Essentra Pension Plan

Statement of Investment Principles – November 2022

1. Introduction

The Trustee of the Essentra Pension Plan (the "Plan") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Trustee has consulted a suitably qualified person by obtaining written advice from an independent investment consultant, Mercer Ltd, which is regulated by the Financial Conduct Authority ("FCA"). The Trustee, in preparing this Statement, has also consulted with Essentra Plc ("the Company") as the sponsor of the Plan.

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 - 11 are relevant to all Sections. Both of the DB Sections are closed to future accrual of benefits.

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day-to-day management of the assets, which is delegated to professional investment managers.

This Statement sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Policy Implementation Document ("IPID"), which should be read in conjunction with this Statement.

The Trustee, when considering appropriate investments for the Plan, obtained advice from their investment consultant whom the Trustee believes is suitably qualified to provide such advice, and that the advice given satisfies the requirements of Section 36 of the Pensions Act 1995 (as amended). The Trustee has also consulted with the employer ("the Company") prior to writing this Statement and has considered their recommendations, and will take the Company's comments into account when they believe it is appropriate to do so. Where matters described in this Statement may affect the Plan's funding policy, input has also been obtained from the Scheme Actuary.

The Trustee believes that the SIP aligns with the rules of the three Plan Sections and its investment policies and their implementation are in keeping with best practice, including the principles underlying the Pensions Regulator's DC Code of Practice No 13. As required by UK legislation, the Trustee has also prepared a Statement of Investment Principles ("SIP") in respect of the DC Sections' default lifestyle investment strategy. Please see the Appendix for the DC default SIP.

2. Defined Benefit Sections: Investment Objectives and Risk

2.1 Investment Objectives

The Trustee believes its prime duty regarding the DB Sections is to endeavour to ensure that Plan members receive their promised benefits. To that end, the Trustee's approach to investment involves considering first the least risk approach in terms of investment strategy, and second the attitude of the sponsoring Company towards investment risk.

In this context, a least risk approach relates to considering, initially, the liabilities discounted using gilt yields. However, this is balanced against the other objectives discussed below.

The Trustee has discussed investment strategy with the Company and in doing so has taken into account the current investment return assumptions implicit in the actuarial valuations. The Trustee has sought to achieve a balance between minimising risk and helping the Company to keep the reported costs of providing the pension benefits to a level acceptable to the Company.

To that end the Trustee has a medium term objective of achieving a return that is at least in-line with the assumptions underlying the actuarial valuations and Recovery Plans.

2.2 **Risk**

The primary investment risk upon which the Trustee focuses is that arising through a mismatch between each of the DB Sections' assets and their corresponding liabilities.

In 2022, the Trustee secured all of the outstanding liabilities in respect of the Essentra Senior Section with an insurer, by way of a buy-in contract. The buy-in contract is an asset of the Plan and therefore the Trustee retains ultimate responsibility for paying members' benefits. However, the buy-in contract is designed to match the payments promised to members over the full life of the Essentra Senior Section, thereby minimising the mismatch between the Essentra Senior Section's assets and liabilities.

With regard to the Essentra Section, the Trustee recognises that, with the development of modern financial instruments, it would be possible to select investments that are similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within the level of contributions that the Company has indicated it is willing to make, the Trustee has agreed to take investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide, whilst maintaining a prudent approach to meeting the Plan's liabilities.

Before deciding to take investment risk relative to the liabilities, the Trustee received advice from the investment advisor and Scheme Actuary, and held discussions with the Company. In particular, the Trustee considered carefully the following possible consequences:

- That the assets might not achieve the excess return relative to the liabilities anticipated over the longer term. This would result in a deterioration of the Plan's financial position and consequently higher contributions from the Company than are currently expected.

- That the relative value of the assets and liabilities will be more volatile over the short term than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Plan. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.

- That volatility in the relative value of the assets and liabilities may also increase the short-term volatility of the Company's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute appropriately to the Plan. The financial strength of the Company and its perceived commitment to the Plan is monitored and the Trustee will reduce investment risk relative to the liabilities should either of these deteriorate.

The degree of investment risk the Trustee is willing to take also depends on the financial health of each DB Section of the Plan and their respective liability profiles. The Trustee monitors these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

In addition to this primary investment risk, the Trustee also recognises a number of secondary investment risks, in particular:

- The risk that may arise from the lack of diversification of investments and that associated with holding unsuitable investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.

- For some asset classes, the Trustee may choose to employ active management. The Trustee will select investment managers whom they believe have the skill and judgement to add value to net of fees in such cases. Active management gives rise to manager selection risk, which arises due to the potential for selecting an active manager that underperforms its benchmark net of management and transaction fees.

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

- Inflation risk – similar to interest rate risk but concerning inflation.

- Credit risk – the risk that payments due to bond investors might not be made.

- Currency risk – the risk that the value of the overseas assets changes relative to the Sterling based liabilities due to exchange rate fluctuations.

- Equity market risk – the risk that equity values fluctuate.

- Concentration risk – the risk arising when a high proportion of the Plan's assets are invested in securities of the same or related issuers.

- The risk that the returns of certain asset classes and sectors may be significantly affected by climate change and Environmental, Social and Governance ("ESG") risks. The Trustee takes ESG and climate risk into account in the selection, retention and realisation of the Plan's investment managers.

The investment strategy and manager structure has been designed to meet the Trustee's main objectives and to control the risks identified above.

The items listed in this Section are in relation to what the Trustee considers 'financially material considerations' for the DB Sections. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the Plan level. This will be dependent on the liability profile of the Plan's DB sections, including their average durations.

2.3 Strategic Asset Allocation

The risk budget is a measure of the potential variation in the return on the assets compared to the change in the value of members' benefits (the liabilities). The higher the risk budget, the more risk the Trustee runs of falls in the DB Sections' funding levels, but the higher the expected return on the assets.

The Trustee considers that the division of assets together with the manager structure provides a suitably diversified overall portfolio.

Details of the investment strategy, manager structure and cashflow policy can be found in the IPID.

2.4 Day to Day Management of the Assets

The Trustee believes active managers can add value but that it is prudent not to rely wholly on active management, thus the Trustee employs a mixture of active and passive management.

The Trustee delegates the day to day management of the assets to a number of investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

The investment advisor provides regular comment on the returns achieved by the appointed managers. In addition, the investment advisor reports to the Trustee on events which it believes might affect future performance of the investment managers. The Trustee receives quarterly written reports from the investment advisor and investment managers. The Trustee meets the managers to discuss their performance, activity and other issues at least annually.

The safe custody of the Plan's assets is delegated to professional independent custodians (either directly or via the use of pooled vehicles).

Further details of the appointed managers and custodians, as well as the Trustee's rebalancing policy, can be found in the IPID.

2.5 Realisation of Investments

The underlying investment managers selected by the Trustee have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

3. Defined Contribution ("DC") Section

3.1 Investment Objectives

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:

a. 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;

b. 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;

c. Providing general guidance as to the purpose of each investment option;

d. Encouraging members to seek independent financial advice from an appropriate party in determining the most suitable strategy for their individual circumstances;

e. 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.

3.2 **Risk**

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 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 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 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. 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 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. 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.
Counterparty Risk A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.	Delegated to external investment manager. 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.

Risk	How it is managed	How it is measured
Currency Risk 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. Delegated to investment managers. 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. Considers the movements in foreign currencies relative to pound sterling
Operational Risk A lack of robust internal processes, people and systems.	The Trustee maintains a risk register. 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 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 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. The majority of investment managers invest solely in liquid quoted assets.	The Trustee monitors performance of funds on a quarterly basis.
Environmental, Social and Governance Risk 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. The Trustee's policy on ESG risks is set out in Section 9 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 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. 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. 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.

3.3 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 appendix at the end of this document expands upon the objectives, strategy and suitability of the default arrangement.

3.4 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.

3.5 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.

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")**

The Trustee also makes available to members a range of options for the investment of AVCs.

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. **Role of Investment Consultant**

The Trustee has employed an independent investment consultant to advise on the investments of the Plan. The role encompasses, but is not limited to, the following areas:

- Assistance in helping the Trustee formulate investment objectives.
- Advice on investment strategy and investment options.
- Advice on devising an appropriate investment manager structure.
- Assistance in selecting, implementing and monitoring investment managers.

8. **Implementation and Engagement Policy**

The table below sets out the Trustee's approach to implementation and engagement. The list covers both the DB Sections and 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. 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. 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. 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. 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. 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 performance in the medium to long-term.	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. 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. 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. 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 does not currently actively monitor portfolio turnover costs within the DB Section. The investment managers' performance objectives are set net of transaction costs and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask all of the managers to report on portfolio turnover costs. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager's fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

	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. All the funds are open-ended with no set end date for the arrangement. 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 strategy or the self-select fund range. This is independent of time.

9. Responsible Investment and Corporate Governance

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 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 footprinting for equities.

The Trustee reviews the ESG rating provided by Mercer as part of the Plan's regular quarterly performance reporting. A change in ESG rating does not mean that the fund will be removed or replaced automatically. The Trustee will ask managers to comment on these areas when they present from time to time at meetings.

9.1 Non-financial considerations and member views

Non-financial considerations, including members' ethical views (when expressed) may be taken into account in the selection, retention and realisation of investments.

9.2 Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The Trustee reviews an annual stewardship monitoring report, which includes details of voting and engagement activities associate with each of the funds invested in. The Trustee will challenge manager decisions that appear out of line with the investment fund's objectives or the objectives/policies of the Plan.

The Trustee reviews the equity investment managers' compliance against the UK Stewardship Code on an annual basis.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to review the appointment.

10. Compliance with this Statement

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

The Trustee will review this Statement in response to any material changes to any aspect of the DB Sections' liabilities, finances and the attitudes to risk of the Trustee and the Sponsoring Company, which it judges to have a bearing on the stated investment policy. Any such review will again be based on expert investment advice and the Trustee will consult the Company.

11. Review of this Statement

The Trustee will review this Statement at least once 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 Trustee reasonably believes 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 plan investments.

Approved: ……………………………………………….. **Date:** 13th December 2022 …………………………...
Trustee Director

Approved: E M Fallon ……………………………………………….. **Date:** 13th December 2022 …………………………...
Trustee Director

Appendix - Statement of Investment Principles – Default Option for the DC Sections

1. **Introduction**

1.1 The Trustee of the Plan has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and subsequent legislation, relating to provision of information specific to default investment, referred to as "Default Arrangement", in respect of the DC Section of the Plan. This should be read in conjunction with the main Statement.

2. **Principles**

2.1 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.

2.2 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.

2.3 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.

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

3. **Default Arrangement**

Objectives

3.1 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

3.2 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

4. Risk

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 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 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. 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). As part of the triennial default strategy review, the Trustee ensures the default destination remains appropriate.
Market Risk 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. 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 A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.	In line with the main DC section. 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.
Currency Risk 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. 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. Considers the movements in foreign currencies relative to sterling

Risk	How it is managed	How it is measured
Operational Risk A lack of robust internal processes, people and systems.	In line with the main DC Section. 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 Assets may not be readily marketable when required.	In line with the main DC Section.	In line with the main DC Section.
Valuation Risk 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. 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 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. The Trustee's policy on ESG risks is set out in Section 9 of this Statement.	In line with the main DC Section.
Manager Skill / Active Manager Risk Returns from active investment management may not meet expectations, leading to lower than expected returns to members.	In line with the main DC Section. 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.

5. **Suitability of Default Investment Strategy**

5.1 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.

5.2 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.

5.3 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.

5.4 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.

5.5 The Trustee's Implementation and Engagement Policy, as outlined in Section 8 of the main Statement, also applies to the default option for the DC Section.