

# **Umeco Plc Pension & Life Assurance Plan**

## **Statement of Investment Principles – April 2025 (replaces July 2024)**

### **1. Introduction**

ndapt Ltd (“the Trustee”) has drawn up this Statement of Investment Principles (“the Statement”) in its capacity as Trustee of the Umeco Plc Pension & Life Assurance Plan (“the Plan”). The Statement has been drafted to comply with the requirements of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments. This Statement replaces the previous version, dated July 2024.

In preparing this Statement the Trustee has consulted the Plan’s Sponsor, Cytec Engineering Materials Limited (“the Company”). The Trustee has also obtained and considered written professional advice from Mercer Limited, (“the Investment Consultant”) and believes that the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended).

### **2. Defined Benefit (“DB”) Section**

#### **2.1 Process For Choosing Investments**

The Trustee has considered its objectives for investing the Plan assets. Investment and funding objectives are considered together and in light of the Company covenant to ensure that the two are compatible and supportable. The Trustee makes all major strategic decisions including, but not limited to, the Plan’s asset allocation and the appointment and termination of investment manager(s).

The process for making investment decisions is as follows:

- identify appropriate investment objectives;
- agree the level of risk consistent with meeting the objectives; and
- implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

the Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Plan. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Plan, the Trustee has obtained and considered the written advice of Mercer Limited, whom the Trustee believe to be suitably qualified to provide such advice.

The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

## **2.2 Investment Objectives**

The objectives set out here, and the risks and other factors referenced are those that the Trustee determines to be financially material considerations in relation to the Plan.

the Trustee's primary objectives are to invest the Plan's assets in the best interests of the members and beneficiaries and pay due regard to the interest of the Company on the size and incidence of contribution payments, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of secondary objectives to help guide it in its strategic management of the assets and control of the various risks to which the Plan is exposed.

The secondary objectives are as follows:

- to maintain the Plan's funding position on an ongoing (i.e. Technical Provisions) basis and to achieve over the long-term, a return on the Plan's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Plan; and
- to meet its obligation to the beneficiaries of the Plan, including ensuring that sufficient liquid assets are available to meet benefit payments as they fall due.

Given the nature of the liabilities, the investment time horizon of the Plan is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Plan's investment horizon significantly.

The Trustee understands, following discussions with the Company, that the Company is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Plan's benefits.

## **2.3 Risk Management and Measurement**

- There are various risks to which any pension plan is exposed which the Trustee believes may be financially material to the Plan. The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

The Trustee's policy on risk management and measurement is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Plan's liabilities.

Key strategic investment risks that impact on Plan funding are as follows:

- Equity Market Risk – the risk that asset valuations fluctuate in an uncorrelated way with the value of the liabilities;
- Interest Rate Risk – the risk that changes in the value of the assets do not move in line with changes in 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 one party to a financial instrument will cause a financial loss to the Plan by failing to discharge an obligation.
- Currency Risk – the risk that foreign currency exposure causes asset valuations to fluctuate in an uncorrelated way with the value of the liabilities which are denominated in Sterling.
- Liquidity Risk – the risk that the Plan doesn't have sufficient liquid assets to meet payments.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 4.

To manage investment risks the Trustee has established an investment policy designed to reduce risk, without damaging the Plan's long term return prospects, using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk ("VaR").

In particular:

- Equity market risk is managed via the strategic allocation and by holding a diversified portfolio of companies globally by stock, sector and market region. Overseas currency risk resulting from equity investment may be partially hedged back into Sterling.
- The Trustee has also developed a Liability Driven Investment ("LDI") framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The LDI portfolio targets hedge ratios of 90% as a proportion of Technical Provisions liabilities for both interest rates and inflation, based on point in time modelling analysis that is refreshed periodically. The Trustee recognises that the target LDI portfolio will not produce a perfect match for the liability exposures it is aiming to hedge. Furthermore, the Trustee recognises that there are different measures for calculating the liabilities that may not be closely matched by the LDI assets held.
- The Plan's LDI portfolio is invested on a pooled fund basis. However, the underlying investments include derivative exposures that introduce other specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:
  - basis risk (the risk that the derivative invested in does not perfectly match the physical asset that the derivative has replaced);
  - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);

- recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);
- collateral and counterparty risk (the risk that the party with whom the LDI manager has contracted defaults and that any collateral is insufficient to make good any resulting loss);

These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks is low and/or the impact of them is low.

- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds that are predominantly of investment grade quality.
- Currency risk is managed through the total allocation to overseas markets and consideration of currency hedging.
- Regarding liquidity risk, the Trustee believes that the majority of the Plan's investments are realisable at short notice in most prevailing market conditions.

The Trustee recognises the following additional risks and takes the following steps to manage risk:

- Risks that may arise from the lack of diversification of 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 investment manager(s) appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The manager(s) are prevented from investing in asset classes not within their mandate without the Trustee's prior consent.
- Arrangements are in place to monitor the Plan's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets periodically with the Plan's investment manager(s) and receives regular reports from the investment manager(s) and investment consultant.
- The safe custody of the Plan's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).
- Across all of the Plan's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

Overall, the Trustee primarily measures and manages investment risk through the investment strategy (outlined in Section 2.5) and reviews the appropriateness of this strategy on a regular basis.

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 would expect to reduce investment risk relative to the liabilities should either of these significantly deteriorate.

The degree of investment risk that the Trustee is willing to take also depends on other circumstances, including the financial health of the Plan, the Plan's liability profile and investment time horizon. The Trustee will monitor these with a view to altering the investment objectives, risk tolerance and/or return target and asset mix, should there be a significant change in these factors.

## 2.4 Portfolio Construction

the Trustee has adopted the following principles on portfolio construction:

- There is a role for both **active and passive management**. Passive management involves employing investment managers to track the return of a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with the risk that they will underperform. By employing both the Trustee aims to take advantage of active management where it believes it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.
- Decisions on **segregated vs pooled investments** will be taken based on the particular circumstances, including the available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments. Investment exposure is currently obtained via pooled funds.
- At the total Plan level investments should be broadly **diversified** to ensure there is not a concentration of exposure to any one issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government debt. Appropriate diversification between markets will also be ensured.
- The amount invested in **highly concentrated portfolios** will take into account the level of risk this represents, in the context of the Plan's overall assets.
- The Trustee recognises that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Given the long-term investment horizon of the Plan, the Trustee believes that a degree of liquidity risk is acceptable because it expects to be rewarded for assuming it. The amount invested in illiquid investments, such as property or pooled property funds, will take into account the implications of not being able to readily liquidate a proportion of the Plan's investment on the operation of the Plan.
- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

- Investment may be made in securities that are **not traded on regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Plan are predominantly invested on regulated markets.
- The Trustee will not invest directly in the **Plan sponsor or associated companies**, but acknowledges that indirect investment is possible as a result of the investment policies of the Plan's pooled investment manager(s). The Trustee will invest in such a way that indirect exposure will not exceed 5% of total assets.
- **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustee as part of the onboarding process for new investments.

## 2.5 Investment Strategy

The Trustee has agreed, based on expert advice, an investment strategy that is consistent with its funding and investment objectives. The split of assets within each asset class (excluding any cash held separately to meet day to day cash flow requirements) will be as outlined in the table below. The Trustee believes that the investment risk arising from the investment strategy is consistent with the principles outlined in this Statement.

Fund	Target Allocation (%)
<b>Growth Assets</b>	<b>35.0</b>
Diversified Growth	35.0
<b>Matching Assets</b>	<b>65.0</b>
Corporate Bonds	32.5
LDI*	32.5
<b>Total</b>	<b>100.0</b>

\*LDI may include physical gilt and index-linked gilt holdings, as well as partially funded exposure to changes in interest rates and inflation through pooled vehicles with underlying exposure to derivative contracts including interest rate and inflation swaps, total return swaps and gilt repo. It may also include cash.

More detailed information on the Plan's investment arrangements, including manager benchmarks and control ranges is set out in the Statement of Investment Arrangements ("SIA") document.

## 2.6 Day-to-Day Management of the Assets

The Trustee delegates the day-to-day management of the investment arrangements, including selection, retention and realisation, to investment manager(s) in accordance with Section 2.4 and as detailed in the SIA document. The Trustee has taken steps to satisfy itself that the Plan's investment manager(s) have the appropriate knowledge and experience for managing the Plan's investments and are carrying out their work competently.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustee periodically reviews the continuing suitability of the Plan's investments, including the appointed manager(s) and the balance between active and passive management, which may be adjusted from time to time. It does so via regular reports and periodic presentations from the appointed manager(s) with the assistance of the Plan's appointed investment advisor. However, any such adjustments would be done with the aim of ensuring consistency with this Statement.

Section 6 sets out how the Trustee incentivises investment managers, where applicable, to operate in line with the Trustee's objectives.

## **2.7 Expected Return**

The Trustee expects to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Plan's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.

## **2.8 Additional Assets**

Members of the Plan may participate in AVC arrangements, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustee establish the arrangements under which these contributions are invested, details of which are contained in the SIA document.

## **2.9 Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Plan's overall strategic allocation and consistent with the overall principles set out in this Statement.

The Trustee has implemented a policy to manage the Plan's net cash in/out flow and details are contained in the SIA document. Within individual mandates, the investment manager(s) have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments subject to the relevant appointment documentation and pooled fund prospectuses.

In addition, the Trustee monitors the allocation between the appointed manager(s) and between asset classes and mandates and will rebalance (or delegate this to individual investment manager(s)) as set out in the SIA document.

## **3. Defined Contribution ("DC") Section**

### **3.1 Investment Objectives**

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's objective is therefore to make available a range of investment options for this purpose. The Trustee also recognises that members may not believe themselves qualified to take investment decisions. As such, a default option is available.

The Trustee undertake to review the Plan's fund choices offered to members and the investment manager arrangements on a regular basis.

### **3.2 Investment Strategy**

The Trustee makes available a range of investment options, with the aim of providing appropriate strategic choices for members' different saving objectives, risk profiles and time horizons. Members themselves determine the investment options in which they choose to invest.

Members who do not indicate a preference are invested in the default strategy. In the default strategy, when closer to retirement, lifestyling towards gilts (75%) and cash (25%) takes place to reduce risk for members choosing to purchase an annuity and take a cash lump sum.

### **3.3 Investment Risk**

There are various risks which the Trustee believes may be financially material to member investments over their investment time horizon, which will vary depending upon their expected time to retirement.

The Trustee has considered investment risk from a number of perspectives. The main risks that the Trustee considers and how they are managed are as follow:

- **Market Risk** – the risk that arises from a combination of inflation, currency, equity and credit risks. Performance of the funds is monitored on a quarterly basis and the Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation, which allows members to be able to set their own investment allocations, in line with their risk tolerances.
- **Pension Conversion Risk** – the risk that member's investments do not match how they would like to use their pots in retirement. The Trustee has established a lifestyle strategy for the default arrangement and considers the returns of the funds used within the switching phase of the lifestyle strategy. The continued suitability of the default arrangement is reviewed at least triennially.
- **Environmental, Social and Corporate Governance Risk**- the risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Plan's assets. The management of ESG related risks is delegated to investment managers (see Section 4 of this Statement).
- **Investment Manager Risk** – the risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines. The Trustee regularly reviews performance of investment funds. The management of this risk is outsourced to the delegated investment manager.
- **Liquidity Risk** – the risk that the Plan's assets cannot be realised at short notice in line with member demand.

The Trustee believes that the investment strategy outlined in Section 3.2 is appropriate for meeting the risks outlined above. In particular, for members who do not wish to take an active role in the investment decisions, the Trustee offers a



default option which includes lifestyling to help members manage the risks outlined above.

The Trustee pays close regard to the risks which may arise from the lack of diversification of investments and believes that the choice of funds in place provides access to an adequately diversified distribution of assets and that there is adequate diversification within asset classes (however, see comments below regarding an investment review undertaken by the Trustee with the aim of making improvements to the fund offering).

The above items listed in Sections 3.2 and 3.3 of this Statement are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes that the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

### **3.4 Default Investment Option**

#### Aims and Objectives

Typically, a proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of Plan members do not make an active investment decision and are invested in the default option.

The Trustee's objectives in relation to the default option, and the ways in which the Trustee seeks to achieve these, are detailed below:

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

*The default strategy's growth phase structure invests 100% in a multi-asset fund. This is expected to provide long term growth with some protection against inflation erosion, and an element of diversification to reduce volatility and downside risk.*

- 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 Trustee believes that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches, commencing five years from a member's target retirement age, out of the growth phase towards assets which broadly protect against fluctuations in the cost of securing a pension on retirement, taking into account the option to take a tax free cash lump sum .*

- To offer to members a mix of assets at retirement that are broadly appropriate for an individual planning to purchase an annuity and take the maximum allowable tax free cash (currently 25%).

*At the selected retirement date, 75% of the member's assets will be invested in index-linked gilts and 25% in a pooled cash fund.*

The Trustee will continue to review the suitability of the default over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

### **3.5 Additional Lifestyle Strategy**

Following the most recent investment strategy review the Trustees decided to make an Additional Lifestyle Strategy available to members. This will operate alongside the current default Lifestyle Strategy arrangement. The current default strategy targets annuity purchase. The aim of the Additional Lifestyle Strategy is to provide an alternative to members who may wish to access their benefits via income drawdown.

The Additional Lifestyle Strategy initially invests in equity funds (a mix of hedged and unhedged). From 20 years from a member's target retirement age, the strategy gradually switches investment into a multi-asset fund and then into retirement income and liquidity (cash) funds such that members savings are fully invested in retirement income and liquidity in the ratio 75:25 at retirement.

### **3.6 The Trustee's policies in relation to the default option**

The Trustee's policies in relation to the default option are detailed below:

- Currently the funds used in the default investment option include multi-asset, index linked gilts and cash funds. The multi-asset fund is managed predominantly on a passive basis, the index linked gilts fund is managed on a passive basis and the cash fund is actively managed.
- In designing the default lifestyle strategy, the Trustee has explicitly considered the trade-off between risk and expected returns. The Trustee has regard for the relative expected investment return, net of fees, and expected risk when choosing the balance between the different kinds of investments and how the default is designed.
- Assets in the default lifestyle strategy are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. All funds are daily-dealt pooled investment arrangements. These pooled investment arrangements are themselves regulated and underlying investments are all mainly in regulated markets, and therefore should be realisable at short notice, based on member demand.
- The investment managers have responsibility for buying, selling and realisation of the underlying assets within the funds.
- The Trustee has considered risks from a number of perspectives. The investment risks identified in Section 3.3 (including how they are measured and managed) are also applicable to the default investment option. In addition, the items listed in Section 3.3 of this Statement are what the Trustee considers 'financially material considerations'. The Trustee believes that the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire. It is for this reason that a lifestyle strategy is used as the default investment option.
- The Trustee's policy in relation to ESG, stewardship and climate change is consistent with the main Plan policy and is set out in Section 4.
- The Trustee's policy in relation to non-financial matters, including member views, is consistent with the main Plan policy and is set out in Section 5.

- The Trustee's policy in relation to its investment manager arrangements, including incentivisation, performance assessment, fees and portfolio turnover costs, is set out in Section 6.
- If members wish to, they can opt to choose their own investment strategy on joining, but also at any other future date.

### **3.7 Day-to-Day Management of the Assets**

The Trustee delegates the day-to-day management of the investment arrangements, including selection, retention and realisation, to investment managers in accordance with Section 3.8 and as detailed in the SIA document. The Trustee has taken steps to satisfy itself that the Plan's investment manager(s) have the appropriate knowledge and experience for managing the Plan's investments and are carrying out their work competently.

### **3.8 Fund Range**

The Trustee has selected funds for the members' contributions to be invested in that cater for different risk appetites of members. It is the Trustee's policy to offer both active and passive management options to members where appropriate, depending on asset class. The Plan currently offers members a multi-asset fund, an index-linked gilts fund and a cash fund. The multi-asset fund is managed predominantly on a passive basis, the index linked gilts fund is managed on a passive basis and the cash fund is actively managed. Further details are outlined in the SIA document.

### **3.9 Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with the overall principles set out in the DC Section of this Statement.

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.

In terms of the underlying securities within the funds, the Plan's investment manager(s) have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, subject to the relevant appointment documentation and pooled fund prospectuses.

### **3.10 Expected Return**

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of potential returns that are suitable for the membership as a whole. Each fund has a benchmark or target return which the Trustee view as the expected return. The benchmark for each fund is shown in the SIA.

### **3.11 Additional Assets**

Members of the Plan have the opportunity to make additional contributions at their discretion.

### **3.12 Illiquid's Policy**

The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Plan's default arrangement does not currently invest, as at 31 March 2024, in any direct or indirect allocation to illiquid investments. The LGIM Multi-Asset (formerly Consensus) Fund (MAF), which is an underlying component of the default strategy, does have the ability to hold an allocation to illiquid investment should LGIM wish. As at 31 March 2024 makes no allocation to illiquid investments and any such holdings are not expected to impact the liquidity of MAF itself.

The Trustee is comfortable indirectly investing in a small proportion of illiquid assets in order to experience the potential for higher returns and benefits of diversification relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these benefits are recognised by the Trustee it is also aware of the risks to members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time and concerns over liquidity management platform compatibility, the Trustee will seek to ensure that direct investment into illiquid assets remains at a relatively small proportion of total assets. Given these liquidity management concerns, the Trustee has only included an allocation to illiquid assets in the growth phase of the default, where members are furthest from retirement.

In selecting investments for the default arrangement, the Trustee uses qualitative modelling to consider the combined effects of strategic allocations. For any future investment, the Trustee carefully considers whether the investment provides value for members taking account the potential for returns and associated risks. It is the Trustee's policy to review the allocation of the default investment strategy on at least a triennial basis. Such reviews will include whether the incorporation of illiquid asset investments is appropriate. If in the future the Trustee offers illiquid assets as a self-select option it will make clear to members the risk of investing in illiquid assets.

## **Both Sections**

### **4. ESG, Stewardship and Climate Change**

The Trustee believes that financially material factors, including environmental, social, and corporate governance (ESG) factors, may 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Plan's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark for the DB section has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors. The same economic and financial assumptions (reflecting market conditions at the point of review) have also been considered when forming the investment strategy of the DC Section of the Plan.

The Plan's assets are invested in pooled vehicles and the day-to-day management of the Plan's assets has been delegated to investment manager(s), including the selection, retention and realisation of investments within their mandates. In doing so these investment manager(s) are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to 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 engages with existing investment manager(s) on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt instruments, as appropriate, and covers a range of matters, including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustee accepts that the primary role of its passive manager(s) is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set for the DB and DC Sections of the Plan.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee will challenge managers who it believes are taking insufficient account of ESG

considerations in implementing their mandates. The Trustee will also monitor investment manager engagement activity (such as voting) at least annually.

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

The Trustee will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

## **5. Non-Financial Matters**

“Non-financial matters” (where non-financial matters includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.

## **6. Investment Manager Arrangements**

### *Alignment of Investment Manager Objectives and Incentivisation*

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of “tracking error” against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager’s idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager’s approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

Where relevant, the Trustee specifies the investment objectives and guidelines in an Investment Management Arrangement (“IMA”) and sets these so that they are in line with the Trustee’s specific investment requirements. In relation to pooled investment vehicles, the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. the Trustee will therefore select vehicles that best align with its own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee’s overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at relatively short notice.

For each appointment, retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve the mandated investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Within the Defined Contribution section, all of the funds are open-ended with no set end date for the arrangement. The fund range and default strategy 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 strategy or general fund range.

Investment managers are therefore incentivised both to achieve the mandated objectives, consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

If the investment objective for a particular fund changes, or if other factors change that could have an impact on the manager's ability to meet its objectives, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

#### *Performance Assessment and Fees*

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from investment managers.

Investment returns (and volatility) are measured both on an absolute basis and relative to one or more suitable benchmarks and targets.

As well as assessing investment returns, the Trustee will consider a range of other factors, with the assistance of the investment advisor, when assessing investment managers, which may include but is not limited to:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Voting and engagement activity;
- Service standards;
- Operational controls;
- The advisor's assessment of ongoing prospects.

Investment managers are remunerated by way of a fee calculated as a percentage of assets under management (in some cases subject to a minimum fee threshold). In each case, the principal incentive is for the investment manager to retain their appointment by achieving their objectives, in order to continue to receive their fee in full.

As part of the annual Value for Money assessment, the Trustees review the investment manager fees within the DC section, including benchmarking against appropriate peer groups.

#### *Portfolio Turnover Costs*

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

For the DB Section of the Plan, the Trustee seeks explicit reporting on ongoing costs for all appointed managers.

For the DC Section of the Plan, the Trustee monitors portfolio turnover costs, as part of the consideration of transaction costs, on an annual basis, as part of its annual governance statement and value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.

The Trustee does not monitor regular cashflow costs (but seeks to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via the investment consultant.

## **7. Compliance with this Statement**

The Trustee will monitor compliance with this Statement annually. The Trustee will also periodically check that the investment manager(s) have given effect to the investment principles in this Statement and the SIA document so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

## **8. Review of this Statement**

The Trustee will review this Statement periodically. It will do so without delay in response to any material changes to any aspects of the Plan, its liabilities, finances and attitude to risk of the Trustee and the Company, which it judges to have a bearing on the stated investment policy.

In the case of the DB Section of the Plan, the review will occur at least once every three years. In the case of the DC Section of the Plan, the Trustee will review the default lifestyle strategy at least every three years. Any such reviews will be based on expert investment advice and will be carried out in consultation with the Company.

A MacKenzie

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Signed:

**For and on behalf of ndapt ltd in its capacity as Trustee of the  
Umeco Plc Pension & Life Assurance Plan**