

# Statement of Investment Principles – The Formica Limited 1998 Pension Scheme (March 2022)

## Introduction

- 1 The Formica Limited 1998 Pension Scheme (the ‘Scheme’) is a Registered Pension Scheme for the purposes of the Finance Act 2004. It has a defined benefit (DB) section, as well as providing the facility for members to pay Additional Voluntary Contributions (AVCs).
- 2 This document is the Statement of Investment Principles (‘SIP’) made by the Trustees of the Scheme in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 3 Before finalising this SIP, the Trustees took written investment advice from the Scheme’s Investment Consultant (Towers Watson Limited) and consulted Formica Limited (the ‘Employer’). In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.
- 4 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy.

## Scheme objectives

- 5 For the DB section of the Scheme, the Trustees have considered (amongst other factors) the nature of the Scheme’s liabilities and the Scheme’s Statutory Funding Objective (SFO) when deciding on its investment strategy.

The Trustees’ primary investment objective for the DB section is to limit the risk of the assets not being sufficient to meet the liabilities. It aims to do this by ensuring adequate asset growth, noting that this can be made up of both investment returns and/or future contributions.

- 6 For the AVC section, the investment risk is borne by the member. The Trustees’ primary investment objective for these sections is therefore to provide a range of investment options, which broadly satisfy the risk profiles of all members. Details of the current AVCs are set out in the Appendix.
- 7 The Trustees consider that the investment strategies shown on the following pages will ensure:
  - There is a reasonable expectation of meeting its investment objectives, and;
  - The assets are appropriately diversified

## Investment strategy

- 8 In December 2021, the Trustee purchased a pensioner buy-in insurance policy from Just Retirement Limited in order to address the interest rate, inflation and mortality risk associated with these liabilities of the DB section.
- 9 The target asset strategy for the remainder of the assets held by the Trustees in the DB section is shown in the table below. The funds selected are all managed by BlackRock Investment Management (UK) Limited (the 'Investment Manager'). The funds are expected to deliver their benchmark index return, before the deduction of fees.

### Target allocation

Fund	Target Allocation %	Rebalancing ranges (+/-) %	Benchmark Index Return
<b>Equities</b>	<b>40.0</b>		
Aquila Life UK Index Equity Index Fund	5.0	0.75	FTSE All Share
Aquila Life Currency Hedged US Equity Index Fund	8.4	0.75	FTSE Developed United States Net TR 95% Hedged to GBP
Aquila Life US Index Equity Index Fund	8.4	0.75	FTSE USA
Aquila Life Currency Hedged European Equity Index Fund	6.7	0.75	FTSE All World Developed Europe Ex UK TR 95% Net Hedged to GBP
Aquila Life European Equity Index Fund	6.7	0.75	FTSE All World Developed Europe ex-UK
Aquila Life Currency Hedged Japanese Equity Index Fund	1.3	0.75	FTSE Developed – Japan 95% Net Hedged to GBP
Aquila Life Japanese Equity Index Fund	1.3	0.75	FTSE Japan
Aquila Life Currency Hedged Pacific Rim Equity Index Fund	1.1	0.75	FTSE All World Developed Asia Pacific Ex Japan 95% Net Hedged to GBP
Aquila Life Pacific Rim Equity Index Fund	1.1	0.75	FTSE All World Developed Asia Pacific ex-Japan
<b>Bonds</b>	<b>60.0</b>		
Aquila Life Over 15 years Corporate Bond Index Fund	12.5	1.5	iBoxx £ non-gilts over 15 Years
Aquila Life Over 15 years UK Gilt Index Fund	12.5	1.5	FTSE Actuaries UK Conventional Gilts over 15 Years
Aquila Life All Stocks UK Index Linked Gilt Index Fund	35.0	1.5	FTSE UK Gilts Index Linked All Stocks

- 10 Rebalancing arrangements are in place, with the Investment Manager responsible for ensuring that the Scheme's exposure to each asset class stays within the ranges above. The Trustees also monitor the allocation within each section and takes action, as required.
- 11 The Scheme will also hold assets in cash and other money market instruments from time to time as may be deemed appropriate. The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall

investments, where possible. The Trustees, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

- 12 The responsibility for buying and selling investments has been delegated to the Investment Manager based on the ranges above.

### Other investment policies

- 13 The Trustees consider long-term sustainability to be an important and relevant issue to consider in the selection, retention and realisation of the Scheme's investments.
- 14 In particular the Trustees recognise that an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG), including climate change.
- 15 The Trustees consider these issues having regard to the length of time that is needed for the funding of benefits by the Scheme's investments.
- 16 The Trustees therefore believe that ESG considerations are important aspects of responsible financial risk management in order to protect and enhance the value of investments and should improve long-term outcomes.
- 17 The Trustees invest the assets of the Scheme on an index-tracking basis and a buy-in insurance policy. As a result, the Scheme cannot directly take account of social, environmental or ethical considerations in the selection, retention and realisation of individual investments.
- 18 The Trustees have delegated the responsibility of considering day to day ESG integration to the Investment Manager and encourage them to document how they are progressing ESG issues.
- 19 The Trustees and the Investment Manager do not explicitly take into account the views of Scheme members and beneficiaries in relation to ESG, climate change and other non-financial matters.

### Investment managers

- 20 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.
- 21 The Trustees are not involved in the managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustees will, however, monitor the performance of each manager relative to its benchmark.
- 22 The Scheme owns units in the pooled funds in which it is invested. Consequently, it does not own the underlying assets of the funds. Therefore, the responsibility for exercising and directing voting rights acquired through the Scheme's investments is delegated to the managers. The Trustees expect that, as part of its wider governance of the pooled funds, and as one of the largest institutional investors in the UK, the Investment Manager will continue its long standing approach to stewardship. The Trustees expect the Investment Manager, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and ESG issues concerning the Scheme's investments. The

Trustees believe such engagement incentivises the Investment Manager to protect and enhance the long-term value of its investments.

- 23 The Trustees understand that the Investment Manager's corporate governance policies reflect the key principles of socially responsible investment.

### Alignment

- 24 Alignment between a manager's management of the Scheme's assets and the Trustees' policies and objectives are a fundamental part of the appointment process of a new manager. When investing in a pooled investment vehicle, the Trustees will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are asked to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.
- 25 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment.
- 26 For most of the Scheme's investments, the Trustees expect the managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.
- 27 The Trustees appoint the Scheme's managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

### Fees

- 28 The Investment Manager is paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.
- 29 The Trustees review the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Managing risk

30 The Trustees recognise several risks involved in the investment of the Scheme's assets:

Risk	How is it monitored?	How is it mitigated?
Deficit	By assessing the progress of the actual growth of the liabilities relative to the selected investment policy	By setting an investment policy with appropriate regard to the expected risk and return relative to the expected growth of liabilities, and through the purchase of a buy-in insurance policy
Liquidity	By the level of cashflow required by the Scheme over a specified period	The Scheme's administrators assess the level of cash required to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity
Currency	Through the level of exposure to non-Sterling denominated assets	Investing a proportion of the Scheme's overseas asset holdings in funds which hedge their exposure to overseas currencies and hence reduce the impact of exchange rate movements on the Scheme's asset value
Interest rate and inflation	By comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates	Holding assets that respond to changes in interest rates and inflation in a similar way to the liabilities, and through the purchase of a buy-in insurance policy
Sponsor	By receiving regular financial updates from the Employer and periodic independent covenant assessments	By agreed actuarial assumptions for funding which reflect the level of sponsor covenant risk, supported by additional contributions from the Employer as required.

Signed:

Date:

Name:

Authorised for and on behalf of the Trustees of the Scheme

## **APPENDIX – ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) INVESTMENT**

### **Money purchase AVC options**

The money purchase AVC options from Standard Life are offered to members on a defined contribution basis.

Scheme AVCs are invested separately from the assets backing the defined benefit promise. The value of the AVC investments is used to provide additional benefits at retirement.

The nature of defined contribution investment is that the individual members bear the investment risks.

The Trustees' objective for AVC investment is to provide an investment vehicle that addresses the risks faced by the investors. The principal investment risks faced by the individuals are:

- Inflation risk – the risk that investments do not provide a return at least in line with inflation, so that the “purchasing power” of the ultimate fund available to provide benefits on retirement is not maintained.
- Capital risk – the risk that the value of the investment will fall over any period of time.
- Pension conversion risk (to the extent that AVCs are not used to provide a lump sum benefit) – the risk that a change in the cost of buying a pension at or near retirement will not be matched by a corresponding change in the value of the member's accumulated AVC account.

The Trustees will review the continued appropriateness of these AVC investment vehicles from time to time, taking appropriate advice from their Investment Adviser, with particular consideration being given to the different forms of investment risks that face AVC contributors and the most appropriate investment options to address these risks.