

Devro Limited (UK) Pension Plan
Implementation Statement for the year to 31 March 2021

Introduction

The purpose of this Implementation Statement is to set out how the Trustees have followed their investment policies, stewardship policies, and to outline voting behaviour by, or on behalf of, the Trustees during the year. This Implementation Statement has been prepared in line with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

For the year to 31 March 2021, the Trustees delegated overall stewardship of the Plan's underlying investments to the investment managers, including the exercise of rights (including voting rights) attaching to the Plan's investments and undertaking engagement activities in respect of the investments.

The Appendix sets out information provided by the investment managers on significant votes which were cast over the period.

In preparing this Implementation Statement, we have relied on the information provided by the investment managers.

Investment governance

The Trustees of the Devro (UK) Pension Plan are responsible for making investment decisions and have an Investment Committee to consider investment issues and make recommendations to the Trustee board. The Investment Committee attended regular meetings with the Trustees' investment consultants, PwC, throughout the year. These meetings included regular monitoring of the Plan's assets against the investment strategy and ad hoc educational sessions to ensure that the Trustees have sufficient knowledge and understanding to make decisions regarding the Plan's investment strategy. The Statement of Investment Principles ("SIP") sets out the Trustees' policies for managing the Plan's assets, and outlines the investment strategy and stewardship policy which was in place over the reporting period.

Review of and changes to the SIP over the year to 31 March 2021

The SIP was amended once during the reporting period.

The amendment reflected two key changes to the SIP. The first was an update in the Plan's strategic asset allocation following the Trustees' decision to invest in the LGIM Synthetic Leveraged Credit Fund. The second provided greater information regarding the implementation of the Trustees' stewardship and ESG policies in line with the disclosure requirements which came into effect on 1 October 2020. This version of the SIP was implemented on 29 September 2020.

Since the reporting date, the Trustees have prepared an updated SIP, implemented on 20 April 2021, to reflect the changes to the Plan's strategic asset allocation following the Trustees' investment strategy review in Q4 2020. More detail on the investment strategy review is provided later in this Implementation Statement.

Investment objectives

The Trustees' policy is to set the overall investment strategy based on the return and risk requirements to meet the long term objectives.

The Trustees' main objectives are:

- To ensure that they comply with their duties under the Trust Deed & Rules and in particular meet members' entitlements as they fall due;
- To manage volatility of the Plan's contribution levels by controlling the expected returns of the Plan's investments;
- To invest in sufficient liquid assets to be able to pay members' benefits without requiring the Plan to disinvest on unfavourable terms;
- To manage the risk of the assets failing to meet the liabilities over the long term;
- To achieve sufficient positive return from the Plan investments to minimise the long-term costs of the Plan whilst having regard to the above objectives.

These objectives have been met over the period, specifically:

- All cashflow requirements to fulfil member benefit payments have been met through the disinvestment of Plan assets.
- Despite the highly volatile market movements at the beginning of the reporting period due to the COVID-19 pandemic, the Plan's funding level has remained relatively stable, from 87% to 90% over the period. This demonstrates that the Trustees have been successful in reducing the risk that the assets will fail to meet the liabilities over the long term and minimising the long-term costs of the Plan.

Trustees' policy

The Trustees' policy is to set the overall investment strategy and select investment managers to manage the underlying investments to meet the investment strategy. In doing this, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

The Trustees' other policies relating to the investment strategy are as follows:

- To monitor the employer-related investment content of their portfolio as a whole and take steps to alter this should they discover this to be more than set out in legislation.
- To hold a balance between different asset classes to allow them to meet their objectives.
- To consider the risks posed to the Plan and mitigate these where possible.
- To assess each investment held in terms of investment risk and expected return, and to monitor the performance of each fund manager against an agreed benchmark.

- To carry out formal reviews of each investment manager on an ad hoc basis.
- To monitor the remuneration of the investment managers on an ad hoc basis, to ensure that the levels are consistent with the Trustees' investment policies and the SIP.
- To monitor portfolio turnover costs on a periodic basis.

The Trustees' other policies relating to stewardship are as follows:

- To periodically review the Scheme's stewardship arrangements.
- To request further details of the exercise of voting rights by investment managers on a periodic basis, and make further investigations as and when necessary.

The Trustees' other policies relating to Environmental, Social and Corporate Governance ("ESG") considerations are as follows:

- To take ESG risks and opportunities into account through due diligence when appointing, monitoring, engaging with and replacing investment managers to manage the Plan's assets.

How the Trustees have met their policies

The Trustees review the appropriateness of the Plan's investment strategy on an ongoing basis. A full review of the investment strategy was carried out in Q4 2020. The Trustees are in the process of implementing an updated investment strategy which they deem appropriate to meet their policy and objectives.

The Trustees' have met their other policies relating to investment strategy as follows (noting that at the time of writing this Statement, the Q1 2021 report was yet to be finalised):

- The allocation of the Plan's assets was monitored on a quarterly basis to ensure that the assets are allocated in line with the Plan's investment strategy. No rebalancing of assets took place during the period, however the Investment Committee made the conscious decision to deviate from the strategic asset allocation during the transition to the updated investment strategy following the Q4 2020 review
- The Plan's total risk exposure was monitored on a quarterly basis to ensure that this does not exceed the Plan's risk budget. The total risk exposure remained below the Plan's risk budget over the period. The Trustees updated their hedging strategy on 11 March 2021 to reduce the Plan's interest rate and inflation risk exposure.
- The performance of each investment manager was monitored on a quarterly basis against each manager's stated benchmark.
- Whilst the Trustees have not explicitly monitored the employer-related investment content of the portfolio, the expectation is that this has remained in line with the policy and objectives set out by the Trustees at the start of the year to 31 March 2021.
- The investment managers were monitored throughout the year to 31 March 2021, with no significant issues to note. As part of the Q4 2020 investment strategy review, the Trustees did take the decision to replace one of the managers for strategic reasons.
- The remuneration of the investment managers remained in line with the policy and objectives set out by the Trustees at the start of the year to 31 March 2021.

- Whilst the Trustees have not explicitly monitored the portfolio turnover costs over the period, a process for doing so is due to be discussed at the next Investment Committee meeting with PwC on 3 June 2021.

The Trustees' have met their other policies relating to stewardship as follows:

- In preparing the Implementation Statement, the Trustees' investment advisers requested details of significant votes that have been cast by all investment managers over the period. No further investigations were carried out in the period.
- The Scheme's stewardship arrangements were not formally reviewed in the period, however the Trustees will look to carry out a formal review over the coming periods.

The Trustees' have met their other policies relating to ESG considerations as follows:

- A formal review of ESG risks and opportunities was not carried out during the period. However, the Trustees championed ESG considerations in carrying out the investment strategy review in Q4 2020, investing in an ESG equity fund in addition to considering wider opportunities with a direct allocation towards renewable investments. The Trustees remain committed to monitoring ESG matters as a financial risk to the Plan.

Overall, there were no material deviations from these policies over the reporting period.

Key events over the reporting period

In October 2020, the Plan completed the drawdown of its commitment to the M&G Secured Property Income Fund.

In Q4 2020, the Trustees carried out a review of the Plan's investment strategy. This review considered the Scheme's objectives, funding level and the covenant of the Principal Employer. After considering the merits of a range of asset classes, the Trustees decided to invest in the strategy which is detailed in the most recent version of the SIP, which was implemented on 20 April 2021. Amendments to the Plan's liability hedging strategy were also made at this time and reflected in this update SIP. This strategy is expected to be fully implemented by Q2 2021.

Voting behaviour over the reporting period

See Appendix.

Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 31 March 2021.

Appendix

[Attach Appendix.]