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Statement of Investment Principles

Rodenstock (UK) Limited Pension & Death Benefit Scheme

June 2021

BARKER TATHAM™
PENSION INVESTMENTS

1. Introduction

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This statement sets out the principles governing decisions about the investment of the assets of The Rodenstock (UK) Limited Pension & Death Benefit Scheme (the Scheme). Before preparing it, the Trustee obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as their investment consultants. Prior to finalising this document, he also consulted with the sponsoring employer. Barker Tatham Investment Consultants Limited are licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustee reviews this Statement on a regular basis, and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer, Rodenstock (UK) Ltd.

The SIP was agreed by the Trustees and signed off on 2 July 2021.

2. Decision Making

The Trustee distinguishes between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustee takes all such decisions. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and
- appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustee believes that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustee employs fund managers to make such judgements and does not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

Each investment manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustee believes that this is the most appropriate fee structure for the Scheme.

3. Investment Objectives

The Trustee's overall investment policy for the Scheme is guided by the following objectives:

What constitutes risk?

The Trustee appreciates that an important aspect of the security of the members' benefits is the continued support of the Scheme sponsor. Events that reduce the sponsor's willingness or ability to support the Scheme are the biggest potential threats from the members' perspective.

The most significant risk from the Trustee's perspective is that the funding level on a buy-out basis deteriorates.

Appetite for risk

Taking too little risk can be as damaging for a pension scheme as taking too much risk. The reduction in long-term expected investment returns may push the costs of the Scheme to become unsustainably high.

Given the circumstances of the Scheme, the Trustee is looking to take as little risk as possible.

Other considerations

- **Net cashflows**
  Allowance should be made for any known short-term cashflows. It is also expected that most of the investments outside of the insurance policies held will be sold in the next twelve months.

- **Flexibility**
  As most of the investments are held in insurance policies, it is essential that all of the remaining investments are held in funds which can be realised quickly to meet further benefit payments as required.

- **Environmental, Social and Corporate Governance Issues**
  The general approach to environmental and corporate governance issues is covered on page 11.

- **Specific Issues now most of the liabilities are secured with Just Group**
  - For the estimated GMP Equalisation liabilities, broad hedges against the interest rates and inflation should be secured.
  - To meet the required reserve for expenses and run off insurance costs, assets with low risk of capital loss should be purchased.
  - As the adjustment mechanism from Just Group has some linkage to credit, an allocation to corporate bonds would be appropriate.
  - There is no requirement to generate excess returns from any residual assets after allowing for the above.

4. Myners' Investment Principles

The Trustee recognises the relevance to pension schemes of the Myners' Investment Principles that were published by the Government in October 2001, and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."

- The Trustee makes investment decisions by consulting with professionals that he believes to be best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustee has formally reviewed the investment objectives with the assistance of their investment consultant.

- The investment objectives are explicitly stated in Section 3 of this document.

- The strength of the sponsor's covenant is reviewed on a regular basis.

- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and, where relevant, an outperformance target, as well as clear constraints within which to operate.

- The Scheme's overall investment objective is supported by the Scheme's Asset Liability Model and the Scheme's employer covenant.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- In reviewing the investment strategy, the Trustee commissioned an Asset Liability Model (ALM) from their investment consultant. This explicitly took account of the form and structure of the liabilities, as well as longevity risk.

- This ALM was used to find a strategy which best met the Trustee's investment objectives. Those investment objectives were influenced by the strength of the sponsor covenant and the risk of sponsor default.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

- The Trustee currently receives:
  - quarterly performance reports from the fund managers;
  - Six-monthly monitoring reports including hedge-checks from the investment consultant; and
  - annual audited accounts.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities."

- The fund manager confirms and demonstrates their adherence to the UK Stewardship Code (which replaced the 2005 ISC Statement of Principles) in quarterly investment reports to the Trustee.

- The Trustee's policy on responsible ownership is described in Section 6 of this Statement of Investment Principles.

- The Trustee will report on the Scheme's policy on responsible ownership in the annual report to members and the annual summary funding statement.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.
- A copy of this Statement of Investment Principles is available to members on request.
- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the schedule of contributions and the annual report and accounts are also available to members on request.
- A representative from the employer regularly attends Trustee meetings and this helps communication with the employer over investment matters.

5. Implementation

In light of the objectives set out in Section 3, the trustees received written advice from their investment consultants in February 2021 This followed the buyin with Just Group, leaving a small amount of residual assets with Legal & General Investment Management Ltd (LGIM) to cover GMP equalisation liabilities, run-off insurance and other expenses. There are also annuity policies with Legal & General Assurance Society (LGAS) for secured pensioners that were in place before the JUST Group buyin took place. The following table shows the asset allocation as at the end of March 2021.

Provider	Fund	Allocation 31 March 2021
Just Group	Buyin Policy	92.0%
LGAS	Annuity Policy	3.8%
LGIM	Over 5 Year Index-Linked Gilts Index Fund	0.2%
LGIM	Sterling Liquidity Fund	3.3%
LGIM	Active Corporate Bond Over 10 Year Fund	0.7%
Total		**100%**

The above allocation is based on approximate valuations of the Just Group buyin and LGAS insurance policies.

LGIM – Over 5 Year Index-Linked Gilts Index Fund

- This fund aims to provide protection from movements in long-term interest rates and expected inflation. This is referred to as 'hedging'. The amount of protection is determined largely by the percentage of liabilities hedged at any time.
- This fund uses Index-Linked UK government bonds (gilts) with maturities of over 5 years.

LGIM – Active Corporate Bond – Over 10 Year Fund

- This Fund is invested in long-dated corporate bonds with credit ratings of BBB and above (i.e. "investment grade".)
- The objective of the fund is to use active management to beat the benchmark, the Markit iBoxx GBP Non-Gilt Over 10 Year index.

LGIM – Sterling Liquidity Fund

- This Fund is invested in very short dated treasury bills, short term fixed income and cash in order to give flexible liquidity to the investor.

Rebalancing

There is no regular rebalancing between the funds listed above. Doing so could lead to under or over hedging of the Scheme's liabilities.

Contributions into the Scheme and withdrawals of money will be allocated to / taken from the Sterling Liquidity Fund unless alternative advice has been received.

6. Prescribed Matters

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund manager listed in the Appendix.

Kinds of Investments

The Trustee may invest in the following asset classes (via the fund manager) on behalf of the Scheme:

- UK equities
- Overseas equities
- Corporate bonds
- Gilts (conventional and index-linked)
- Cash
- Overseas bonds
- Property
- Derivatives

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Securities Lending

The Trustee recognises that the fund manager may engage in securities lending in order to produce additional incremental returns, subject to prudential supervision rules as detailed in the fund manager's prospectus.

Balance between Investments

The Trustee recognises the advantages of diversification between UK and overseas investment in equities from the perspective of:

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

Risk

The Trustee pays close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. He believes that the investment policies to be followed by their investment manager do have adequate regard for the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004, trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below.

- **Solvency / funding risk:**
  - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
  - is measured using an Asset Liability Model from the investment consultant.
  - is monitored in quarterly reports from the investment consultant.

- **Manager risk:**
  - is managed through selecting funds with a suitable target level of risk, and that the investment consultant has deemed the manager's risk controls as acceptable.
  - is measured and monitored from quarterly reports from the fund manager and the investment consultant.

- **Liquidity risk:**
  - is managed by ensuring that the majority of the pooled funds used by the Scheme are liquid.

- **Political risk:**
  - is managed by investing globally.

- **Sponsor risk:**
  - is managed via the actuarial valuation process.
  - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustees.

Expected Return on Investments

Gilts (index-linked or otherwise) are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustee bases their expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, he expects the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Emerging market equities	+4.0%
Diversified Growth Funds	+3.0%
Corporate bonds	+1.0%
Cash	-0.2%

Realisation of Investments

The Scheme's assets are invested in the investment manager's pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustee concludes that the Scheme's investments can be realised at short notice if necessary.

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. He acknowledges that he cannot directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest. The Trustee also acknowledges that where passive pooled vehicles are employed ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustee believes that ESG factors can have material impacts on both the investment risk and return of its investments and good stewardship of the Scheme's investments is an important factor in helping to create and preserve capital. In particular, long-term sustainability issues, particularly climate change, present both risks and opportunities and these will require ongoing consideration.

The Trustee has delegated the day to day investment of Scheme assets to one fund manager - LGIM. The Trustee has an expectation that the manager will evaluate ESG factors, where possible, including climate change considerations and stewardship obligations in line with the prevailing best practice.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustee views that the stewardship responsibilities attached to the ownership of shares is important but recognises that investment in pooled funds limits their ability to be fully involved. The Trustee expects their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

On 6 June 2019, the Government published *the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations* which expand the requirements for Statements of Investment Principles such as this. To be compliant with these regulations by 1 October 2020, the Trustee has set further ESG policies.

The Trustee's policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the Trustee's policies, including risk, return and ESG.**

The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.
The only incentivisation that the Trustee can exert is through the decision to retain or to liquidate their holdings in each fund.
The investment strategies of the pooled funds are aligned to the Trustee's investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustee maximises the probability of its investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the Trustee's policies.**
  The Trustee receives quarterly reports from the fund managers and biannual analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. For the funds which are passively managed, the performance is expected to be broadly in line with the relevant benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustee.

  In selecting pooled funds, the Trustee and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

  Fund managers need to give the Trustee notice if they plan to change the level of the fees. If this occurs, the Trustee seeks advice from its investment consultant on whether to retain or replace the manager.

- **How the Trustee monitors portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**
  Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustee and its investment consultant analyse are net of transaction cost, so this is taken into account indirectly.

The Trustee does not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager.**
  In order to maintain an incentive for the fund manager to performance well, the Trustee does not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustee has confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

Appendix: Third Party Arrangements

Advisors

The following advisors assist the Trustee:

Scheme Actuary
Tom Whiteley
Deloitte Total Reward & Benefits Ltd
Satire Court
20 Castle Court
Edinburgh EHI 2DB

Auditor
Baker Tilly UK Audit LLP
25 Farringdon St
London EC4A 4AB

Pension Consultant & Administrator
Deloitte Total Reward & Benefits Ltd
Lincoln Building
27-45 Great Victoria Street
Belfast BT2 7SL

Investment Consultant
Barker Tatham Investment Consultants Ltd
AMP House
Dingwall Road
Croydon CR0 2LX

Fund Managers

The Trustee has appointed the following fund manager:

Legal & General Investment Management
One Coleman Street
London EC2R 5AA