# Essentra Pension Plan

## Statement of Investment Principles

### Adopted September 2024

# 1. Introduction

The Trustee of the Essentra Pension Plan has prepared this Statement of Investment Principles for the Defined Benefit (DB) and Defined Contribution (DC) sections of the Plan with effect from September 2024. It has been prepared in accordance with applicable legislation, taking into account guidance from The Pension Regulator and written advice from an independent investment adviser as required.

The Plan has two defined benefit ("DB") sections: the "Essentra Section" and the "Essentra Senior Section"; and a defined contribution ("DC") section. Sections 2 and 4 of this Statement address the DB Sections. Section 3 addresses the DC Section. Sections 5 - 7 are relevant to all Sections. Both of the DB Sections are closed to future accrual of benefits.

The purpose of the SIP is to set out the Trustee's investment strategy in high level, including the investment objectives, investment strategy and other investment policies the Trustee has adopted. Detail on how the Plan's investment strategy is implemented is set out in a separate Investment Policy Implementation Document  ('IPID') document (which is maintained by the Trustee).

The Trustee will review the SIP in consultation with the Essentra PLC ('the Sponsoring Employer') at least every three years; and after any significant change in investment policy or circumstances of the Plan.

The Trustee is responsible for the governance of the Plan's assets and the investment of these assets in the best interests of members and beneficiaries. The Trustee exercises its powers of investment in accordance with the Trust Deed and Rules of the Plan and applicable law. Where the Trustee is required to make an investment decision, the Trustee will receive advice from the relevant advisers first. It believes that this ensures that it is appropriately familiar with the issues concerned.

# 2. Essentra Section of the Plan (Defined Benefit, DB)

## 2.1. Plan Governance

The Trustee has delegated day-to-day investment of the Essentra Section DB assets to be undertaken through the fiduciary management service of Schroders Investment Solutions Limited ('**Schroders Solutions'**), hereafter referred to as the '**Fiduciary Manager'**. The Trustee is satisfied that the Fiduciary Manager has the appropriate knowledge and experience for managing the investments of the Plan and they carry out their role in accordance with the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations"),** the principles contained in this SIP and any applicable investment guidelines and restrictions agreed with the Trustee.

The Trustee acknowledges the potential for conflicts of interest as part of ongoing Fiduciary Management business activities. As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where third party managers the Plan invests in ("**the Underlying Managers**") are also regulated, they may be required to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager monitors these conflicts as part of its regulatory filings (where applicable), and as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available to be shared to Trustee when required.

The Trustee considers that the governance structure is appropriate for the Plan as it allows the Trustee to make the important decisions on investment policies, while delegating the day-to-day aspects to the Fiduciary Manager as appropriate.

## 2.2. Investment objectives and strategy

The primary objective of the Trustee of the Plan with regard to investment policy is to meet the benefit payments promised to the Plan's members as they fall due. Hence, the Trustee has defined the investment strategy with due regard to the Plan's liabilities.

The Trustee has set the following investment strategy:

- The acquisition of suitable growth and matching assets, having due regard to the risks set out in this SIP, which will generate income and capital growth to pay, together with any contributions from members or the Sponsoring Employer, the benefits which the Plan provides as they fall due.
- To limit the risk of the assets failing to meet the liabilities over the long-term having regard to any statutory funding requirement.
- To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

Growth assets comprise a diversified range of investments including (but not limited to) developed and emerging market equities, corporate bonds and alternative assets, which are held with the aim of outperforming the Plan's liabilities over the medium term.

Buy & Maintain Credit assets comprise of investment grade corporate bonds, purchased with the view to holding to maturity to provide cashflow and improved certainty of outcome.

Matching assets comprise investments include (but not limited to) UK government bond and derivative exposures, which are held with the aim of matching the interest rate and inflation sensitivities of the Plan's expected liabilities.

The Plan investment strategy is detailed in the IPID.

## 2.3. Arrangement with the Fiduciary Manager

The Trustee has appointed the Fiduciary Manager to implement the Plan's Essentra Section DB investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Managers. The Fiduciary Manager is appointed to carry out its role on an ongoing basis.

The Trustee and Fiduciary Manager have agreed a Fiduciary Management Agreement setting out the scope of the Fiduciary Manager's activities, performance objectives, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee periodically reviews the overall value-for-money of using the Fiduciary Manager, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees is satisfied that these arrangements incentivise the Fiduciary Manager:

- to align its investment strategy and decisions with the Trustee's investment policies, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve performance.

## 2.4. Arrangement with the Underlying Managers

The Investment Regulations require the Trustee to disclose its policies in relation to its arrangements with its Underlying Managers who are appointed by the Fiduciary Manager.

The Trustee incentivises its Underlying Managers via the Fiduciary Manager to align their investment strategies with the Trustee's mentioned in the SIP. However, the Plan's Essentra Section DB investments are generally made via pooled investment funds, in which the investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, may not be aligned with the Trustee's investment policies.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee's objectives. The Fiduciary Manager regularly reviews the Underlying Managers on behalf of the Trustee in order to incentivises the Underlying Managers. These reviews include evaluation of the investment performance, remunerations and turnover cost of the investment funds in comparison to the peers.

The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Fiduciary Manager.

## 2.5. Monitoring

The Trustee will monitor the performance of the Fiduciary Manager against the agreed performance objectives.

The Trustee, or any other suitably qualified adviser on behalf of the Trustee, regularly reviews the activities of the Fiduciary Manager to satisfy themselves that the Fiduciary Manager continues to carry out their work competently, exercises its powers of investment with a view to giving effect to the principles in this SIP and has the appropriate knowledge and experience to manage the assets of the Plan.

If the Trustee is not satisfied that the Fiduciary Manager is aligned with its policies, it will consider making changes to the Fiduciary Manager's mandate as necessary.

## 2.6. Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee have taken advice on the suitability of the contracts and have delegated responsibility to the Fiduciary Manager to implement these instruments. Derivative instruments are typically used for risk management purposes in the portfolio.

## 2.7. Realisation of Investments

The majority of Essentra Section DB assets the Plan holds can be realised easily when required. The Trustee will ensure that the Fiduciary Managers are made aware of the cashflow requirements of the Plan. The Fiduciary Manager will be responsible for ensuring that, in normal market conditions, sufficient assets are readily realisable to meet any disinvestments required by the Trustee to meet these cashflows.

## 2.8. Risk Management

The Trustee recognises a number of risks involved in the investment of the assets of the Plan. The Trustee will keep these risks and how they are measured and managed under regular review. The main risks include, but not limited to:

- **Funding and asset/liability mismatch risk –** the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
    - A liability benchmark portfolio]or 'LBP' is used as a proxy for the liabilities in order to measure the approximate changes in the present value of the Plan's liabilities (due to changes to the relevant gilt yields only). The Trustee monitor this change relative to the change in asset values on quarterly basis. The LBP is reviewed following each actuarial review, or when significant market or Plan events occur.

    - The Trustee recognises the risk of a negative impact on the funding level due to changes in the Scheme Actuary's assumptions. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
    - When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LBP and can therefore also be assessed as part of the quarterly review process.
    - This risk is also monitored through regular actuarial and investment reviews.
- **Underperformance risk –** the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
    - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
    - The use of instruments and strategies designed to control the extent of downside exposure.
    - The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
    - Regular monitoring of the managers' performance, processes, and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.
- **Cashflow risk –** which is the risk that the Plan is unable to meet benefit payments as they fall due, addressed through the monitoring of the cashflow requirement of the Plan to control the timing of any investment/disinvestment of assets.
        - The Trustee has also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments.
- **ESG risk including Climate risk –** the risk of adverse performance due to ESG related factors including climate change. The Trustee recognises climate change as a systemic, long-term material financial risk to the value of the Plan's investments. The Trustee is supportive of the Paris Agreement and will aim to achieve a carbon neutral portfolio (net zero) by 2050 or sooner. This risk is addressed by the following:
    - Climate change scenarios being considered as part of the Trustee's regular review of investment strategy from time to time (if applicable).
    - The Fiduciary Manager's ESG assessment at the point of investment with Underlying Managers.
    - The Trustee monitoring the overall ESG characteristics including carbon metrics of the portfolio in the quarterly governance report.
- **Sponsor risk –** the risk of the Sponsoring Employer becoming unable to support the Plan which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly review the covenant of the Sponsoring Employer.

## 2.9. Financially Material Investment Considerations for Essentra Section (DB)

Financial material considerations, which include (but not limited to) environmental, social and governance (ESG) considerations (including, but not limited to, climate change), which the Trustee(s) consider to be financially material.

The Trustee believes that certain ESG factors can have an impact on financial performance and part of its fiduciary duty is to incorporate this information into its investment decisions to reduce investment risk and enhance portfolio returns over the length of time needed for the funding of future benefits of the Plan. The Trustee considers a wide range of ESG risks, including corporate governance, human rights, labour and environmental standards and so on and it believes that climate risk presents a material financial risk to the assets invested in its portfolio.

The Trustee currently does not have standalone ESG policy document. The Trustee's ESG policy for the Essentra Section DB assets is to delegate the monitoring and overall management of financially material ESG risks and opportunities to the Fiduciary Manager. The Trustee is comfortable with the delegation given the approach the Fiduciary Manager takes towards ESG and climate related risks and opportunities is aligned with the Trustee's beliefs which was confirmed on appointment of the Fiduciary Manager.

The Trustee receives regular training and updates on ESG-related topics such as portfolio ESG reporting, voting and engagement examples on a quarterly basis through Trustee meetings. In addition, on an annual basis, the Trustee reviews the ongoing suitability of the Fiduciary Manager's monitoring and management of ESG and climate-related issues via an ESG annual report and challenges or engages with the Fiduciary Manager as required on its approach.

The Trustee delegates the integration of climate related risks into the investment process to the Fiduciary Manager. The Fiduciary Manager provides regular updates for the Trustee to:

- Understand the exposure of its investments to climate change in the quarterly monitoring report, and
- Ensure that new and existing investments take account of climate change risks and opportunities.

The Trustee expects its Fiduciary Manager to take their policy into account as part of manager selection.

## 2.10. Non-Financial Material Investment Considerations

The Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions in relation to the Essentra Section DB assets as there is no likely common view on any ethical matters which members are likely to hold.  At this time the Trustee has no plans to seek the views of the membership on ethical considerations.

## 2.11. Stewardship

The Trustee is responsible for developing its own stewardship policy which includes both voting (where applicable) and engagement. The Trustee believes proper stewardship will result in better management of financially material ESG and climate related risks and opportunities. This is expected to improve the long-term financial outcomes of the Plan which ultimately is in the best interests of the Plan's members and beneficiaries. The Trustee expects its Fiduciary Manager to be a signatory to the UK Stewardship Code.

The Trustee has received training on the Fiduciary Manager's approach to stewardship. The Fiduciary Manager has its own voting and engagement policies documented in its Engagement Blueprint which sets out six sustainability themes to prioritise and which guides the voting and engagement behaviours of the Fiduciary Manager. Therefore, to ensure focused voting and engagement with the Underlying Investment Managers, the Trustee, has chosen to align its stewardship priorities with those of the Fiduciary Manager: Climate Change, Natural Capital & Biodiversity and Human Rights. The Trustee expects the Fiduciary Manager to take its policy and stewardship priorities into account as part of its own stewardship activities and manager selection.

The Trustee reviews, monitors and challenges the Fiduciary Manager where necessary in relation to the voting and engagement activities of the Fiduciary Manager and the Underlying Investment Managers.

# 3. Defined Contribution (“DC”) Section of the Plan

The Trustee has delegated advisory services regarding the Plan’s DC assets to be undertaken through the investment consultant service of Schroders Investment Solutions Limited (‘**Schroders Solutions’**), hereafter referred to as the ‘**Investment Consultant’**.

The Trustee recognises that members of the Plan have differing investment needs, that these may change during the course of their working lives and that they may have differing attitudes to risk.  The Trustee believes that members should generally make their own investment decisions based on their individual circumstances.  The Trustee considers its primary objective in respect of the DC Section to be to make available a range of investment funds that enable members to construct a portfolio that meets their own needs.  The Trustee also recognises that members may not believe themselves qualified to take investment decisions.  As such, the Trustee has made available a default lifestyle option.

These objectives translate to the following principles:

- Offering members a ‘Lifestyle’ approach for the default investment strategy and ensuring that the other investment strategy options allow members to plan for their specific retirement objectives;
- Making available a range of pooled investment funds that serve to meet the varying investment needs and risk tolerances of Plan members. This includes offering mainly passively managed funds and some actively managed investment funds where the Trustee feels this is appropriate;
- Providing general guidance as to the purpose of each investment option;
- Encouraging members to seek independent financial advice from an appropriate party in determining the most suitable strategy for their individual circumstances;
- In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustee aims to make available a range of options that satisfy the needs of the majority of members.

The Trustee periodically reviews the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate.

Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member’s assets and should be related to the member’s own risk appetite and tolerances. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings / issuers.

## 3.1. DC Section Risks

The Trustee regards “risk” as the likelihood of failing to achieve the objectives set out above and seeks to minimise these risks, so far as possible.

The Trustee has considered risk from a number of perspectives. The below list is not exhaustive but covers the main risks that the Trustee considers, and how they are managed and measured:

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Inflation Risk**<br>The real value (i.e. post inflation) of members' accounts decreases. | The Trustee provides members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation<br>Members are able to set their own investment allocations, in line with their risk tolerances. | Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation |
| **Pension Conversion Risk**<br>Member's investments do not match how they would like to use their pots in retirement. | The Trustee makes available three lifestyling strategies for DC members, each targeting either, cash, drawdown or annuity.<br>Lifestyle 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 lifestyling strategies increase the proportion of assets that more closely match the chosen retirement destination as a member approaches retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement. | Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms, as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination). |
| **Market Risk**<br>The value of securities, including equities and interest bearing assets, can go down as well as up. | The Trustee provides members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.<br>For the multi-asset funds that are targeting non-market benchmarks this is delegated to investment managers. | Monitors the performance of external investment funds on a quarterly basis. |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Counterparty Risk**<br>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation. | Delegated to external investment manager.<br>Members are able to set their own investment allocations, in line with their risk tolerances. | Monitors the performance of external investment funds on a quarterly basis. |
| **Currency Risk**<br>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates. | The Trustee provides diversified investment options that invest in local as well as overseas markets and currencies.<br>Delegated to investment managers.<br>Members are able to set their own investment allocations, in line with their risk tolerances. | Monitors the performance of external investment funds on a quarterly basis.<br>Considers the movements in foreign currencies relative to pound sterling |
| **Operational Risk**<br>A lack of robust internal processes, people and systems. | The Trustee maintains a risk register.<br>Members are able to set their own investment allocations, in line with their risk tolerances. | Monitoring of manager performance on a quarterly basis. |
| **Liquidity Risk**<br>Assets may not be readily marketable when required. | The Trustee accesses daily dealt and daily priced pooled funds through a unit-linked insurance contract from Legal and General. | The pricing and dealing terms of the funds underlying the unit-linked insurance contract. |
| **Valuation Risk**<br>The value of an illiquid asset is based on a valuer's opinion, while realised value upon sale may differ from this valuation. | Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.<br>The majority of investment managers invest solely in liquid quoted assets. | The Trustee monitors performance of funds on a quarterly basis. |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Environmental, Social and Governance Risk**<br>ESG factors can have a significant effect on the performance of the investments held by the Plan e.g. extreme weather events, poor governance etc. | Delegated to external investment managers.<br>The Trustee's policy on ESG risks is set out in Section 2.18 of this Statement. | The Trustee reviews their external investment managers' policies and actions in relation to this on an annual basis. |
| **Manager Skill / Active Management Risk**<br>Returns from active investment management may not meet expectations, leading to lower than expected returns to members. | The Trustee makes available actively managed funds to DC members where they deem this appropriate; for example, multi-asset funds.<br>The actively managed funds made available are highly rated by their Investment Consultant, based on forward-looking expectations of meeting objectives. | The Trustee considers the ratings of investment strategies from their Investment Consultant during the selection process.<br>Trustee monitors performance and the Investment Consultant's ratings of funds on an ongoing basis. Performance is measured relative to each fund's benchmark and stated target/objective |

The Trustee believes that proper diversification of investments is of the utmost importance. It is the Trustee's policy that a range of funds is made available so that individuals can attain a diversified portfolio.

The Trustee considers the above items relating to investment and risk "financially material considerations". For the DC Section the Trustee believes that the timescale over which to assess these considerations should be viewed at a member level, based on the member's age and selected retirement age.

In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

## 3.2. The Default Investment Arrangement

The Trustee recognises that not all members wish to make an active choice that is tailored to their individual circumstances. However, it is expected that a proportion of members will actively choose the default investment option because they feel it is most appropriate for them. The vast majority of DC Plan members do not make an active investment decision and are therefore invested in the default investment option.

The below subsections in this section expands upon the objectives, strategy and suitability of the default arrangement.

**Principles**

The Trustee recognises that many members do not consider themselves competent to take investment decisions. As such, the Trustee has made available a default arrangement. Unless members make a specific request for their DC accounts to be invested in a different manner, the Trustee invests members' accounts in the default arrangement.

The default investment arrangement (the "Cash Lifestyle Strategy") adopts a pre-set investment strategy. This strategy has two phases: the accumulation phase and the consolidation phase. When a member is younger, their account is invested in funds that aim for long-term growth (accumulation phase) in excess of inflation. As the member approaches retirement, their account is switched automatically into lower-risk, lower-growth funds (consolidation phase) with the intention of providing greater capital stability targeting a tax-free cash lump sum at retirement.

A range of asset classes are included within the default investment option, including: developed market equities, money market investments and diversified growth funds. These are managed on a passive basis.

All funds are daily-dealt pooled investment arrangements, with assets invested on regulated markets.

**Default Arrangement Objectives**

The aims of the default arrangement and the ways in which the Trustee seeks to achieve these aims are detailed below:

- To generate returns in excess of inflation during the accumulation phase of the strategy whilst managing downside risk.

    *The default arrangement's accumulation phase invests 100% of members' accounts in the Growth Fund, a fund which is invested 50% in equities and 50% in a diversified growth fund which invests across a diversified range of assets. This is expected to provide long term growth in excess of inflation but with greater downside protection than investing purely in equities.*

- To provide a strategy that reduces investment risk for members as they approach retirement.

    *As a member's account grows, investment risk will have a greater impact on outcomes at retirement. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk as members approach retirement is appropriate. Moreover, as members approach retirement, the Trustee believes the primary aim should be to provide protection against a mismatch between asset values and the expected costs of retirement benefits.*
    *The Cash Lifestyle Strategy therefore aims to reduce volatility near retirement via automated switches over a 5-year period to a member's selected retirement date.*

*Investments are gradually switched from a growth oriented fund (the Growth Fund), into a cash fund for capital preservation purposes.*

- To provide exposure at retirement to assets that are appropriate for an individual planning to use their savings in the DC Section to take a cash lump sum at retirement.

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

**Policies in relation to the default arrangement**

The Trustee's policies in relation to the default arrangement are:

- The default arrangement manages investment risks through a diversified strategic asset allocation consisting of a range of assets including equities, gilts, corporate bonds, overseas bonds and property.  Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

- In designing the default arrangement, the Trustee has explicitly considered the trade-off between expected risk and return.

- The Trustee has also taken into account the needs of members with regards to security, quality, liquidity and profitability of a member's portfolio as a whole. The Trustee has designed the default arrangement taking account of the members invested in the default.

- Assets in the default arrangement are invested in daily traded pooled funds that hold highly liquid assets. The pooled funds are commingled investment vehicles, which are managed by Legal & General Investment Management (LGIM). The selection, retention and realisation of assets within the pooled funds are delegated to LGIM in line with the mandates of the funds. Likewise, LGIM have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

- Within the default arrangement, units across the underlying pooled funds are bought and sold according to the table below:

| Time to Retirement (years) | Growth Fund (%) | LGIM Sterling Liquidity Fund (%) |
|---|---|---|
| >5 | 100 | - |
| 5 | 100 | - |
| 4 | 80 | 20 |
| 3 | 60 | 40 |
| 2 | 40 | 60 |
| 1 | 20 | 80 |
| 0 | 0 | 100 |

**Risk in Default Arrangement**

In determining the default arrangement, the Trustee has considered risk from a number of perspectives. These include:

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Inflation Risk**<br>The real value (i.e. post inflation) of members' accounts decreases. | During the growth phase of the default investment option the Trustee invests in a diversified range of assets that are likely to grow in real terms. The Trustee monitors the performance of the growth phase against the fund's benchmark. | Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation. |
| **Pension Conversion Risk**<br>Member's investments do not match how they would like to use their pots in retirement. | The default investment option is a lifestyling strategy that targets cash as a retirement destination.<br>The Trustee believes that a strategy targeting cash minimises the overall pension conversion risk for the relevant members accessing pots in a different manner (annuity or drawdown). | Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation (the retirement destination).<br>As part of the triennial default strategy review, the Trustee ensures the default destination remains appropriate. |
| **Market Risk**<br>The value of securities, including equities and interest bearing assets, can go down as well as up. | The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.<br>For the diversified growth funds, which are targeting non-market benchmarks, this is delegated to investment managers. | Monitors the performance of the default investment strategy on a quarterly basis. |
| **Counterparty Risk**<br>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation. | In line with the main DC section.<br>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee. | Monitors the performance of the default investment option on a quarterly basis. |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Currency Risk**<br>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates. | Currency risk management is delegated to investment managers.<br>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee. | Monitors the performance of external investment funds on a quarterly basis.<br>Considers the movements in foreign currencies relative to sterling |
| **Operational Risk**<br>A lack of robust internal processes, people and systems. | In line with the main DC Section.<br>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee. | Consider the ratings of investment strategies from their Investment Consultant and monitoring these on a quarterly basis. |
| **Liquidity Risk**<br>Assets may not be readily marketable when required. | In line with the main DC Section. | In line with the main DC Section. |
| **Valuation Risk**<br>The value of an illiquid asset is based on a valuer's opinion, while realised value upon sale may differ from this valuation. | Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.<br>The majority of underlying holdings within the default investment strategy are invested in liquid quoted assets. | In line with the main DC Section. |
| **Environmental, Social and Governance Risk**<br>ESG factors can have a significant effect on the performance of the investments held by the Plan e.g. extreme weather events, poor governance etc. | In line with the main DC Section.<br>The Trustee's policy on ESG risks is set out in Section 2.18 of this Statement. | In line with the main DC Section. |

| Risk | How it is managed | How it is measured |
|---|---|---|
| **Manager Skill / Active Manager Risk**<br>Returns from active investment management may not meet expectations, leading to lower than expected returns to members. | In line with the main DC Section.<br>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee. | In line with the main DC Section. |

The Trustee considers the above items relating to investment and risk "financially material considerations". For the DC Section the Trustee believes that the timescale for which to assess these considerations should be viewed at a member level, based on the member's age and selected retirement age.

**Suitability of Default Investment Strategy**

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

- Given the average size of members' accounts, the Trustee believes that most members who will retire in the next few years will take their accounts as a cash lump sum at retirement. The targeting of taking cash at retirement during the consolidation phase is aligned with that objective.

- In addition, some members of the DC Section will have other pension arrangements, in particular within the DB Sections of the Plan and so may wish to take their DC Section account as cash at retirement.

- The default arrangement is aimed largely at members who do not feel capable of taking investment decisions. Again, the Trustee believes that taking a cash lump sum at retirement is likely to be the preferred course for many such members, as opposed to say income drawdown, which requires more intensive investment governance during retirement. The Cash Lifestyle Strategy being entirely invested in the LGIM Sterling Liquidity Fund 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 use of a fund with significant weightings in global equities and other growth assets during 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 arrangement remains suited to their needs. They will also review the investment choices available to members to ensure that those who regard the default arrangement as unsuited to their needs have suitable alternative investment funds to select from.

In order to ensure that it remains appropriate, the Trustee will undertake a review the default investment option at least triennially, or after significant changes to the Plan's demographics, if sooner.

Member views, when expressed, may be taken into account relating to financial and non-financial matters. In particular, in the annual newsletter members are invited to express any opinions for Trustee consideration.

The Trustee's Implementation and Engagement Policy, as outlined in Section 3.5 of this Statement, also applies to the default option for the DC Section.

## 3.3. DC Section Investment Strategy

The Trustee has put forward fund options for investment. Members can combine these funds in any proportion to determine their own investment strategy. Full details are provided in the IPID. The Trustee has considered the merits and disadvantages of both active and passive management.

## 3.4. DC Section Investment Arrangements

Day-to-day management of the assets is delegated to a professional investment manager. Further details of the current investment arrangements, including the Plan's current investment managers, are set out in the IPID.

The investment managers have discretion to buy and sell underlying securities that comprise the funds in which Plan members invest on behalf of the Plan, subject to agreed constraints. They have been selected for their expertise in different specialisations and each manages investments for the Plan to a specific mandate. The IPID gives details of each manager's mandate.

The Trustee accepts that it is not always possible to specify investment restrictions where assets are managed via pooled funds. Nevertheless, the Trustee takes appropriate legal and investment advice regarding the suitability of the investment management agreements and relevant investment vehicles.

The Trustee assesses the continuing suitability of the Plan's investment managers. The Trustee meets each investment manager from time to time to discuss their performance, activity and wider issues. The Investment Consultant provides help in monitoring the investment managers, both in the form of written updates and attendance at meetings, as required. The Trustee considers the range of funds to be diversified across a reasonable number of underlying holders / issuers.

## 3.5. Implementation and Engagement Policy for DC Section

The table below sets out the Trustee's approach to implementation and engagement. The list covers the Trustee's approach for the DC Section's default investment options and self-select range. The list is not exhaustive, but covers the main areas considered by the Trustee.

| Policy Statement | How the policy is addressed |
|---|---|
| How the arrangement with the investment manager incentivises the investment manager to align its investment strategy and decisions with the Trustee's policies. | The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.<br><br>The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandates for which they have been appointed to manage. The Trustee will review the appointment of an investment manager after sustained underperformance and if the Trustee is dissatisfied, it will look to replace the manager.<br><br>If the investment objective for a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.<br><br>In appointing an investment manager, the Trustee looks to their Investment Consultant to provide a forward-looking assessment of the manager's ability to outperform over a full market cycle.<br><br>The Trustee's Investment Consultant's manager research ratings are used for due diligence and are used in decisions around selection, retention and realisation of manager appointments.<br><br>Where the Trustee invests in pooled investment vehicles it accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. |
| How the arrangement incentivises the investment 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 | The Trustee considers the Investment Consultant's assessment of how each underlying investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the underlying investment managers' policy on voting and engagement. The Trustee uses this assessment in decisions around selection, retention and realisation of manager appointments. |

| Policy Statement | How the policy is addressed |
|---|---|
| performance in the medium to long-term. | Investment managers are aware that their continued appointment relies on their success in delivering the mandates which the Trustee has delegated to them. |
| How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustee's policies. | The Trustee receives reports from their investment managers on a quarterly basis, which present performance information over three months, one year and three years. The Trustee reviews the absolute performance and relative performance against a suitable index or comparator used as the benchmark, and against the underlying managers' stated target performance (over the relevant time period). Whilst the Trustee's focus is on long-term performance, shorter-term performance is also taken into account.<br><br>If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustee may review the suitability of the manager and change managers where required.<br><br>As part of the annual Value for Money ("VfM") assessment for the Plan's DC Section, the Trustee reviews the investment manager fees. Where potential improvements on the value delivered to members is identified the Trustee will take action. |
| How the Trustee monitors portfolio turnover costs incurred by the investment manager. | The Trustee monitors portfolio turnover costs for the DC and AVC arrangements on an annual basis as part of its value for money assessment. |
| How the Trustee defines and monitors targeted portfolio turnover or turnover range. | 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 defines and monitors the duration of the arrangement with the investment manager. | The Trustee is a long-term investor and is not looking to change its investment arrangements frequently.<br><br>All the funds are open-ended with no set end date for the arrangement.<br><br>The DC Section funds and the default investment option are reviewed on at least a triennial basis. An underlying manager's appointment will be considered and may be terminated if it is no longer considered optimal, nor has a place in the default |

| Policy Statement | How the policy is addressed |
|---|---|
| | strategy or the self-select fund range. This is independent of time. |

## 3.6. Responsible Investment and Corporate Governance for DC Section

The Trustee believes that good stewardship and environmental, social and corporate governance (“ESG”) issues may have a material impact on investment returns, 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.

The Trustee has given the DC Section investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan’s investments. These investment managers 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 Trustee considers how ESG, climate change and stewardship is integrated within their investment manager’s processes and the investment managers are expected to provide reporting on a regular basis, at least annually, on ESG integration process, stewardship monitoring results, and climate-related metrics such as carbon foot-printing for equities.

### **3.7.** Illiquid Assets for DC Section

At present, the Trustee does not allocate to illiquid assets within the default strategy, as illiquid investments are a new and evolving area for DC schemes. Currently, the Trustee does not plan to invest in illiquid assets but will keep this policy under review.

# 4. Other Investments

The Trustee has secured some pensions in respect of the DB Sections through the purchase of annuities and currently holds annuity policies with a number of different insurance companies.

# 5. Additional Voluntary Contributions (“AVCs”)

Under the Plan’s Trust Deed and Rules, members are allowed to invest Additional Voluntary Contributions to improve the benefits they receive at retirement. The Trustee has selected a range of investment funds with Legal and General for the AVCs to be invested in.

The Trustee reviews these arrangements regularly considering their performance, the objectives and the views of the advisers.

# 6. Cash Balances

The Trustee maintains separate bank accounts for the administration of benefits and expenses relating to the respective Sections of the Plan.

# 7. Compliance with this Statement

The Trustee will monitor compliance with this Statement on a regular basis.

**Signed:............................................................**

**Date:.................................................................**

For and on behalf of the Trustee of the Essentra Pension Plan