Spirit AeroSystems (Europe) Limited Pension Scheme

Statement of Investment Principles – September 2021

1. Introduction

The Trustee of the Spirit AeroSystems (Europe) Limited Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005. The Statement also takes into account the principles underlying the Myners Code of Best Practice for pension scheme investment. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments and provide details of the specifics of the Scheme's investment arrangements.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Spirit AeroSystems (Europe) Ltd (the "Company"), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.

The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules (a copy of which is available for inspection on request) and relevant legislation. According to the law, the Trustee has ultimate power and responsibility for the Scheme's investment arrangements.

On occasion, an Investment Sub-Committee ("ISC") consisting of members of the Trustee Board may convene to undertake work and investigate issues on behalf of the Trustee. The ISC is not a formal, decision-making body but may make recommendations for the full Trustee Board to consider.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of an Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2. Defined Benefit Section

2.1 Process For Choosing Investments

The Scheme was set up in March 2006. Following the Scheme's Actuarial Valuation in 2013 and subsequent closure in early 2014, the Trustee undertook a full investment strategy review. The Trustee decided that the greatest likelihood of achieving its funding and investment objectives and of managing the risks set out in section 2.3 overleaf is via a comprehensive risk management framework whereby investment risk is reduced relative to the Scheme's liabilities as the funding level improves.

In order to adopt such an approach, the Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustee's strategy whereby the level of investment risk reduces as the Scheme's funding level improves. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM"). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

2.2 Funding and Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme's current and ongoing solvency funding positions. The Trustee recognises that equity (and other growth asset) investment will bring increased volatility to the funding level, but in the expectation of improvements in the Scheme's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee's primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met.

The Trustee's funding objective, as outlined in the Statement of Funding Principles, is that the Scheme has sufficient and appropriate assets to pay its benefits as they fall due (the technical provisions). In addition, the Trustee has adopted the following:

- To achieve a full funding position for the Scheme on a "gilts minus 0.35% p.a." basis (as a proxy for buyout) by the end of 2027 with a probability of around 50%. The buyout funding basis is more conservative than the current technical provisions basis.

The Trustee appreciates that the Company wishes to avoid having to make further contributions to the Scheme above the agreed schedule of contributions, and is cognisant of the need to avoid increasing the Company's funding costs wherever possible. However, the Trustee also recognises that some volatility in the Scheme's funding level, and hence the contribution rate, may result from investing in "growth" assets (i.e. assets that are expected to outperform the growth of the liabilities over time) and, to a lesser degree, "matching" assets (i.e. assets which are expected to move more closely in line with the value of the liabilities) and other demographic risks.

The Trustee aims to achieve these objectives by implementing measures to capture potential and sometimes opportunistic improvements in the Scheme's funding level in a timely and affordable way.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in Section 8.

2.3 Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk. These are mainly the strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:

  - Equity market risk (the risk that equity valuations fluctuate in an uncorrelated way with the value of the liabilities)

  - Interest rate risk (the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates)

  - Inflation risk (similar to interest rate risk but concerning inflation)

  - Credit risk (the risk that payments due to corporate bond investors may not be made)

- There is a potential solvency risk, i.e. a risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Company cannot afford to make good the deficiency. The Trustee therefore monitors the financial strength of the Company and its perceived commitment to the Scheme with the intention of reducing risk relative to the solvency funding position should the financial strength of the Company and/or its commitment to the Scheme deteriorate.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. It is felt that this risk is acceptable in view of the potential benefits of the expected extra returns. Meanwhile, the extra returns should work through ultimately to greater security for members of the Scheme and lower costs falling on the Company.

- Whilst moving towards the target funding level, the Trustee recognises that even if the Scheme's assets are invested in the Matching Portfolio there may still be some degree of mismatch between the interest rate and inflation sensitivity of the Scheme's assets and liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the Trustee's portfolio.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee utilises a mix of both active and passive management. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited

- There is currency risk inherent in investment in overseas markets. In order to limit this risk, currency hedging is undertaken within the growth portfolio and Mercer continually reviews the level of currency hedging in place to ensure its ongoing appropriateness.

- The Trustee adopts a cautious approach in those instances where there is a lack of transparency in the underlying investment. The Trustee recognises the issue of liquidity risk and the ease with which assets are marketable and realisable. The Trustee accepts that property is a relatively illiquid asset class.

- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made for the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Scheme are predominantly invested on regulated markets.

- No direct investment is allowed in securities issued by the Company or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 8 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

2.4 Investment Strategy

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the characteristics of the Scheme's liabilities at this time. Given the ongoing commitment of the Company to the Scheme, a degree of mismatching risk can be accepted on the basis that it is also acceptable to the Company. As the sponsoring employer, the Company bears some risk, along with members, in its obligation to fund any deficit.

The Trustee has conducted a review of investment strategy each year, taking account of the results of the latest Actuarial Valuation and any Scheme experience up to the relevant strategy analysis date. Over the years, the Scheme has implemented a de-risking framework, whereby assets are switched from the growth to the matching portfolio based on the Scheme's funding level (as measured under the agreed funding basis outlined in section 2.2) reaching pre-set "triggers". This ensures that any de-risking is affordable. The strategy has set out a de-risking "flight-path" that accelerates the pace of the Scheme's de-risking as the funding level objective of 100% approaches. The strategy has set out funding level targets that, if breached, will automatically trigger a reduction in the allocation to the growth portfolio and a corresponding increase in the allocation to the matching portfolio.

The de-risking framework has been successful, with the Scheme de-risking from 50% to 17.4% in growth assets using this dynamic de-risking approach. Given the latest investment objectives, the Trustee, after taking advice from Mercer, has now determined that no de-risking triggers are required and that a target allocation to growth assets of 16.5% is appropriate for achieving the objectives set out in section 2.2 and for controlling the risks identified in section 2.3. The target funding level and associated investment strategy currently in place is summarised in the following table.

Funding Level Band	Upside Trigger to move into Band (funding level %)	Target Growth Allocation (% of total assets)
13	-	16.5

The Trustee believes that the investment risks arising from the investment strategy are consistent with the overall level of risk being targeted. The investment strategy will continue to be reviewed approximately annually with a view to amending it to reflect any changes in the liability profile of the Scheme, strength of Company covenant and/or the funding objective of the Trustee if necessary.

Should there be a material change in the Scheme's circumstances the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements in place at that time should be altered; in particular, whether the current strategy remains appropriate.

2.4.1 Growth Portfolio Performance Objective and Risk Parameters

Within the Growth Portfolio the Trustee has delegated discretion to Mercer to construct and manage a portfolio of return seeking assets, taking into account the Scheme's external property assets held with Lothbury Investment Management Limited.

The overall performance objective of the Growth Portfolio managed by Mercer is to achieve equity-like returns (cash + 4.0% p.a.) with 20% - 30% less risk than global equities. Each fund within the Growth Portfolio has an individual performance target which is captured within the overall performance objective.

As at September 2021, the Scheme was invested in the following asset classes as part of the Growth and Matching Portfolios managed by Mercer:

Mercer Portfolio	Benchmark Index	Tracking Error Expectation (%p.a.)[1)]
Mercer Fundamental Indexation Global Equity (Hedged)	MSCI Diversified Multi Factor Custom (NDR) Hedged[2)]	Less than 0.3
Mercer Synthetic Equity Linked Nominal Bond Fund	100% Synthetic Equity Benchmark 200% Gilt Benchmark (200%) Cash benchmark[3]	Less than 0.25
Mercer Global Listed Infrastructure	FTSE Global Core Infrastructure 50/50 (NDR) Index	2.0 - 4.0
MGI Emerging Markets Equity	MSCI Emerging Markets (NDR) Index	3.0 - 5.0
Mercer Low Volatility Equity (Unhedged/Hedged)	MSCI World (NDR) (Unhedged/Hedged)	n/a
Mercer Global Small Cap Equity	MSCI World Small Cap (NDR) Index	4.0 - 6.0
Mercer Sustainable Global Equity (Unhedged/Hedged)	MSCI World (NDR) Index	2.0 - 4.0

Mercer Portfolio	Benchmark Index	Tracking Error Expectation (%p.a.)[1]
MGI Eurozone Equity (Unhedged/Hedged)	MSCI EMU (NDR) Hedged **Error! Bookmark not defined.** Index	1.5 - 4.0
MGI UK Equity Fund	FTSE-All-Share Net Total Return Index	1.5 - 4.0
MGI Emerging Markets Debt	JP Morgan GBI-EM Global Diversified Index	1.0 - 3.0
Mercer Emerging Market Debt – Hard Currency Fund	JP Morgan EMBI Global Diversified ex CCC	0.5 – 1.0 (gross of fees)
Mercer UCITS Alternatives Strategies (Hedged)	HFRI FoF: Market Defensive Hedged Index [4]	5.0 - 7.0
Mercer Multi Asset Credit (Hedged)	Reference Index: 50% ICE BofAML Global High Yield Constrained Hedged Index 50% S&P/LSTA Global Leveraged Loan Index	5.0 - 10.0 [5]
Mercer Diversifying Alternative Strategies (Hedged)	HFRI FoF Market Defensive Index (GBP Hedged) [6]	5.0 - 7.0 [7]
Mercer Global High Yield Bond (Hedged)	ICE BofAML BB-B Rated Developed Markets High Yield Constrained Index (Hedged)	1.0 - 3.0
Mercer Absolute Return Fixed Income	FTSE GBP 1 Month Euro Deposit Index	Less than 5.0 over rolling 3 year periods [5]
Mercer Passive Global REITS UCITS CCF	FTSE EPRA Nareit Developed REITs Net Tax Index	0.1
MGI UK Long Gilt	FTSE A Over 15 Year Gilts Index	Less than 0.25
MGI UK Inflation Linked Bond	FTSE A Over 5 Year Index-Linked Gilts Index	Less than 0.25
Mercer Dynamic Asset Allocation	JP Morgan EMBI Global Diversified (currency hedged)	n/a
Mercer Sterling Inflation Linked LDI Bond	n/a [9]	n/a
Mercer Flexible Enhanced Matching Fixed – Medium and Long	Exact benchmark will be fund dependent [10]	n/a
Mercer Flexible Enhanced Matching Real – Medium and Long	Exact benchmark will be fund dependent [10]	n/a
Mercer Flexible Enhanced Matching Inflation	Exact benchmark will be fund dependent [10]	n/a

Mercer Portfolio	Benchmark Index	Tracking Error Expectation (%p.a.)[1)]
Mercer Tailored Credit Fund 1	n/a [11)]	n/a
MGI UK Cash Fund	FTSE GBP 1 Month Euro Deposit	0.5
Lothbury Property Unit Trust	IPD All Balanced Property Funds	

[1)] Measured over rolling 5 year periods unless otherwise stated.
[2)] Hedged indices are proxied by Mercer using local index returns.
[3)]Synthetic equity benchmark is a composite of 65% S&P 500, 14% EuroStoxx 50, 10% Topix, 7% FTSE 100, 3% ASX 200 and 1% Hang Seng (all hedged). The cash benchmark is a composite of 65% Ice Libor USD 3m, 14% Euribor 3m, 10% Ice Libor JPY 3m, 7% Ice Libor GBP 3m, 3% ASX Australian Bank Bill Short Term Rates 3m, 1% Hibor 3m and +20% 7 day Libid for the Real fund and a composite of 65% Ice Libor USD 3m, 14% Euribor 3m, 10% Ice Libor JPY 3m, 7% Ice Libor GBP 3m, 3% ASX Australian Bank Bill Short Term Rates 3m, 1% Hibor 3m and 100% Ice Libor GBP 6m for the Nominal fund. The Nominal Fund Gilt Benchmark invests in a range of gilts and gilt strips defined by Mercer and so have no quoted benchmark
[4)] This is the short term outperformance target for the strategy, for a long term benchmark please reference the performance target.
[5)]Expressed as expected volatility (annualised standard deviation of monthly returns) ranges given these strategies have a cash plus objective.
[6)] This is the short term outperformance target for the strategy, the long term benchmark is Cash +3-5% (net of fees).
[7)] This is the expected risk target for the fund, this is an absolute value not measured relative to the benchmark.
[8)] The benchmark and tracking error target for this portfolio will vary over time depending on the underlying portfolio composition
[9.)] These funds invest in a range of gilts and gilt strips defined by Mercer and so have no quoted benchmark.
[10)] These portfolios aim to match the performance of a series of fixed or index-linked cash flows, discounted using the derivative or gilt yields depending on the instruments being utilised, over the lifetime of the funds, and so have no quoted benchmark.
[11)] This fund is not comparable to a benchmark index due to the nature of buy and maintain strategies, and hence has no quoted benchmark or tracking error target. The fund aims to capture the credit spread premium in the most efficient way by investing in a diversified portfolio of bonds.

The allocation between the various asset classes within the Growth Portfolio has been delegated to Mercer. The asset allocations will consist of a Strategic Asset Allocation (SAA) weight, which is generally reviewed annually, and in some cases a Dynamic Asset Allocation (DAA) tilt, which is reviewed on an ongoing basis by Mercer with the objective of adding value from short-term positioning, either to capture opportunities or to protect the value of the portfolio. SAA and DAA weights are reported to the Trustee as part of the regular performance monitoring service provided.

The majority of the assets within the growth portfolio are highly liquid (i.e. traded on a daily basis with relatively low transaction costs). A number of the assets (including Liquid Alternatives, Lothbury Property and Multi-Asset Credit) do not offer daily liquidity, require notice before disinvestments can be made, and/or involve significant transaction costs. Mercer manages illiquid allocations within the growth portfolio with a view to ensuring that:

- Illiquidity does not inhibit portfolio rebalancing or the Scheme's ability to de-risk when required to do so; and
- Any additional transaction costs are justified by the returns and/or diversification benefits offered by the relevant asset class.

2.4.2 Matching Portfolio

Within the Matching portfolio, the Trustee has delegated full discretion to Mercer to construct and manage a portfolio of bonds and bond-like instruments via its pooled funds, which aim to broadly match the Scheme's liabilities and mitigate the interest rate and inflation risks identified in section 2.3. Within the Matching portfolio, Mercer utilises gilt funds, corporate bond funds and Liability Driven Investment flexi funds, which invest in gilts and derivatives to achieve a closer hedging of liabilities than could be achieved by using gilts alone. These flexi funds, like the majority of Liability Driven Investment vehicles, use leverage to free up assets and extend the coverage of the liability hedge to better manage risk.

In delegating discretion to Mercer to construct and manage the matching portfolio, the Trustee notes that Mercer may not initially target a full liability hedge, but rather use discretion to "build up" the liability hedge, as de-risking progresses and as and when opportunities arise to increase the liability hedge at what Mercer deems to be a reasonable price. Mercer can also vary the hedge ratio (up and down) in response to market conditions.

2.5 Expected Return

If the Scheme's strategy de-risks over time to capture funding level improvements, the expected return from the assets will decrease (this is appropriate as there will no longer be a need to target as high a level of return if the funding level improves).

Given the current investment strategy adopted, on a "best estimate" basis (as opposed to the Actuary's more prudent estimate), the Trustee expects to generate a return over the long term (on all of the Scheme's investments) of c. 0.45% p.a. (net of underlying manager fees and the Mercer fiduciary fee) above that which would have been achieved had no investment risk been taken within the portfolio (i.e. had the portfolio been invested solely in a portfolio of long dated government debt, which can be used as a proxy for the growth of the Scheme's liabilities). It is recognised that over the short-term performance may deviate significantly from the long-term target, and there are no guarantees that such a return will be achieved.

2.6 Rebalancing Policy and Cash Flow

Cashflows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

Given the Strategic Asset Allocation, the neutral asset allocation to the managers is set out overleaf, together with the control ranges.

Manager	**Central Allocation (%)**	**Mandate**	**Control Range (%)**
Mercer	c. 98	MDDS	94 – 98
Lothbury	c. 2	UK Property	0 – 4

Mercer does not rebalance the assets managed by Lothbury. The Trustee monitors the Scheme's asset allocation on a regular basis.

The Trustee's default cashflow policy is as follows:

- All investments of new monies will be directed to the MDDS portfolio.
- Any disinvestments required to meet cashflow needs will come solely from the MDDS portfolio.

Within the MDDS portfolio, cashflows, whether positive or negative, are used to move the Scheme's asset allocation back towards the target asset allocation appropriate at that point in time.

The Trustee has full discretion to deviate from this policy at any time if it is in the best interests of the Scheme.

Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside the agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocation for the existing funding level band as soon as reasonably practicable. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift more than 5%, in absolute terms, away from the relevant target allocation for the relevant funding level band without taking corrective action.

3. Defined Contribution Section

3.1 Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Consider the types of risk faced by members.
- Identify a range of investment options for members suitable to cover the range of investment objectives and risk tolerances over a member's working life.

3.2 Investment Objectives

The main objective of the Trustee is to make sure that obligations to the members of the Scheme can be met. This is achieved by the following:

- Ensuring there are appropriate investment options available to allow members to plan for retirement.
- Providing general guidance to members as appropriate as to the purpose of each investment option.
- Encouraging members to seek independent financial advice from an appropriate person in determining the profile of their own investments.

In making decisions, the Trustee seeks professional advice. Following such advice, the Trustee undertakes dialogue from which a decision is made.

The Trustee has reviewed and established investment objectives for the Scheme. These are:

- That investment choices are made available for members to invest in which will aim to provide sustained long-term growth.
- To provide pre-retirement arrangements which protect members against short-term fluctuations in the investment markets in the run-up to their retirement in order to manage the risks outlined in 3.3.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes and tolerance to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's objective is therefore to make available a range of investment options for this purpose.

The Trustee undertakes to review the Scheme's fund choices offered to members and the investment manager arrangements on a regular basis.

As members are able to make their own investment decisions the balance between the different kinds of investments can be their decision. This balance will determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerance. In addition, the Trustee has made three target date fund retirement strategies ('Retirement Strategies') available to members, each strategy targeting a different retirement outcome (i.e. income drawdown, annuity purchase and cash).

The items set out in Section 3.3 of this Statement are those that the Trustee considers to be financially material considerations in relation to the DC section. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire. It is for this reason that the Trustee has made available a number of Retirement Strategies to members, including the default option.

3.3 Risk Management and Measurement

The Trustee has considered investment risk from a number of perspectives. These are:

- The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure adequate retirement benefits;
    - The Trustee manages this risk by providing a default option, which has an explicit allocation to assets in the growth phase that are expected to outperform inflation over the long term. Members are also able to self-select funds, most of which are expected to outperform inflation over the long term. The Trustee measures this risk by considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation;
- The risk that a member's investments do not match how they would like to use their pots in retirement and that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of retirement benefits;
    - The Trustee manages this risk by making three Retirement Strategies available to members, targeting cash, drawdown or annuity. These Retirement Strategies automatically switch member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings. These Retirement Strategies increase the proportion of assets that more closely match the chosen retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement. The Trustee measures this risk by considering the returns of the funds used within the de-risking phase of the Retirement Strategy both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination).
- The risk that investment in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms (e.g. due to appreciation of pound sterling relative to overseas currencies).
    - The Trustee manages this risk by making available a range of funds that invest in local as well as overseas markets and currencies. A number of these funds have underlying assets which are denominated in sterling or where investment managers are responsible for managing currency risk. Members are also able to set their own investment allocations, in line with their risk tolerance. The Trustee measures this

risk by monitoring the performance of investment funds on a regular basis and considering the movements in foreign currencies relative to pound sterling;

- The risk that the investment vehicles in which monies are invested underperform the expectation of the Trustee.
  - This risk is measured by considering fund returns relative to their benchmark and compared to the investment manager's stated outperformance target/expected tracking error. The Trustee monitors the performance of the investment vehicles on a regular basis to ensure funds are meeting expectations.
- The risk that the pooled funds through which the Trustee allows members to invest do not provide the required level of liquidity.
  - The funds available are daily dealt and daily priced pooled funds and therefore are expected to be sufficiently liquid to meet requirements.
- The risk that there is insufficient investment options available to members to allow them to meet their specific risk/return requirements.
  - In order to mitigate this risk, members are offered a range of self-select funds to meet their risk/return needs.
- The risk that environmental, social and governance factors, including climate change, have a financially material impact on the return of the Scheme's assets.
  - See Section 8 of this statement for the Trustee's policy on ESG, Stewardship and Climate Change.
- The risk that the default investment option may be unsuitable for the needs of the members invested in it.
  - Further details regarding this risk and how it is measured and managed are provided in Section 3.4.2.

The Trustee believes that the investment strategy outlined in 3.2 and 3.4 is appropriate for managing the risks outlined above. In particular, for members who do not wish to take an active role in the investment decisions, the Trustee offers a default option with strategy designed to help them manage all the risks outlined above.

The Trustee pays close regard to the risks which may arise from the lack of diversification of investments. The Trustee believes that the choice of funds in place provides an adequately diversified distribution of assets.

3.4 Fund Range

The Trustee has selected funds on the Aviva platform for the members' contributions to be invested in that cater for the different risk appetites of members. The fund range offered includes developed market equities, emerging market equities, bonds, diversified growth funds, multi-asset funds and money market instruments. Both active and passively managed funds are made available to members, depending on the asset class. The fund range offered by the Trustee includes a number of Retirement Strategies (including the default described below) and four Mercer risk profiled funds. These risk profiled funds are multi asset funds offering members a diversified portfolio of assets targeting different levels of risk.

3.4.1 Default Option

Typically, a proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of DC scheme members do not make an active investment decision and are invested in the default option.

The default options consists of investment in the Mercer Growth Fund as the growth phase, before investing in a Target Date Retirement Strategy targeting income drawdown (with 75% of assets at retirement) and taking tax free cash (with 25%). The Target Date Retirement Fund relating to the default investment strategy will initially invest in the same assets as the Mercer Growth Fund, switching assets over eight years into the Mercer Diversified Retirement Fund (75%) and Mercer Cash Fund (25%).

The aims of the default option

In addition to the Trustee's Investment objectives and policy in relation to investment risk, the Trustee believes that:

- The Retirement Strategy's growth phase structure, which invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion.
- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that the default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.
- Based on their understanding of the Scheme's membership, an investment strategy that targets income drawdown and a tax-free cash lump sum (up to 25% of a members' pot) at retirement is likely 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 default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative Retirement Strategy prior to retirement or even choosing their own investment strategy.

The policies in relation to the default option

- The default option aims to provide sustainable long term growth in the build up to retirement and, when approaching retirement, transitioning into less risky assets. The default is designed to be suitable for members looking for the flexibility to drawdown their pension pot in retirement.
- The default option manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. This is a consideration when determining the balance between the different kinds of investments. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.
- In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns.
- If members wish to, they can opt to choose their own investment strategy (or an alternative Retirement Strategy, see below) on joining but also at any other future date.

- Assets in the default option are invested in the best interests of members and beneficiaries, taking into account the profile of members.

- 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. All funds within the default arrangement are daily-dealt pooled investment arrangements. Both active and passive management funds are utilised within the default investment option, depending on asset class.

- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

- A range of asset classes are included within the default arrangement, including: various equity classifications (e.g. fundamental indexation, emerging market, small capitalisation equities), listed infrastructure, listed property, money market investments, growth fixed income, corporate bonds and a diversified retirement fund.

- The Trustee has considered investment risk from a number of perspectives. The risks (and how they are measured and managed) set out in Section 3.3 of this Statement are also applicable to the default investment option.

- The items set out in Section 3.3 of this Statement are also those that the Trustee considers to be financially material considerations in relation to the default investment option. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.

- The investment managers also have discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities. Further information is presented in section 8.

3.4.2 Suitability of the Default Investment Strategy

Based on their understanding of the Scheme's membership, the Trustee believes that the above objectives and policies reflect members' best interests. The rationale underpinning this belief is as follows:

- The Trustee believes that most members save into a pension scheme to achieve an income in retirement. However, the Trustee also believes that members will utilise the new flexibility available to them at retirement. The targeting income drawdown at retirement is aligned with both these beliefs. 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.

- In addition, the Trustee believes that a default strategy that maintains a well-diversified investment portfolio in the run up to retirement provides the best compromise against potential risks and ensures individuals are well equipped to navigate their options.

- Experience shows that almost all members withdraw tax-free cash at retirement. The use of the Cash fund within the default option addresses that requirement.

- Members seeking an adequate income in retirement will likely need to achieve real investment returns for most of their period as pension savers. The retention of some exposure to growth seeking assets throughout the accumulation phase addresses that requirement.

The Trustee intends to monitor members' decisions and other inputs from time to time to ensure that the default option remains suited to their needs. A strategic review will take place at least triennially, or after significant changes to the Scheme's demographics, if sooner.

3.4.3 Alternative de-risking paths

Should members not wish to target income drawdown at retirement, the Trustee has made available alternative Retirement Strategy paths. The growth phase (i.e. Mercer Growth Fund) is the same for all three paths. In the period leading up to eight years from retirement, members will be asked to choose a target date fund based on their intended use of retirement benefits. The options are set out below.

Cash

This retirement path targets the withdrawal of 100% of the member's retirement benefits as cash upon retirement. Once they are eight years from retirement, a member's assets will be moved into a Target Retirement Fund which invests initially in the same assets as the Mercer Growth Fund. The target date fund will then gradually switch into corporate bonds, before investing 100% in cash.

Annuity

This retirement path is designed for those members targeting the purchase of an annuity at retirement. As such, it will be invested in a fund which attempts to replicate changes in annuity prices. Once they are eight years from retirement, the member's assets will be moved into a Target Retirement Fund which invests initially in the same assets as the Mercer Growth Fund. The target date fund will gradually switch into the Mercer Annuity Retirement Fund (75%) and Mercer Cash Fund (25%).

3.5 Day–to-Day Management of the Assets

Day-to-day management of the Scheme's assets is delegated to a range of professional investment managers who are administered through the Aviva Investment Platform, where the Trustee holds a long term insurance contract.

The Scheme's Investment Platform made available to members is provided under agreement with Mercer Workplace Savings ("MWS") and Aviva. MWS combines a corporate investment platform offered by Aviva with Mercer investment consulting advice and access to Mercer Highly Rated and Mercer Blended Funds. The Mercer funds comprise of single or a combination of external underlying investment managers which are highly rated by Mercer. All parties are regulated by the appropriate regulator.

Funds have been selected on the Aviva platform that are managed by MGIE, to provide a range of funds for members' contributions to be invested in. The underlying manager may be changed at Mercer's discretion.

The Trustee regularly reviews the role of Aviva by:

- receiving regular written reports from Aviva
- meeting with Aviva on a regular periodic basis

4. Additional Assets

Under the terms of the Trust Deed the Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the chosen AVC provider on a regular basis and takes advice as to the provider's continued suitability.

5. Investment Restrictions

Full details of the investment restrictions applicable with all of the funds used are set out in the Investment Manager Agreements ("IMAs") with the investment managers.

6. Realisation of Investments

The Scheme's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

Assets in the DC Section, including the default option, are invested in a long-term insurance contract. The assets underlying the insurance contract are invested in daily traded pooled funds which hold highly liquid assets, and therefore should be realisable at short notice based on either Trustee's or member demand.

7. Advisors

7.1 Custodian

The role of a custodian is to ensure the safekeeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustee is not responsible for the appointment of custodians as the assets are invested within various pooled funds. Each investment manager is responsible for appointing the custodian for the assets that they manage on behalf of the Scheme.

7.2 Actuary

The actuary performs a valuation of the Defined Benefit Section at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the liabilities and to agree the Company's contribution rate.

7.3 Investment Consultant

Whilst the Trustee has delegated the day-to-day management of the Scheme's assets to investment managers and certain other investment decisions to Mercer, including the appointment and removal of underlying investment managers, all other investment decisions are based on advice received from the Investment Consultant. Mercer has been appointed for this purpose.

8. Environmental, Social, and Corporate Governance, Stewardship and Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and other asset classes where relevant and data is available and/or climate transition analysis for diversified growth portfolios.

The Trustee has noted Mercer's commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer's Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy targets and metrics.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustee has not set any investment restrictions in relation to particular Mercer Funds.

9. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies	
DB Section	When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 2.4, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities

	As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 2.4. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review. Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.
DC Section	The Trustee accesses the delegated investment manager's (MGIE) products (or funds) through the Mercer Workplace Savings ("MWS") provider insurance platform. The delegated investment manager appoints underlying investment managers based on their capabilities, and therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives. As the Trustee invests in pooled or multi-client investment vehicles they accept that they have no ability to influence the Investment Managers to align their decisions with the Trustee's policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.
How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term	
DB Section	Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement. The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager. Section 8 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the

	Scheme.
DC Section	The delegated investment manager expects all underlying investment managers to incorporate the consideration of longer term factors, such as ESG, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity. The delegated investment manager engages with underlying investment managers on this activity and if dissatisfied will look to replace the manager.
How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustee's policies	
DB Section	To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds. The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 2.4. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance. MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.
DC Section	The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustee reviews both absolute and relative performance of the investment managers products (or funds) on a regular basis, including assessments of both shorter and longer time horizons. The Trustee and the delegated investment manager also rely upon Mercer's manager research capabilities.

	The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. If not satisfied that value is being achieved, the Trustee may request further action be taken, including a review of fees.
How the Trustee monitors portfolio turnover costs incurred by the asset manager.	
DB Section	The Trustee is a long-term investor and is not looking to change the investment arrangements on an unduly frequent basis. However, the Trustee keeps those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above. Details of all costs and expenses are included in the Mercer Fund Supplements, the Report & Accounts and within the Scheme's annual MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.
DC Section	Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.
How the Trustee define and monitor targeted portfolio turnover or turnover range.	
DB Section	The Trustee does not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.
DC Section	The Trustee does not currently define target portfolio turnover ranges for funds, but they will engage with a manager if portfolio turnover is higher than expected.
How the Trustee define and monitor the duration of the arrangement with the asset manager.	
DB Section	Mercer has been appointed as a fiduciary management partner to assist the Trustee in achieving the Scheme's long-term objectives as set out in Section 2.4. In that role, there is an expectation of a longer term relationship until the journey is completed. This will be reviewed periodically through the reporting described above. MGIE provide ongoing oversight of all underlying asset managers and will ensure the asset managers' continued appropriateness. As such there is no set duration for manager appointments.

DC Section	The Trustee is a long-term investor, all funds are open-ended and therefore there is no set duration for manager appointments. The delegated investment manager is responsible for the selection, appointment, monitoring and removal of the underlying investment managers. The Trustee may also choose to remove a fund from the fund range, if no longer considered appropriate. The fund range is formally reviewed on at least a triennial basis.

10. Compliance with this Statement

The Trustee monitors compliance with this Statement on a regular basis.

11. Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any material change in any aspects of the Scheme. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

Signed: ___________________________ Date: ___________________________

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For and on behalf of the Trustee of the Spirit AeroSystems (Europe) Limited Pension Scheme