The Selecta (UK) Pension Plan

Statement of Investment Principles

1. Background

This Statement of Investment Principles ("the Statement") sets down the principles governing decisions about investments for the The Selecta (UK) Pension Plan ("the Plan") to meet the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. Before preparing it, the Trustee has consulted Selecta (UK) Holding Limited ("the Company") and obtained and considered written professional advice from the Plan's investment consultant, Hymans Robertson. The Trustee will review this Statement on a regular basis and at least every 3 years.

The Trustee is responsible for making decisions regarding the strategic (long-term) investment arrangements of the Plan. The Trustee consults with the Company in making decisions and will take the Company's views into account in setting the policy and strategic benchmark. The final decisions however rest with the Trustee, having taken advice from Hymans Robertson in reaching those decisions. Day to day management of the Plan's investments is undertaken by professional fund managers.

The Trustee is aware of the Myners Code of Conduct for Investment Decision Making and has reviewed its responsibilities and activities in the context of the Code

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects investment managers to comply with the code and to produce a statement of their commitment to the code

The Trustee's investment responsibilities are governed by the Plan's Trust Deed. A copy of the relevant clauses is available for inspection upon request.

2. Investment Objective and Policy

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, on a defined benefits basis. The Trustee’s over-riding funding principle for the Plan is to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

In order to ensure that an appropriate investment strategy is in place, an analysis of the Plan's assets and liabilities is completed periodically. The last review was undertaken in 2018.

The investment strategy has been set following consultation with the Company and taking into consideration the Plan's liability profile, the funding position, the covenant of the Company, and the Trustee's risk/return objectives. The Trustee has invested the Plan's assets in a Client Specific Unitised Fund ("CSUF") of gilts, index-linked gilts, Leveraged Gilt Funds, a Corporate Bond Fund and a Liquidity Fund which uses a Liability Driven Investment ("LDI") approach, together with a separate holding in a Corporate Bond Fund outside the CSUF. The assets have a range of maturity dates and provide a broad match for the duration, interest rate and inflation characteristics of the majority of the Plan's expected benefit payments.
Overall, the broad objective of the agreed strategy is to invest the assets in a relatively low risk way relative to the Plan's liabilities (as measured on the agreed funding basis), whilst providing a modest amount of additional expected return. The expected return from the strategy is expected to be sufficient to meet the return requirements assumed in the latest Actuarial Valuation.

In addition to the LDI mandate, the Trustee holds a small allocation to a cash fund outside of the CSUF. The purpose of the cash holding is to provide a portfolio of readily realisable assets that can be used to facilitate benefit payments.

Where appropriate, and where commercial considerations permit, the terms of each investment mandate and the basis on which a manager is engaged will be defined specifically for the Plan. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Plan.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

The Trustee undertakes a periodic service provider review in which the ongoing appropriateness of the Plan's manager arrangements are considered. The Trustee reviews the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

3. Investment Structure

3.1 LDI Assets - CSUF

The Plan's LDI assets are held in the form of an insurance policy with Legal & General Assurance (Pensions Management) Limited. The investment of the assets under the policy has been delegated to Legal & General Investment Management Limited ("LGIM").

LGIM is regulated by the Financial Conduct Authority (the "FCA") and has full discretion to buy and sell investments on behalf of the Plan, subject to the constraints of their mandate. As required by the Pensions Act 1995, the Trustee has entered into a signed Agreement with Legal & General Assurance (Pensions Management) Limited, the terms of which are consistent with the principles contained in this Statement.

LGIM actively manages the Corporate Bond Fund with the aim of exceeding the return on its market index benchmark by 0.75% p.a. (before fees) over a 3-year rolling period. The Liquidity Fund is also actively managed against a benchmark of 7-Day LIBID.

LGIM manages the Leveraged Gilt Funds in order to replicate specific gilt exposures in a leveraged way. If the leverage ratio of these funds rises above a certain level, LGIM can request that the Plan invests more money in these funds in order to maintain the targeted gilt exposures. Failure to provide additional funds will result in gilt exposures being reduced. Similarly, if the leverage ratio falls below a certain level, LGIM can distribute cash back to the Plan.

The remaining gilts, index-linked gilts in the CSUF are managed as hold-to-maturity investments unless otherwise instructed by the Trustee.

The annual management charge ("AMC") on the CSUF is 0.15% p.a. subject to a minimum annual fee of £100,000.

3.2 Cash

Cash not held in the Trustee's bank account is held in a Cash Fund within the policy with Legal & General Assurance (Pensions Management) Limited. The performance benchmark is 7-Day LIBID. The AMC for the Cash Fund is 0.125% p.a. The Fund deals on a weekly basis and requires 2 business days' notice.

4. Fee Structures

As set out above, the Plan pays investment management fees to LGIM amounting to a percentage of the assets under management on a quarterly basis.

The Plan also pays consultancy fees to Hymans Robertson for the provision of a range of actuarial and investment advisory services. Hymans Robertson are remunerated by fees that are either fixed in advance or based on the time spent and cost incurred.

5. Custody

The Plan's assets are invested mainly in the CSUF, whereby the Plan owns units in the Fund. The safekeeping of the underlying assets of the Fund is performed on behalf of the investment manager by custodians specifically appointed to undertake this function.

6. Performance Measurement

Hymans Robertson is retained as investment consultant to assist the Trustee in fulfilling its responsibility for monitoring the investment managers. Hymans Robertson prepare quarterly monitoring reports for the Trustee.

7. The Trustee's Policy with regard to Risk

The Trustee pays close regard to the risk that may arise through a mismatch between the Plan's assets and liabilities and also the risk that may arise from the lack of diversification of investments. The Trustee has identified and acknowledged the risks inherent in its agreed investment strategy but believes that the asset allocation policy in place is suitable given the stated investment objectives.

The Trustee is aware of the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. The Trustee is also aware of the extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee appreciates that the strategy makes use of Leveraged Gilt Funds in order to achieve the investment objectives. Counterparty risks are mitigated within the Fund through the use of collateral which is reviewed daily.

8. Portfolio Turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee’s knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustee will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. In addition, the Trustee will review turnover costs incurred by the asset manager over the Plan reporting year.

9. The Trustee's Policy with Regard to Financially Material Factors including Environmental, Social and Governance (ESG) and Climate Change considerations

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain assets, they may not be relevant to others.

The strategic asset allocation has been determined using appropriate economic and financial assumptions for different asset classes. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors. The Trustee recognises that climate change could pose systemic risks which could in turn affect the returns achieved from the investment strategy.

The Trustee has not at this stage made explicit allowance for climate change in framing its strategic asset allocation, although this will be reviewed periodically. Instead, the Trustee does expect the active managers to take into account all financially material factors, including climate change, in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

As the assets of the Plan are managed in pooled arrangements, some of which include other investors, the Trustee accepts that the assets are subject to the investment manager's own policy. However, the Trustee expects that the investment manager will take the extent to which environmental, social or ethical issues may have a financial impact on the portfolios into account in their day to day management of the assets.

In appointing new active managers (if required), the Trustee will explicitly consider the managers' ability to integrate the consideration of ESG factors within their investment process. The Trustee will also periodically review their investment managers and seek evidence that managers are meeting the Trustee's expectations.

In passive (index tracking) mandates, including derivative based mandates, the Trustee recognises that the choice of index benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the market index and believes this approach is in line with the basis on which their current strategy has been set. The Trustee will review periodically the index benchmarks employed.

The Trustee has not imposed any constraints on the investment arrangements or managers employed relating to non-financial factors.

The Trustee does not explicitly take the views of individual members and beneficiaries of the Plan into account in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors" under the 2018 Regulations). Where members make an active decision to share their views on such matters with the Trustee, the Trustee will note and discuss these.

10. Stewardship and Manager Engagement

The Trustee believes good management of companies should lead to more sustainable and predictable returns. While the Plan no longer has any significant investments in company shares, the Trustee has delegated the exercise of any voting rights to the Plan's investment managers on the basis that voting rights should be exercised with the aim of preserving and enhancing long-term shareholder value.

The Trustee does not engage directly but actively encourages its investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest to the Trustee.

The investment managers provide reports on any votes cast to the Trustee on a quarterly basis. The Trustee will review engagement activity undertaken by their investment managers as part of its broader monitoring activity. When appointing new managers, the Trustee will consider the managers' approach to voting and engagement.

The Trustee will monitor Investment Managers voting activity and may periodically review managers voting patterns. The Trustee may also monitor Investment Managers' voting on particular companies or issues affecting more than one company.

The Trustee will review manager voting activity on an annual basis and use this information as a basis for discussion with their investment managers. Where the Trustee deems it appropriate, any issues of concern will be raised with their manager for further explanation.

The Trustee aims to meet with all their Investment Managers on a periodic basis. Managers are challenged on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

11. Buying and Selling Investments

The Trustee has delegated the responsibility for buying and selling the underlying investments to the investment manager.

12. Additional Voluntary Contributions

The Trustee invests members' additional contributions with Prudential Assurance Company Limited. With the assistance of the investment consultant, these arrangements are reviewed from time to time to ensure that they meet the requirements of the Act, that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustee and the needs of the members.

13. Compliance with this Statement

The Trustee will monitor compliance with this Statement.

The Trustee will review this Statement regularly to ensure that it remains accurate. It will also review this Statement in response to any material changes to any aspect of the Plan, its liabilities, finances and the attitude to risk of the Trustee and the sponsoring Company, which is judged to have a bearing on the stated Investment Policy. Any such review will be based on expert investment advice and will be in consultation with the Company.

Approved by Independent Trustee Services Ltd
Trustee of the Selecta (UK) Pension Plan **25 September 2020**