

Swan Mill Paper Company Limited Retirement Benefits Plan

Money Purchase Section

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Swan Mill Paper Company Limited Retirement Benefits Plan (“the Plan”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
- Subsequent legislation.

The Plan is a hybrid scheme consisting of defined benefit benefits (the Final Salary Section) and defined contribution benefits (the Money Purchase Section). This Statement is intended to affirm the investment principles that govern decisions about the investments of the Plan’s Money Purchase Section, which is now closed to new entrants and future contributions. The principles regarding the Final Salary Section are set out in a separate document.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (the “Investment Advisor”) who is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended) and subsequent legislation.

In addition, consultation has been undertaken with the sponsoring Company, to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan’s investment arrangements and, in particular on the Trustees’ objectives.

2. Process for Choosing Investments

The Trustees have considered their objectives for investing the Plan’s assets which are shown below in section 3.

The Trustees consider the characteristics of the Plan’s members and their associated investment needs when choosing which investments to make available.

The range of funds offered include those which offer the prospect of growth which exceeds the rate of inflation in the long term, as well as funds that provide greater protection against volatile market values, or against changes in the cost of securing benefits.

3. Investment Objectives

The Trustees' principal objective is to offer members reasonable choice over how funds are invested on their behalf so that they can tailor their choice to suit their own objectives and circumstances.

Specifically, the Trustees have chosen a concise range of funds designed to enable members to achieve the following objectives:

- Positive long-term real rates of return
- Increasing protection for members' accumulated assets in the years approaching retirement against:
 - a. Sudden (downward) volatility in the capital value;
 - b. Fluctuations in the cost of taking retirement benefits in the member's chosen form.

The Trustees have also provided members with a default investment option for those who do not wish to implement their own investment strategy. As the Money Purchase Section of the Plan is now closed to new entrants and future contributions, the "default investment option" refers to the strategy that contributions were previously invested in, if members did not make their own choices. Accumulated member assets remain in this strategy.

4. Risk Management and Measurement

The Trustees have considered the following risks:

- **Market risk:** the risk that the markets in which the funds invest perform poorly such that the investment objectives are not met. The Trustees acknowledge that some market risk is required to generate long term returns. Ongoing monitoring is undertaken to ensure that the stated exposures to market risks are taken.

The Trustees also manage this risk through offering members sufficient choice of investment vehicles to manage their own risks, and communicating to members the importance of appropriate fund choices regularly.

- **Manager risk:** the risk that the appointed fund managers perform poorly relative to the markets in which they invest, or their performance prospects deteriorate leading to the need to select a new fund manager.

The Trustees have chosen to offer members actively managed investment funds in the expectation that, in the long term, active management will add value. To monitor this risk, the Trustees assess the performance and performance prospects of the funds, relative to relevant market benchmarks and / or each fund's objectives, on a regular basis both in terms of performance and performance volatility.

- **Liquidity risk:** the risk of members not being able to realise their investments. The Trustees have invested in unitised pooled funds which are dealt daily and are kept separate from the assets of the Company and investment manager.
- **Default option risk:** the risk that the investment profile of the default investment option is unsuitable for the requirements of some members. Further details regarding this risk and its management are provided in Section 6.

The Trustees monitor these risks regularly in a proportionate manner, recognising that the Money Purchase Section is now closed to new monies.

5. Investment Strategy

Each member is free to choose their own investment strategy in accordance with their individual objectives, through appropriate selection of the funds made available by the Trustees.

Prior to the closure of the Money Purchase Section, the Trustees also provided a default investment option for investment of contributions where members did not select their own funds. Accumulated holdings remain invested in this default option. Details are provided in the following Section.

6. Default Investment Option

The aims of the default investment option, and the ways in which the Trustees seek to achieve these aims, are detailed below:

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

The default investment option's growth phase invests in the UK Equity Fund, an actively managed fund investing in equities listed on the UK stock exchange. Equity investment is expected to provide growth over the long term with some protection against inflation erosion, albeit with a relatively high degree of volatility.

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

As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Hence, five years before their retirement date, the investments of members in the default investment option are switched to the Annuity Purchase Fund (which invests in bonds) and the Sterling Fund (which invests in money market instruments). This approach has been selected to seek to broadly match annuity price movements, with an allowance for members taking a portion of their savings as tax-free cash benefits.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take 25% cash at retirement (reflecting current tax-free cash rules) and to use the balance to buy a fixed annuity.

By the start of the year of their expected retirement, members' accumulated savings in the default investment option will be invested such that 25% of the portfolio is held in the Sterling Fund, with the balance in the Annuity Purchase Fund.

Policies in relation to the default investment option

- The default investment option manages investment and other risks throughout a member's working lifetime via a strategic asset allocation consisting of equities, fixed income assets and money market instruments. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees have considered the trade-off between risk and expected returns.

- Assets in the default investment option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used operate daily dealing cycles.
- Assets are invested on regulated markets.
- The investment manager also has discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

Based on the Trustees' understanding of the Scheme's members, an investment strategy that targets taking a tax-free cash lump sum up to 25% of a member's pot and buying an annuity at retirement is expected to be broadly appropriate 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 investment strategy that will be in place pre-retirement.

Members have the option of choosing their own investment strategy.

The Trustees will continue to review the default investment option, and more strategically at least triennially, or after significant changes to the membership demographic, if sooner.

The Trustees review investment performance and risk on an ongoing basis, and take professional advice as appropriate.

The Trustees believe that this strategy meets the investment objective outlined in Section 3 and controls the risks identified in Section 4.

7. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to an investment manager, Standard Life Aberdeen plc. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Plan's investments and that it is carrying out its work competently.

The Trustees have determined a benchmark mix of asset types and ranges within which the investment manager may operate.

The Trustees regularly review the continuing suitability of the Plan's investments, including the appointed manager. However, any such adjustments would be done with the aim of ensuring consistency with Section 3.

8. Expected Return

The Trustees offer members a range of funds with different expected risk and return levels, in order to allow individuals to tailor their choices to suit their own objectives and personal circumstances. Expectations for the default investment option are detailed in Section 6.

9. Additional Assets

Members of the Plan have previously had the opportunity to pay Additional Voluntary Contributions, which remain invested and can be used to increase pension benefits at retirement, or in the event of death.

10. Realisation of Investments

The Plan's investment manager has discretion in the timing of realisation of investments within funds and has responsibility for generating cash as and when required for benefit payments.

11. Investment Manager Arrangements

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 in which they invest.

The Trustees consider its Investment Adviser's forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on an assessment of the manager's idea generation, portfolio construction, implementation and business management in relation to the particular investment fund that the Plan invests in.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

As the Trustees invest 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 have been selected to align with the overall investment strategy.

The Trustees receive performance reports from the investment managers on at least an annual basis, which present performance information over 1 year, 3 years and 5 years. For each fund, the Trustees review the absolute performance, relative performance against a suitable index (where appropriate) used as the benchmark, and against the manager's stated target performance (over the relevant time period). The Trustee's focus is on long term performance but may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager; or
- There is a significant change to the Investment Consultant's rating of the manager.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. The Trustees review the investment manager fees as part of the annual Value for Members' assessment.

12. Portfolio Turnover

The Trustees consider portfolio turnover costs as part of the annual value for money assessment.

The Trustees recognise that members invest for retirement over a long time horizon, hence the Trustees are not looking to change investment arrangements on a frequent basis. All the funds are open-ended with no set end date for the arrangements. The fund range and default investment option are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default investment option or general fund range.

13. Environmental, Social and Governance (ESG) Factors, Stewardship and Climate Change

The Trustees believe that ESG factors 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration.

The Trustees have given the Plan's investment manager full discretion in evaluating ESG factors, including climate change considerations, and the exercising of voting rights and stewardship obligations attached to the Plan's investments. This will be done in accordance with the investment manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. Equity managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees increasingly consider how ESG, climate change and stewardship is integrated within investment processes when monitoring the investment manager, investing in new investment products or appointing new investment managers.

The Trustees will also consider the Investment Advisor's assessment of how the managers embed ESG into their investment processes and how the managers' responsible investment philosophies align with the Trustees' responsible investment policy. This includes the managers' policies on voting and engagement. The Trustees will use this assessment to inform decisions around selection, retention and realisation of manager appointments.

The Trustees will review the managers' ESG policies and engagement activities (where applicable) at least annually. The Trustees can regularly review the decisions made by the investment manager, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best medium to long-term performance.

14. Member Views and Investment Restrictions

Members have a variety of methods by which they can make views on financial and non-financial matters known to the Trustees. The Trustees will reflect on any views expressed by members, as deemed relevant, in their discussions on the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions on the investment manager in relation to particular products or activities, but keep this position under review and may re-consider this in the future.

15. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually and will monitor compliance by investment managers to the investment principles in this Statement where relevant so far as reasonably practicable, and whether in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

16. Monitoring

Investment Performance – the Trustees review the performance of each investment option offered through the Plan against the stated Investment Objective. The investment manager’s overall suitability for each mandate will be monitored as frequently as the Trustees consider appropriate in light of both its performance and other existing circumstances.

Objectives- the Trustees monitor the suitability of the Investment Objectives for the Plan as detailed in section 3 and performance against these objectives at least every three years and without delay after any significant change in investment policy.

Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

17. Agreement

This Statement was agreed by the Trustees, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Plan auditor upon request.

Signed..... *Graham Rogers*

Date..... *17/09/2020*

Signed..... *Penny Cogher*

Date..... *17/09/2020*

For and on behalf of the Trustees of the Swan Mill Paper Company Limited Retirement Benefits Plan

APPENDIX – SUMMARY OF UNDERLYING INVESTMENT FUNDS

The following table summarises the underlying pooled investment funds used within the Money Purchase Section.

Standard Life Aberdeen Fund	Investment Objective	Benchmark
UK Equity Pension Fund	To provide long term growth for investors seeking exposure to the UK equity market by investing in a diversified portfolio of UK equities. The fund invests predominantly in shares of large and medium sized companies listed on the UK stock market and is actively managed.	ABI (Pension) UK All Companies Sector
Overseas Equity Pension Fund	To provide long term growth for investors seeking exposure to global (ex UK) equity markets. The fund invests predominantly in the shares of companies listed on the global stock markets and is actively managed.	ABI (Pension) Global Equities Sector
Stock Exchange Pension Fund	To provide long term growth whilst investing in a diversified portfolio of assets (including equities, bonds, cash deposits and money-market instruments) in order to reduce the risk associated with being solely invested in any one asset class. These assets can be from both the UK and overseas. The fund is predominantly equity based and is actively managed.	ABI (Pension) Mixed Investment 40-85% Shares
At Retirement (Multi Asset Universal) Pension Fund	To help ensure that investors' money is in investments which are considered appropriate at their retirement date, if they have yet to decide how they are going to take their retirement income or if they want to take a flexible income (drawdown). It is used as part of a lifestyle profile and is not suitable as a standalone fund or part of a self-select portfolio. Funds are held that can invest in a range of different investments including, but not limited to, bonds, equities, commercial property and cash. These investments can be from around the world, which means that some of them may be in a foreign currency.	Not applicable
Annuity Targeting Pension Fund	For investors approaching retirement and considering purchasing a fixed annuity, the fund aims to reduce the effect of changes in long term interest rates on the value of annuity that can be purchased. The fund invests predominantly in bonds whose prices are normally expected to rise and fall broadly in line with the cost of purchasing an annuity.	Not applicable
Money Market Pension Fund	To maintain capital and provide returns in line with money market rates, before charges. The fund invests in a portfolio of money market instruments including bank and building society deposits, certificates of deposits, floating rate notes and asset backed securities where, when purchased, repayment is within 2 years.	Sterling Overnight Interbank Average Index