensions Schemes Act 1993.

1.8 The Scheme is registered with Her Majesty's Revenue and Customs under Chapter 2 of Part 4 of the Finance Act 2004.

1.9 Administration of the Scheme is managed by the Trustee, who is responsible for the investment of the Scheme's assets.

Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Trustee

2.2 The Trustee's responsibilities include:

- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.
- Reviewing the content of this Statement of Investment Principles at least every three years and for modifying it if deemed appropriate.
- Reviewing the strategic asset allocation following the results of each actuarial review, and/or asset/liability modelling exercise.
- Notifying the relevant authorities when the Scheme's aggregate holdings exceed disclosable amounts.
- Assessing their own procedures and decisions as a Trustee.
- Reporting regularly to members the results of the monitoring of themselves, advisors and Common Investment Fund (CIF) Trustee Directors.
- Consulting with the Employer when reviewing investment policy issues.
- Reviewing the effectiveness in practice of the policies in place.

In addition for assets held outside the CIF:

- Selecting/deselecting managers as appropriate.
- Negotiating investment manager agreements (IMAs), including fees and investment guidelines and restrictions
- Engaging with the investment managers about their benchmarks, approach to socially responsible investments (including climate change), policies for shareholder activism and minimising transaction costs.

2.3 The Trustee has appointed an investment committee, the Honeywell Investment Committee (HIC).

Honeywell Investment Committee (HIC)

2.4 The Trustee has appointed an Investment Committee, whose responsibilities include:

- Providing advice to the Trustee to assist in the discharge of their investment responsibilities.
- Implementing the Scheme's investment policies and strategies.
- Managing efficiently the cash requirements of the Scheme.
- Select / deselect managers as appropriate in respect of the assets held by the Honeywell Pension Scheme.
- Negotiating investment manager agreements (IMAs), including fees and investment guidelines and restrictions in respect of the the assets held by the Honeywell Pension Scheme.
- Engaging with the investment managers about their preferred benchmarks and policies for shareholder activism and minimising transaction costs in respect of the assets held by the Honeywell Pension Scheme.
- Monitor the investment managers, both from the perspective of performance, as well as considering the quality of the business, approach to socially responsible investments (including climate change), people and process of the investment managers, in respect of the assets held by the Honeywell Pension Scheme.

CIF Trustee Directors

2.5 The CIF Trustee Directors will be responsible for (in relation to some of the Honeywell, McKechnie, FKI and MK Executive Sections' investments only that are held in the Common Investment Fund):

- Deciding on a suitable range of sub-funds to offer, and setting performance targets for each.
- Constructing suitable manager structures for each sub-fund, including number and type of managers.
- Monitoring the sub-funds and investment managers, both from the perspective of performance, as well as considering the quality of the business, approach to socially responsible investments (including climate change), people and process of the investment managers.
- Selecting/deselecting managers as appropriate.
- Negotiating investment manager agreements (IMAs), including fees and investment guidelines and restrictions
- Engaging with the investment managers about their preferred benchmarks and policies for shareholder activism and minimising transaction costs.
- Informing Trustee of any internal changes to the structure of the CIF.

Investment Managers

2.6 Each investment manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.
- Informing the Scheme Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme (via the CIF) as soon as practicable.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

Custodian

2.7 The Scheme also employs a global custodian, whose responsibilities include:

- The safekeeping of all the assets of the Scheme except for directly held assets (eg private equity) where the legal documents will be kept by appointed solicitors or the Honeywell Investment Committee.
- Processing the settlement of all transactions.
- Processing all dividends and tax reclaims in a timely manner.
- Providing the Trustee with monthly statements of the assets, cashflows and corporate actions.
- Providing performance measurement services.
- Providing all appropriate administration services as laid out in the Custody Agreement and side letters.
- Allocating assets and cash flow between the investment sub-funds.

Investment Consultant

2.8 The investment consultant's responsibilities include:

- Participating with the Trustee in reviews of this statement.
- Advising the Scheme Trustee, CIF Trustee Directors and Investment Committee, as requested:

  - through consultation with the Scheme Actuary on how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested

  - on how any changes at the investment manager(s) could affect the interests of the Scheme

  - on how any changes in the investment environment could either present opportunities or problems for the Scheme.

- Undertaking project work as requested, including:

  - reviews of asset allocation policy

  - reviews of the investment managers.

  - reviews of approach to socially responsible investments (including climate change)

- Advising on the selection of new managers and/or custodians

Scheme Actuary

2.9 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels for the future.

- Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

Section 3: Objectives and long-term policy

Objectives

3.1 The Trustee has the following long-term investment objectives:

- Invest in a range of suitable assets of appropriate liquidity which will generate, in the most effective manner possible, income and capital growth to ensure that, with any new contributions from members and the Principle Employer, there are sufficient assets to meet the cost of the current and future benefits which the Scheme provides, as set out in the Trust Deed and Rules.

- Limit the risk of the assets failing to meet the liabilities over the long term, and of underfunding in relation to ongoing actuarial valuations and under the Scheme Specific Funding requirement test.

- Control the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives described above.

- To avoid excessive short-term volatility of investment returns.

3.2 The Trustee aims to meet the long-term objectives by:

- Ensuring that the strategic asset allocation and funding policies for the Scheme take into account the liability profile.

- Seeking advice, as appropriate, from the Scheme's professional advisers.

- In the case of the Honeywell, MK Executive and McKechnie, delegating the selection, and retention of investment managers in part to the Honeywell Common Investment Fund ("the CIF").

Policy

3.3 The Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of real (eg equities and property) and monetary (eg fixed interest, bulk annuities and cash) assets. It recognises that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the Employer.

3.4 The CIF offers various unitised sub-funds across a range of asset classes through which the Scheme can implement its chosen investment strategy for the Honeywell, FKI, McKechnie, and MK Executive Sections. Within these sub-funds, the CIF Trustee Directors have complete discretion over the manager structure and selection and retention of the investment managers. A list of the sub-funds offered by the CIF is given in Appendix A. A material portion of the Scheme's DB assets are managed within the CIF structure apart from the Honeywell Section's LDI portfolio, private equity investments, the First Technology Section and the Scheme's bulk annuity investments.

The Scheme was formed on 9 April 2010 following the merger of various Honeywell sponsored schemes.

Honeywell Section asset allocation

The Honeywell Section currently targets the strategic asset allocation shown below. The Honeywell Section also targets hedging 100% (of liabilities) of its interest rate and inflation exposure which is achieved through the Section's matching assets. This Section's assets are invested in the CIF with the exception of private equity assets and the LDI portfolio which are held directly by the Scheme. The Honeywell Section has also entered into a bulk annuity contract with Legal and General Assurance Society (LGAS) which is also held outside the CIF and is not included within the asset allocation shown below.

Asset Class	Asset Allocation %	Ranges (%)
Overseas equities	12.5	
Alternatives	7.5	
Private Equity	1.5	
Total return-seeking assets	**21.5**	**16.5 – 26.5**
UK Credit	25.0	
LDI & Cash	53.5	
Total matching assets	**78.5**	**73.5 – 83.5**
Total	**100.0**	

MK Executive Section asset allocation
The asset allocation for the MK Executive Section is shown below. This Section's assets are invested within the CIF.

Asset class	Asset Allocation %	Ranges (%)
Overseas equities	12.5	
Alternatives	10.0	
Total return-seeking assets	**22.5**	**17.5 – 27.5**
Fixed Income Bonds	11.5	
Index-linked bonds & Cash	66.0	
Total matching assets	**77.5**	**72.5 – 82.5**
Total	**100.0**	

First Technology Section asset allocation
In January 2022, the First Technology Section entered into a bulk annuity contract with Aviva which covered all of the Section's pensions in full. In order to fund this contract, the majority of the Section's assets were transferred to Aviva. All remaining residual assets are invested in Cash.

McKechnie Section asset allocation

The McKechnie Section currently targets the strategic asset allocation show below. The Section also targets hedging 100% (of liabilities) of its interest rate and inflation exposure which is achieved through the Section's matching assets. The asset allocation for the McKechnie Section is shown below. This Section's assets are invested in the CIF. The Section has also entered into a bulk annuity contract which is also held outside the CIF and is not included in the asset allocation below.

Asset class	Asset Allocation %	Indicative ranges %
Overseas equities	13.5	
Alternatives	5.5	
Total return-seeking assets	**19.0**	**14.0 – 24.0**
Corporate bonds	11.0	
LDI & Cash	70.0	
Total matching assets	**81.0**	**76.0 – 86.0**
Total	**100.0**	

FKI Section asset allocation

In January 2022, the FKI Section entered into a bulk annuity contract with Aviva which covered all of the Section's pensions in full. In order to fund this contract, the majority of the Section's assets were transferred to Aviva. All remaining residual assets are invested in CIF Sub-Funds with the exception of the Section's cash holding. These assets are invested line with the asset allocation below. The Trustee does not have a rebalancing range for the allocations as the investments were made to match a set of exposures at inception.

Asset class	Asset Allocation %
Overseas equities	20.0
Private Equity	26.5
Alternatives	13.5
LDI & Cash	40.0
Total	**100.0**

3.5 The expected returns below have been taken from the WTW model assumptions as at 31 March 2024. The returns are 10 year median returns expressed relative to CPI.

	Expected real return % pa
Overseas equities	5.3
UK long gilts	2.4
Corporate bonds	1.8
UK long Index-linked gilts	1.6
UK property	3.8

3.6 The Trustee considers that an asset allocation policy for the Scheme which corresponds to these benchmarks will ensure that the assets of the Scheme include suitable investments, that those assets are appropriately diversified and that there is a reasonable expectation of meeting the objectives in 3.1.

3.7 If investment managers are permitted to diverge from their benchmark the HIC/CIF Trustee Directors will review such divergence from time to time to ensure that the resulting asset allocation remains suitable for the Scheme, whilst allowing the investment managers to seek outperformance of the benchmark.

3.8 The Trustee's policy is not to directly leverage the portfolio. Some short-term borrowing for settlement is allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

Section 4: Other investment policies

The Trustee also face other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

4.1 When choosing investments, the Trustee, investment managers and the CIF Trustee Directors (to the extent delegated) are required to have regards to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement. In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

Socially responsible investments

4.2 The Trustee retains overall responsibility for setting the Scheme's policy in relation to Socially responsible investments (SRI) and corporate governance. The Trustee delegates the implementation of the monitoring of these policies to the CIF Trustee Directors in the case of the Honeywell, FKI, MK Executive and McKechnie Sections and to the HIC and investment manager(s) in the case of the First Technology Section.

4.3 The Trustee recognises an investment's financial success is influenced by a wide range of factors including environmental social and governance (ESG) issues (including climate change) and stewardship. The Trustee's view is that all financially material risks, including relevant social, environmental and ethical factors, should be included amongst the criteria taken into account when considering the purchase, retention or sale of investments. This also includes other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. The Trustee has instructed the CIF Trustee Directors and HIC to consider this in the selection and monitoring of the investment managers for the relevant sections of the Scheme.

4.4 All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Schemes' journey plans and funding time horizons. The Trustee's time horizon reflects the time horizon of the Sponsor's business and the Scheme's maturing liability profile. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework when agreeing investment strategies.

4.5 The Trustee delegates responsibility for engagement in respect of investments held by the Scheme to the investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee recognises that it retains overall responsibility for the exercision of these rights and therefore explores these issues with its managers to understand how they exercise these duties in practice, with an expectation that engagement will take place, either directly or as part of a collective multi-investor initiative as appropriate, with the aim of protecting or enhancing the value of the Scheme's investments. The Trustee's main current stewardship priority is the risks and opportunities associated with climate change.

4.6 The Trustee recognises that members and beneficiaries may have views on ethical investment or views on matters such as the social and environmental impact of the Scheme's investments (referred to as 'non-financial matters'). In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial factors should take precedence in seeking to maximise the security of member benefits.

4.7 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations, but has identified climate change, human rights and biodiversity as stewardship priorities, and consequently, these are key areas of focus for the Trustee.

Rights attaching to investments

4.8 The Trustee policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers but retains overall responsibility for how these are exercised. The Trustee therefore takes an active role in monitoring how these are exercised. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code.

Liquidity and realisation of investments

4.9 The Scheme's administrator assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.

4.10 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy.

Section 5: Investment manager arrangements

Investment manager structure

5.1 The Honeywell, FKI and McKechnie and MK Executive Sections of the Scheme are invested in the CIF sub-funds outlined in Appendix A. This structure should ensure sufficient diversification by asset class, by manager and by style of management. The Scheme also invests directly in private equity, index-linked gilt funds, cash funds, bulk annuity contracts and the Honeywell Section's LDI mandate which is currently held directly by the Scheme. The First Technology Section of the Scheme invest with Legal & General Investment Management.

Investment manager monitoring

5.2 The Trustee has delegated the ongoing monitoring and selection of investment managers to the HIC and CIF Trustee Directors.

Investment manager arrangements and objectives

5.3 The Scheme uses different CIF sub-funds to implement its investment policies and also holds some investments in the name of the Scheme. The CIF Trustee Directors and HIC invest with many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). In aggregate, the Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle and CIF sub-funds are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the CIF Trustee Directors and HIC will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

5.4 To maintain alignment the managers are provided with a copy of this Statement and the CIF Directors and HIC will monitor the extent to which they give effect to the policies set out in it.

5.5 Should the CIF Directors and HIC's monitoring process reveal that a managers' portfolio is not aligned with the Trustee's policies, they will engage on the Trustee's behalf and engage with the manager further to encourage alignment.

5.6 For most of the Scheme's investments, the Trustee expects the CIF Directors and HIC to invest with managers with a medium to long time horizon, and to use their engagement activity where applicable to drive improved performance over these periods.

5.7 When assessing a manager's performance, the focus is on longer-term outcomes, and the CIF Trustee Directors and HIC would not expect to terminate a managers' appointment based purely on short term performance. However, a managers' appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

5.8 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services agreed prior to investment. Performance fees are also paid where appropriate. The scope of services will include consideration of long term factors and engagement where applicable.

5.9 The CIF Trustee Directors and HIC monitor the level of transaction costs (including commissions) incurred by each of the Scheme's Investment Managers through regular engagement with the manager on this subject and through receipt of annual MiFID II cost reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by Investment Managers) which the Scheme adheres to. The Trustee, with the help of the CIF Trustee Directors and HIC, will monitor that the level of portfolio turnover remains appropriate in the context of the Investment Managers' strategy and the Scheme's investment strategy.

Section 6: Risk management

6.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk
  - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies
  - are managed through assessing the progress of the actual growth of the assets relative to liabilities under current and alternative investment policies.
- Manager risk
  - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy
  - is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the managers' investment process.
- Liquidity risk
  - is measured by the level of cashflow required by the Scheme over a specified period and the amount of collateral that needs to be held to support the Section's interest rate and inflation hedging exposures
  - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and by the HIC monitoring the level of collateral headroom in the appropriate Sections' LDI portfolio
- Currency risk
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
  - the decision on whether or not to hedge any currency risk has been delegated to the CIF Trustee Directors and HIC.
- Custodial risk
  - is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
  - is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.

- Political risk
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Sponsor risk
  - is measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit
  - is managed by assessing the interaction between the Scheme and the Employer's business, as measured by the number of factors, including the creditworthiness of the Employer and the size of the pension liability relative to the financial strength of the Employer.
- Longevity risk
  - is measured by assessing the likely change in the Scheme's liabilities due to changes in the longevity of members
  - is managed partially by the Scheme having had secured buy-ins for a proportion of its liabilities

6.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

6.3 The Trustee continues to monitor these risks.

Appendix A: Honeywell Common Investment Fund (CIF) – Statement of Investment Objectives (SIO)

1 **Overview**

1.1 The objective of the CIF is to allow each Participating Schemes (or Sections) to implement their own investment strategy in an efficient manner, taking advantage of economies of scale that arise from pooling assets.

1.2 The CIF is structured into sub-funds across which the Participating Schemes (or Sections) can choose to allocate assets with the exception of the sub-funds noted below which are only accessable by the relevant Section. The CIF provides eight sub-funds:

- Overseas equity sub-fund
- Private equity sub-fund
- Credit sub-fund
- Index-linked bond sub-fund
- Property sub-fund
- Alternative investment sub-fund
- Cash sub-fund
- McKechnie LDI sub-fund (McKechnie Section only)

1.3 The Participating Schemes (or Sections) can choose to allocate across the sub-funds as they see fit and so remain in control of their strategic asset allocation. However, they delegate the management of each sub-fund to the CIF Trustee Directors.

1.4 The SIO exists to assist the Participating Schemes (or Sections) in determining whether each sub-fund is appropriate for their requirements. The SIO will be maintained, and updated from time to time, by the CIF Trustee Directors.

Investment restrictions

1.5 The following restrictions are applied as a policy position by the Trustee:

- No direct investment is permitted in securities issued by Honeywell International Inc (Honeywell) or affiliated companies;
- No direct investment is permitted in property leased to Honeywell or affiliated companies;
- No securities issued by associate companies of the investment manager;
- The CIF Trustee Directors may not borrow or otherwise directly leverage the sub-funds;

- The assets within the sub-funds must consist predominantly of investments admitted to trading on regulated markets and investments in assets which are not admitted to trading on regulated markets must be kept to a prudent level;

- Derivatives may only be used to contribute to a reduction of risk or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

1.6 Any questions from the Participating Schemes (or Sections) regarding this SIO or the CIF, generally should be directed to the CIF Trustee Directors.

1

1 **Overseas equity sub-fund**

The overseas equity sub-fund predominantly comprises a diversified portfolio of equities listed on stock markets and employs a mix of active and passive managers.

The objective of the sub-fund is to outperform the FTSE All World Index over rolling three-year periods.

2 **Private equity sub-fund**

The private equity sub-fund predominantly invests in a diversified portfolio of private equity co-investments. The mandate is actively managed by Honeywell Capital Management.

The objective of the sub-fund is to generate an absolute investment rate of return of 15% per annum

3 **Credit sub-fund**

The credit sub-fund comprises of a diversified portfolio of high quality Sterling Corporate bonds and employs a single manager to manage this on a buy and maintain basis. The purpose of this sub-fund is to provide the Participating Schemes (or Sections) with an asset class to help better match the duration and nature of part of its liabilities.

4 **Index-linked bond sub-fund**

The index-linked bond sub-fund predominantly comprises a diversified portfolio of index-linked gilts and is passively managed. The purpose of this sub-fund is to provide the Participating Schemes (or Sections) with an asset class to help better match the duration and nature of part of their liabilities.

The objective of the sub-fund is to track the total return of the FTSE-A Index-linked Over 5 Years Index.

5 **Property sub-fund**

The property sub-fund predominantly comprises a diversified portfolio of property assets and is actively managed. The purpose of this sub-fund is to provide the Participating Schemes (or Sections) with an asset class that will offer diversification within the return-seeking allocation.

The objective of the sub-fund is to outperform the IPD UK Monthly Property Index over rolling three-year periods.

6 **Alternative investment sub-fund**

The alternative sub-fund predominantly comprises a diversified portfolio of alternative assets and is actively managed. The purpose of this sub-fund is to provide the Participating Schemes (or Sections) with a mix of assets that will offer diversification within the return-seeking allocation.

The objective of the sub-fund is to obtain a return of Sterling Over Night Indexed Average (SONIA) +2.5% per annum over rolling five-year periods.

7 **Cash sub-fund**

The purpose of the cash sub-fund is to provide the Participating Schemes (or Sections) with a vehicle which offers short-term liquidity. This fund is actively managed.

The objective of the sub-fund is to match the Sterling Over Night Indexed Average (SONIA) rate, without incurring excessive risk.

8 McKechnie LDI sub-fund

The purpose of this sub-fund is to provide the McKechnie Section with an asset class to help better match the duration and nature of part of the liabilities. The sub-fund is a discretionary mandate with Legal & General.

The objective of this sub-fund is to match the characteristics of the liabilities of McKechnie Section.

Overseas equity sub-fund

Manager	Active/passive
Towers Watson Investment Management	Active
Honeywell Capital Management	Active
Legal & General	Passive

Private equity sub-fund

Manager	Active/passive
Honeywell Capital Management	Active

Credit sub-fund

Manager	Active/passive
Axa	Active

Index-linked bond sub-fund

Manager	Active/passive
Legal & General	Passive

Property sub-fund

Manager	Active/passive
Legal & General	Active
Columbia Threadneedle	Active
Other Property Funds	Active

Alternative investment sub-fund

Manager	Strategy
Honeywell Capital Management	Active (US credit opportunities)

Cash sub-fund

Manager	Active/passive
Northern Trust	Active

McKechnie LDI sub-fund

Manager	
Legal & General	Discretionary mandate

Appendix B: Honeywell UK Pension Scheme – AVC fund range

6.4 The Scheme was formed on 9 April 2010 following the merger of the Honeywell Retirement Plan, MK Pension Fund, MK Executive Pension Fund, Novar Pension Scheme, Honeywell Integrated Pension Scheme and UOP UK Pension Plan.

6.5 From 1 April 2007 no future contribution were allowed to any of the AVC funds for members.

6.6 There were a number of different legacy AVC providers as a result of the merger in 2010 and a consolidation exercise was undertaken in 2017 in order to move the funds where possible to the L&G AVC policy which was introduced in 2017. The L&G policy provides members with lower cost funds and access to a wider range of funds including a lifestyle strategy.

6.7 The Scheme's main investment objectives for the AVCs are

- To provide members with a diversified range of investment options to meet various risk/return requirements.
- To ensure the individual fund options are suitably invested and managed to maximise the return commensurate with an acceptable level of risk.
- To provide members with a diversified range of investment options designed to give members the freedom to structure his/her own investment policy to suit his/her individual risk, return, liquidity and funding requirements.

6.8 Members bear the management charges on the funds in which they invest. These charges cover the provision of administration, communication and investment services. These fees are charged by an adjustment to the unit prices within the funds, calculated daily on the value that day. The Trustee believes the charging structure is appropriate and in line with market practice.

6.9 The Trustee will monitor the investment performance and review the nature of the Scheme's AVC investments periodically. In carrying this out the Trustee will consider all relevant factors in determining whether this Statement and the associated risks remain appropriate.

6.10 The Trustee will receive regular performance monitoring data from its investment advisers on an annual basis. The Trustee will assess individual manager performance and adherence to their respective performance benchmarks. The Trustee will select managers and/or funds based on their view of the managers' ability to achieve their performance objectives in the future.

The AVC investment options are reviewed by the HIC on a periodic basis, having taken written advice on their continued suitability as required by Section 36 of the Pensions Act.

Details of the Legal & General fund options and those legacy funds that remain (as it was not possible to move these funds without member consent) are set out below:

Legal & General fund options

Fund name	Aims to …	Total charge per year (%)
L&G (PMC) Global Equity 30:70 Index 75% Currency Hedged Fund	Capture the total returns of the UK and overseas equity markets as represented by the FTSE All Share Index and the FTSE All World (ex. UK) Index while maintaining a fixed 30%/70% weighting between UK and overseas assets. A total of 75% of the overseas assets (excluding emerging markets) will be currency hedged to sterling	**0.34**
L&G (PMC) UK Equity Index Fund	Track the returns of the FTSE All Share Index	**0.30**
L&G (PMC) World ex UK Equity Index Fund	Track the returns of the FTSE World (ex. UK) Index	**0.32**
L&G (PMC) Global Equity Ethical Fund	Track the returns of the FTSE4Good Global Equity Index	**0.50**
L&G (PMC) World Emerging Markets Equity Index Fund	Track the performance of the FTSE Emerging Index	**0.65**
L&G (PMC) Diversified Fund	Provide long-term investment growth through exposure to a diversified range of asset classes	**0.40**
L&G (PMC) Over 15 Year Gilts Index Fund	Track the FTSE A Government (Over 15 Year) Index	**0.28**
L&G (PMC) Over 5 Year UK Index Linked Gilt Fund	Track the FTSE A Index-linked (Over 5 Year) Index	**0.28**
L&G (PMC) AAA-AA-A Corporate Bond All Stocks Index Fund	Track the iBoxx £ Non-Gilts (ex-BBB)	**0.32**
L&G (PMC) Pre-Retirement Fund	Provide diversified exposure to sterling assets that reflect broad characteristics of investments underlying the pricing of a typical non-inflation linked annuity product	**0.32**
L&G (PMC) Managed Property Fund	Outperform the AREF/IPD UK Quarterly All Balanced Property Funds Index	**1.11**
L&G Cash Fund	Provide capital protection with growth at short term interest rates.	**0.30**

AVC Lifestyle Strategy

The lifestyle strategy is designed so that the member's investments are moved into less volatile funds as they approach their nominated retirement age. It is a pre-programmed investment strategy, which invests in different investment funds according to the member's age and when they plan to retire. It aims to provide potential for long-term growth through investments in equities, but with automatic switching into less volatile assets (such as corporate bonds, gilts and cash) as the member approaches their nominated retirement age.

The lifestyle strategy assumes that most members will take their AVCs as a cash lump sum at retirement. When the member is 10 years from their retirement date their investments will be automatically and gradually switched from the L&G (PMC) Global Equity 30:70 Index 75% Currency Hedged Fund to the L&G (PMC) Over 15 Year Gilts Index Fund and then 3 years from their retirement age gradually switched to the L&G Cash Fund and will be wholly invested in the L&G Cash Fund at nominated retirement age.

Legacy AVC funds

It was not possible to transfer the following legacy funds to Legal & General without member consent as the funds either contain penalties on transfer, certain guarantees or it was not possible operationally to move them (i.e. the unit linked funds with Zurich).

Provider	**Fund**
Standard Life	With-Profits Fund
Zurich	With-Profits and unit-linked funds
Prudential	With-Profits Fund