Statement of Investment Principles – The Perstorp Pension Plan
(July 2023)

Introduction

1 The Perstorp Pension Plan (the 'Plan') is a Registered Pension Scheme for the purposes of the Finance Act 2004. It has a defined benefit (DB) section, as well as providing the facility for members to pay Additional Voluntary Contributions (AVCs).

2 This document is the Statement of Investment Principles ('SIP') made by the Trustees of the Plan in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

3 Before finalising this SIP, the Trustees took written investment advice from the Plan's Investment Consultant (Towers Watson Limited) and consulted Formica Limited (the 'Employer'). In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

4 The Trustees will review this SIP at least every three years and without significant delay after any material change in investment policy.

Plan objectives

5 For the DB section of the Plan, the Trustees have considered (amongst other factors) the nature of the Plan's liabilities and the Plan's Statutory Funding Objective (SFO) when deciding on its investment strategy.

The Trustees' primary investment objective for the DB section is to limit the risk of the assets not being sufficient to meet the liabilities. It aims to do this by having purchased insurance buy-in policies to fully match the movements in the value of the majority of the Plan's assets against its known, insurable liabilities to pay benefits, and holding the remaining assets to meet expenses plus a contingency for possible additional liabilities that may arise (e.g. in respect of Active Deferred member risks and data cleansing). This limits the likelihood of needing to rely on future contributions over the time period until the Plan can convert its existing buy-in insurance policies into individual buy-out policies for members; thereby securing all of the Plan's liabilities in full and enabling the Plan to wind-up.

6 For the AVC section, the investment risk is borne by the member. The Trustees' primary investment objective for this section is therefore to provide a range of investment options, which broadly satisfy the risk profiles of all members. Details of the current AVCs are set out in the Appendix.

7 The Trustees consider that the investment strategies shown on the following pages will ensure:

- There is a reasonable expectation of meeting its investment objectives, and;

- The assets are appropriately diversified.

Investment strategy

8 In November 2022, the Trustees purchased a pensioner buy-in insurance policy from Aviva Life & Pensions UK Limited (“the Insurer”) in order to address the interest rate, inflation and mortality risk associated with these liabilities of the DB section.

9 In July 2023, the Trustees purchased a further buy-in insurance policy from Aviva Life & Pensions UK Limited in order to address the interest rate, inflation and mortality risk associated with the remaining known, insurable liabilities to pay benefits from the DB section (covering the Plan’s deferred members and any new pensioners not covered by the November 2022 insurance policy).

10 The target asset strategy for the remainder of the assets held by the Trustees in the DB section is shown in the table below. The funds selected are all managed by BlackRock Investment Management (UK) Limited (the ‘Investment Manager’). The funds are expected to deliver their benchmark index return, before the deduction of fees.

Target allocation

Fund	Target Allocation %	Benchmark Index Return
Bonds	**Less than 10%**	
Aquila Life Over 15 years UK Gilt Index Fund		FTSE Actuaries UK Conventional Gilts over 15 Years
Aquila Life All Stocks UK Gilt Index Fund		FTSE Actuaries UK Conventional Gilts All Stocks
Aquila Life All Stocks UK Index Linked Gilt Index Fund		FTSE Actuaries UK Gilts Index Linked All Stocks
Aquila Life Up to 5 year Index Linked Gilt Index Fund		FTSE Actuaries UK Index-Linked Gilts up to 5 Years
Cash	**More than 90%**	
ICS Sterling Liquidity Fund		Sterling Overnight Index Average Rate (SONIA)

11 No arrangements for the automatic rebalancing of the investment portfolio are in place. The Trustees monitor the allocation and will take action as required.

12 The Plan will also hold assets in cash and other money market instruments (in addition to the ICS Sterling Liquidity Fund listed above) from time to time as may be deemed appropriate. The Trustees’ policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Plan's overall investments, where possible. The Trustees, together with the Plan's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Other investment policies

13 The Trustees consider long-term sustainability to be an important and relevant issue to consider in the selection, retention and realisation of the Plan’s investments.

14 In particular the Trustees recognise that an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG), including climate change.

15 The Trustees consider these issues having regard to the length of time that is needed for the funding of benefits by the Plan's investments.

16 The Trustees therefore believe that ESG considerations are important aspects of responsible financial risk management in order to protect and enhance the value of investments and should improve long-term outcomes.

17 The Trustees invest the assets of the Plan on an index-tracking basis and (primarily) through buy-in insurance policies. As a result, the Plan cannot directly take account of social, environmental or ethical considerations in the selection, retention and realisation of individual investments.

18 The Trustees have delegated the responsibility of considering day to day ESG integration to the Investment Manager and Insurer, and encourage them to document how they are progressing ESG issues.

19 The Trustees and the Investment Manager and Insurer do not explicitly take into account the views of Plan members and beneficiaries in relation to ESG, climate change and other non-financial matters.

Investment managers

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

21 The Trustees are not involved in the managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustees will, however, monitor the performance of each manager relative to its benchmark.

22 The Plan owns units in the pooled funds in which it is invested. Consequently, it does not own the underlying assets of the funds. Therefore, the responsibility for exercising and directing voting rights acquired through the Plan's investments is delegated to the managers. The Trustees expect that, as part of its wider governance of the pooled funds, and as one of the largest institutional investors in the UK, the Investment Manager will continue its long standing approach to stewardship. The Trustees expect the Investment Manager, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and ESG issues concerning the Plan's investments. The Trustees believe such engagement incentivises the Investment Manager to protect and enhance the long-term value of its investments.

23 The Trustees understand that the Investment Manager's corporate governance policies reflect the key principles of socially responsible investment.

Alignment

24 Alignment between a manager's management of the Plan's assets and the Trustees' policies and objectives are a fundamental part of the appointment process of a new manager. When investing in a pooled investment vehicle, the Trustees will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. To maintain alignment, managers are provided with the most recent version of the Plan's Statement of Investment Principles on an annual basis and are asked to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

25 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment.

26 For most of the Plan's investments, the Trustees expect the managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

27 The Trustees appoint the Plan's managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Fees

28 The Investment Manager is paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

29 The Trustees review the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Managing risk

30 The Trustees recognise several risks involved in the investment of the Plan’s assets:

Risk	How is it monitored?	How is it mitigated?
Deficit	By assessing the progress of the actual growth of the liabilities relative to the selected investment policy	By setting an investment policy with appropriate regard to the expected risk and return relative to the expected growth of liabilities, and through the purchase of buy-in insurance policies
Liquidity	By the level of cashflow required by the Plan over a specified period	The Plan's administrators assess the level of cash required to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity
Currency	Through the level of exposure to non-Sterling denominated assets	Investing only in Sterling denominated assets
Interest rate and inflation	By comparing the likely movement in the Plan’s liabilities and assets due to movements in inflation and interest rates	Through the purchase of buy-in insurance policies which match the sensitivity of the Plan’s known, insurable liabilities to changes in inflation expectations and interest rates
Sponsor	By receiving regular financial updates from the Employer and periodic independent covenant assessments	By agreed actuarial assumptions for funding which reflect the level of sponsor covenant risk (noting that this risk is greatly reduced due to the buy-in policies), supported by additional contributions from the Employer as required.

Signed: Date:

Name:

Authorised for and on behalf of the Trustees of the Plan

APPENDIX – ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) INVESTMENT

Money purchase AVC options

Prior to April 2002 most of the Plan's Additional Voluntary Contributions (AVCs) were invested in line with the Plan's main fund, but with members' accounts incorporating a guaranteed annual return of 5%, and bonuses declared from time to time on the advice of the actuary, having regard to the overall investment returns achieved. No future contributions have been permitted to these "internal accounts" since 31 March 2002.

Acting on advice from Lane Clark & Peacock, the Trustees' Investment Advisers at the time, the Trustees selected the range of unitised funds offered by Clerical Medical for members' AVCs paid from April 2002. The range of funds offered by Clerical Medical is considered adequate to address investment risks faced by members who pay AVCs.

Apart from the pre-April 2002 internal money purchase accounts, AVCs are invested separately from the assets backing the defined benefit promise.

The value of the AVC investments is used to provide additional benefits at retirement.

The nature of defined contribution investment is that the individual members bear the investment risks.

The Trustees' objective for AVC investment is to provide an investment vehicle that addresses the risks faced by the investors. The principal investment risks faced by the individuals are:

- Inflation risk – the risk that investments do not provide a return at least in line with inflation, so that the "purchasing power" of the ultimate fund available to provide benefits on retirement is not maintained.

- Capital risk – the risk that the value of the investment will fall over any period of time.

- Pension conversion risk (to the extent that AVCs are not used to provide a lump sum benefit) – the risk that a change in the cost of buying a pension at or near retirement will not be matched by a corresponding change in the value of the member's accumulated AVC account.

The Trustees will review the continued appropriateness of these AVC investment vehicles from time to time, taking appropriate advice from their Investment Adviser, with particular consideration being given to the different forms of investment risks that face AVC contributors and the most appropriate investment options to address these risks.