Tessenderlo UK Group Pension Scheme

Statement of Investment Principles

September 2020

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1. Introduction

Scheme Background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Tessenderlo UK Group Pension Scheme (the “Scheme”).
- The Scheme:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
  - provides benefits calculated on a defined benefit basis.
- Buck is the investment consultant to the Trustees.

Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Scheme’s compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that was recommended by the Myners Principles and is now included in a strengthened Statement.

2. Statutory Information

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the sponsoring employer.

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

- The investment manager will prepare detailed quarterly reports on their activities and the Trustees will meet with them periodically.

- This Statement will be reviewed periodically (at least every three years) or whenever changes to the investment strategy or investment manager are made. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal and/or appointment of the investment manager.

- All of the Scheme's investment decisions are under the control of the Trustees, with no constraint by the sponsoring employer. All investment decisions are taken by the Trustee Board as a whole. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.

Statutory requirements

- This part of the Statement details the Trustees' policy to secure compliance with the requirements of sections 35 and 36 of the Pensions Act 1995.

Investment objectives and suitability of investments

- The Trustees' agreed investment strategy is based on an analysis of the liability profile of the Scheme, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values demonstrate higher volatility. The Trustees are prepared to accept this higher volatility to some extent, however, by diversifying the portfolio the expected short term volatility has been reduced.

- The Trustees' primary objective is to operate an investment strategy that provides appropriate security for all beneficiaries.

- The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the appendices.

- In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to the investment manager authorised under the Act. Details are included in the appendices.

- The Trustees consider their current strategic asset allocation to be consistent with the Scheme's current financial position.

Diversification

- The Trustees, after seeking appropriate investment advice, have selected a strategic asset allocation benchmark as set out in Appendix 1.

- Subject to the respective benchmarks and guidelines the investment manager has been given full discretion over the choice of stocks and is expected to maintain a diversified portfolio.

- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Scheme, the Trustees have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with the investment manager.

- The Trustees are satisfied that the range of pooled vehicles in which the Scheme's assets are invested provides adequate diversification.

Balance between different kinds of investments

- The appointed investment manager will hold a diversified mix of investments in line with its agreed benchmarks. Within each major market, the manager will maintain a diversified portfolio of stocks within pooled vehicles.

Risk

- The Trustees consider the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due.

- The investment strategy has been determined in light of achieving an excess of the value of the assets over the value placed on the liabilities of the Scheme, and of the need to avoid undue volatility in the funding level and therefore contribution rate. Taking into account the expected returns required to meet the Trustees' return requirement resulted in the strategy outlined in Appendix 1 being determined.

- Although the Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, they also recognise other contributory risks, including the following. The risk:
  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;
  - of the Scheme having insufficient liquid assets to meet its immediate liabilities;
  - of the investment manager failing to achieve the required rate of return;
  - due to the lack of diversification of investments;
  - of failure of the Scheme's sponsoring employer.
- The Trustees manage and measure these risks on a regular basis, i.e., approximately every three years, via actuarial and investment reviews, and in the setting of investment objectives and strategy.
- Monitoring of the investment manager's performance against their target and objectives on a regular basis is undertaken by the Trustees with the aid of their investment consultant from time to time – usually via an analysis of the investment manager's quarterly report.
- The Trustees have signed a legal agreement with their investment manager which details the specific performance targets (as set out in Appendix 1). Within each asset class, the investment manager is expected to maintain a portfolio of securities, which ensures that the risk being accepted in each market is broadly diversified.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long-run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

Kind of investments to be held

- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, bonds and cash, via pooled investment vehicles that are considered to be appropriate for tax-exempt registered UK occupational pension schemes. The Trustees have considered the attributes of the various asset classes, these attributes are set out overleaf:

  - security (or quality of the investment)
  - yield (expected long-term return)
  - spread (or volatility) of returns
  - term (or duration) of the investment
  - exchange rate risk
  - marketability/liquidity (i.e., the tradability on regulated markets)
  - taxation

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustees require the investment manager to be able to realise the Scheme's investments within a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

Financially material considerations

- The Trustees expect their investment manager, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees have been provided with the investment manager's policies in respect of financially material considerations and are satisfied that these are consistent with the above approach.
- The Trustees will take into account the managers' ESG policies when appointing and reviewing investment managers.

Non-financial matters

- The financial interests of the members is the Trustees' first priority when choosing investments. The Trustees will take members' preferences into account if they consider it appropriate to do so.

Stewardship in relation to the Scheme's assets

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment manager.

Engagement and monitoring

- The Trustees’ policy is to delegate responsibility for engaging and monitoring investee companies to the investment manager and the Trustees expect the investment manager to use its discretion to maximise financial returns for members and others over the long term.

Voting rights

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager and to encourage the investment manager to exercise those rights. The investment manager is expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing investment managers.

Additional voluntary contributions (“AVCs”)

- The Scheme provides a number of facilities for existing AVC funds that enhance individuals’ benefits at retirement. The Trustees’ objective is to provide vehicles that enable these members to generate suitable long-term returns, consistent with their reasonable expectations.

- The Trustees also consider that, in making a restricted number of funds available from the chosen providers, they have provided these members with a range of options to meet their reasonable expectations.

- The investment funds are provided by Aegon, Aviva, Prudential and Standard Life.

- The appointment of the AVC providers and the choice of AVC funds offered to members will be reviewed by the Trustees in accordance with their responsibilities, based on the result of their monitoring of performance and process.

- The Trustees will measure performance of the AVC providers in the light of its performance relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options as measured in industry AVC surveys.

The Trustees’ policy in relation to their investment manager

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees’ policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees’ policies

- The Trustees have delegated the day to day management of the Scheme’s assets to an investment manager. The Scheme’s assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment manager to adhere to their stated policies and objectives.

How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultant, appoint their investment manager and choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment manager makes decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve their performance (and thereby the Scheme’s performance) over an appropriate time horizon.

- The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

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 Trustees’ investment policies

- The Trustees expect their investment manager to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustees review the investment manager periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustees determine that the investment manager is no longer managing the assets in line with the Trustees’ policies they will make their concerns known to the investment manager and may ultimately disinvest.

- The Trustees pay their investment managers a management fee which is a fixed percentage of assets under management.

- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment manager used by the Scheme.

- The Trustees expect turnover costs of the investment manager to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment manager should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with their investment manager and instead retain the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

3. Myners Principles

The original Myners review of “Institutional Investing in the UK” was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications on 2 October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues were included in the Statement.

The Myners Principles were subsequently reviewed in October 2008; the explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for Trustees to act in a transparent and responsible manner. By making the following statements the Trustees believe that they are complying with the spirit of these principles.

Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Scheme’s investments are included in Section 2.

Transparency & reporting

The Trustees have discretion over the form of reporting they wish to undertake. This Statement provides the following details of the Trustees’ investment approach:

- Who is taking which decisions and why has the structure been selected?

  Details of the Trustees’ decision making structure are included in Section 2.

- What is the Trustees’ investment objective?

  Details of the Trustees’ investment objectives are included in Section 2, with the appointed investment manager’s specific objectives set out in Appendix 1.

- What is the Trustees’ asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected?

  Details of the Trustees’ asset allocation strategy are included in Appendix 1. The strategy was determined after taking advice from the investment consultant and consultation with the sponsoring employer and the Scheme Actuary.

- What are the mandates given to all advisers and the investment manager?

  The responsibilities of the Trustees, the investment consultant and the investment manager are outlined in Section 3, while the investment manager's mandates are specified in Appendices 1 and 2.

- What is the nature of the fee structures in place for all advisers and the investment manager; and why this set of structures has been selected?

  Details of the fees charged by the investment manager and the investment consultant are included in Appendix 2. The Trustees have discussed and agreed these fees following consultation with their advisers, where appropriate, and believe they are reasonable for the services they receive.

Appointments & responsibilities

Trustees

The Trustees' primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the sponsoring employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment manager(s).

- Appointing an investment consultant and investment manager(s) as necessary for the good stewardship of the Scheme's assets.

- Reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant and the Scheme Actuary.

- Assessing the processes (and therefore the performance) of the investment manager by means of regular, but not less than annual, reviews of information obtained (including investment performance).

- Monitoring compliance of the investment arrangements with this Statement on a regular basis, anticipated to be annually.

- Monitoring risk and the way in which the investment manager cast votes on behalf of the Trustees in respect of the Scheme's equity holdings within the diversified pooled vehicle.

Investment consultant

The main responsibilities of the investment consultant include:

- Assisting the Trustees in the preparation and periodic review of this Statement in consultation with the sponsoring employer (not less than every three years).

- Undertaking project work including reviews of the investment strategy, investment manager structure and their performance as required by the Trustees.

- Advising the Trustees on the selection and review of the investment manager.

- Advising upon where contributions should be invested/divested as and when requested.

Investment manager

The investment manager's main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.

- Ensuring that investment of the Scheme's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.

- Attending meetings with the Trustees as and when required.

- Informing the Trustees of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur.

- Exercising voting rights on share holdings in accordance with their general policy.

Custodian

- The custodianship arrangements are those operated by the investment manager for all clients investing in their pooled fund(s) which is Bank of New York.

Administrators

- The Scheme's administration is carried out by Buck.

Scheme Actuary

The Scheme Actuary’s main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme’s funding level and therefore the appropriate level of contributions in order to aid the Trustees in balancing short/medium and long-term investment objectives.

Performance monitoring

- Each of the vehicles in which the Scheme invests has a stated performance objective by which the performance is measured.
- The investment manager is expected to provide a written report to the Trustees on a quarterly basis.
- The Trustees will review the performance of the appointed investment manager on a quarterly basis, along with reasons for this performance.

Signed on behalf of the Trustees of the

Tessenderlo UK Group Pension Scheme

Name	Signature	Date

Appendix 1 – Strategic Benchmark & Objectives

Scheme's current asset allocation

The Scheme's long term target asset allocation is tabulated below, noting that all of the assets are invested with Baillie Gifford:

Pension Fund	Long Term Target Asset Allocation (%)
Managed	32
Diversified Growth	30
Investment Grade Bond	38
Total	**100**

It is anticipated that the actual allocation to the various funds will vary over time as investment market conditions change.

Cash in/outflow will be utilised pragmatically to help realign the actual asset allocation to the long term target asset allocation as set out above.

Benchmarks & performance objectives

Benchmark indices and relative performance objectives for each of the funds in which the Scheme is invested are outlined below.

Pension Fund	Benchmark Index/Objective
Managed	To achieve capital growth over rolling five-year periods.
Diversified Growth	Bank of England Base Rate +3.5% p.a. (net of fees) over rolling 5 year periods with annual volatility of less than 10%
Investment Grade Bond	Outperform (net of fees) the ICE BofA Sterling non-Gilt Index by 0.5% p.a. over rolling 3 year periods

Appendix 2 – Fees

Investment manager fees

Pension Fund	Investment Style	Fee (% p.a.)
Managed	Active	0.45
Diversified Growth		0.65
Investment Grade Bond		0.25

The annual management charge ("AMC") at the standard rate for the Funds (as set out above) is deducted from the value of the Funds daily in calculating the unit price.

On an annual basis any difference between the AMC and the flat rate of 0.40% will be rebated in cash to the Trustees. This rebate will be based on the assumption that the percentage allocation invested in the Funds does not change significantly over the period. Baillie Gifford Limited reserves the right to review the discounted fee in light of changes to the percentage allocation.

The minimum AMC applied to the assets of the Scheme is £20,000 per annum. If relevant, the balance of any minimum fee will be invoiced annually for payment by the Scheme.

Investment consultancy fees

The investment consultant provides agreed services on a combination of a fixed fee and a time cost basis.

The basis of remuneration is kept under review.