



Devro Limited (UK) Pension Plan

Statement of Investment Principles

August 2023

Contents

1. Introduction	3
1. Investment objectives	3
2. Policies	4
2. Choosing investments	4
3. Kinds of investments to be held	4
4. Balance between different kinds of investment	4
5. Risk	5
6. Expected returns	5
7. Environmental, social and governance considerations	6
3. Implementation of policies	7
8. Governance	7
9. Choosing investments	7
10. Relationship with investment managers	8
11. Incentivising investment managers	8
12. Assessing medium to long-term performance of investments	8
13. Oversight of investment manager approach	8
14. Monitoring performance and remuneration	9
15. Monitoring portfolio turnover and costs	9
16. Duration of arrangements with investment managers	9
17. Rebalancing investments	9
18. Fees	10
19. Realisation of investments	10
20. Liability driven investment	10
4. Suitability	11

1. Introduction

This is the Statement of Investment Principles prepared by the Trustees of the Devro Limited (UK) Pension Plan (the "Scheme"). This Statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2005.

In preparing this Statement the Trustees have consulted Devro (Scotland) Limited (the "Principal Employer"), and obtained advice from the Trustees' investment consultants. The Trustees' investment consultant is authorised and regulated by the Financial Conduct Authority for a range of investment business activities.

This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

The Trustees will review this Statement at least every three years or if there is a significant change in the policy on any of the areas covered by the Statement.

The investment powers of the Trustees are set out in Clause 9(c) of the Trust Deed & Rules, dated 2014. This Statement is consistent with those powers.

1. Investment objectives

The Trustees have a primary funding objective of achieving full funding on technical provisions. The Trustees do not have a formal long term objective in place, however, there are informal aspirations to reach a low risk self sufficiency target or buy-out with an insurer. The Trustees plan to consider the long term objectives of the Plan in conjunction with the results of the 2023 Actuarial Valuation.

The Trustees' main investment objectives are:

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

2. Policies

2. Choosing investments

The Trustees' policy is to set the overall investment strategy and the select managers to invest to meet that strategy. The performance of the managers will be assessed against the strategy and individual targets. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

The day-to-day management of the Scheme's assets is delegated to one or more fund managers as set out in the next section. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights where applicable. The Trustees are satisfied that the investment managers have appropriate knowledge and experience for managing the investments of the Scheme.

The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3. Kinds of investments to be held

The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, long lease property, currency, high yield debt and derivatives;
- Annuity policies.

The Trustees monitor the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than set out in legislation. Typically this check is carried out annually by the Scheme's auditors.

4. Balance between different kinds of investment

The allocation between different asset classes is set out in the next section.

The aim of the Trustees is to hold asset classes that allow them to meet their objectives. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the next section.

The Scheme may hold cash in order to meet any short term cashflow requirements and in doing so may deviate temporarily from any strategic allocation.

The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's funding position changes and the liability profile matures.

Policies

continued

5. Risk

The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

- Risk versus the liabilities - The Trustees will review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles or any other such basis as the Trustees consider suitable.
- Asset Allocation risk - The asset allocation is monitored on a regular basis by the Trustees.
- Fund manager risk - The Trustees monitor each of the Scheme's fund managers' performance on a regular basis. In addition the Scheme's investment advisors will meet periodically with each fund manager and make quarterly (or as appropriate) reports to the Trustees, along with any recommendations as they see fit. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
- Concentration risk - Each fund manager is expected to manage portfolios that are diversified and where applicable to spread assets across a number of individual shares and securities.
- Loss of investment - The risk of loss of investment by each fund manager and custodian is assessed by the Trustees. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.
- Liquidity risk - The Scheme invests in sufficient liquid assets such that there is scope to convert to cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators are responsible to the Trustees for ensuring that there is sufficient cash available to meet cashflows.
- Covenant risk - The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
- Solvency and mismatching risk - The risk that the assets do not have a sufficiently similar profile to the liabilities in terms of liquidity and timing. The risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
- Currency risk - The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
- Counterparty risk - The risk to each party of a contract that the counterparty will not meet its contractual obligations. A number of suitable counterparties will be used to minimise exposure to any one counterparty, and the list will be monitored on an ongoing basis.
- ESG/Climate risk - The Trustees have considered the long-term financial risks to the Scheme and ESG factors, including climate risk, are potentially financially material. The Trustees will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

6. Expected returns

The Trustees assess each investment they hold in terms of investment risk and expected return. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers within the constraints set out in any management agreements.

Policies

continued

The Trustees recognise that the liabilities of the Scheme depend on interest rates and inflation and will distinguish between nominal and real returns when making appropriate allowance for inflation, and when making investment decisions.

In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as required by market conditions and movements in the Scheme's liabilities.

7. Environmental, social and governance considerations

The Trustees have a duty of care to act in the best financial interests of the Scheme's beneficiaries. This includes considering Environmental, Social and Corporate Governance ('ESG') risks and opportunities that may be financially material to the Scheme. The Trustees take this into account through due diligence when appointing, monitoring, engaging with and replacing investment managers to manage the Scheme's assets.

The Trustees have delegated overall stewardship of the Scheme's underlying investments to the investment managers, including the exercise of the rights (including voting rights) attaching to the Scheme's investments and engagement with investee companies on their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. This approach is in line with the Trustees' investment strategy, and the Investment Committee actively considers ESG matters in the Scheme's investment portfolio, examples being the investments made in the LGIM Future World Global Equity Index Fund and the M&G Sustainable Alpha Opportunities Fund.

The Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The delegation of these tasks to the investment managers is in line with the Trustees' policy. The Trustees will request details of the exercise of these rights on a periodic basis, and make further investigations as and when necessary.

Investment managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis. Each investment manager also has their own conflicts of interest policy, which sets out their internal procedure on such matters.

These arrangements are periodically reviewed and the ESG activities of the managers are considered where the Trustees see fit. The Trustees, with help from their investment adviser, will seek to engage with managers relating to their ESG policies and approach.

Where the Trustees do not believe a managers' approach to ESG matters is consistent with their goals to deliver an appropriate level of long-term returns for the Scheme and the managers have failed to respond to efforts to engage them, the Trustees may seek to switch the manager(s) with a suitable replacement(s).

Currently the Trustees do not take into account non-financial matters such as member views. However, the Trustees may take such matters into account where they believe it would be prudent to do so. Where the Trustees do take into account non-financial matters, they will inform the Scheme's employer of their decision to do so, the nature of the non-financial matters taken into account and provide any other information which they feel is appropriate in respect of such a decision.

3. Implementation of policies

8. Governance

The Trustees are responsible for making investment decisions and have formed an Investment Committee to consider investment issues and make recommendations to the Trustee board. The Trustees have agreed the Investment Committee's terms of reference.

9. Choosing investments

The Trustees last reviewed the investment strategy over the first half of 2023, following the significant impact of the "Gilts Crisis" on the Scheme's asset portfolio..

In setting the Scheme's strategic asset allocation the Trustees considered the Scheme's objectives, funding level and the covenant of the Principal Employer. The Trustees review the asset allocation on a regular basis to ensure it remains appropriate given market conditions and changing funding levels. Given their investment objectives, the Trustees have agreed the current strategic asset allocation for the Scheme as detailed in the table below.

Asset Class	Allocation	Tolerance of proportion
Equities	30%	±5.0%
Structured credit	10%	±1.5%
Multi-asset credit	10%	±1.5%
Long-lease property	10%	±10.0%
Liability-driven investment and liquid asset-backed securities ¹	40%	±10.0%

¹ The Liability driven investment portfolio uses leverage to hedge interest rates and inflation to the levels as described in the section "Liability driven investment".

Within these categorisations the Trustees have selected the following investment managers. All of the investment managers are authorised and regulated by the Financial Conduct Authority.

Manager	Fund name	Strategic allocation
Baillie Gifford	Global Alpha Growth Fund	Equity
LGIM	Future World Global Equity Index Fund – GBP Hedged	Equity
Insight	Secured Finance II Fund	Structured credit
M&G	Sustainable Alpha Opportunities Fund	Multi-asset credit
M&G	Secured Property Income Fund	Long-lease property
Schroders	Interest And Inflation Rate Swap Overlay Liquidity Support Portfolio (Schroders ISF Securitised Credit GBP Hedged)	Liability driven investment and liquid asset-backed securities

Implementation of policies

continued

10. Relationship with investment managers

The Trustees have investment management agreements in place with the investment managers, which set out the contractual relationship between the parties and govern key aspects, such as how the Trustees remunerate the investment managers, how the Trustees monitor the performance of the investment managers, and the duration of the arrangements with the investment managers.

11. Incentivising investment managers

The Trustees will monitor the investment managers' performance against the relevant Fund benchmarks and objectives of the Scheme. Where an investment manager consistently fails to meet benchmark performance and shows lack of alignment with the Scheme's objectives, the Trustees may consider ending their relationship with the investment manager. This, along with the fees paid to the investment managers, will ensure that investment managers are incentivised to provide high quality service that meets the stated objectives, guidelines and restrictions agreed with the Trustees.

However, there may be circumstances where managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors.

12. Assessing medium to long-term performance of investments

The Trustees monitor how the investment managers make decisions based on the medium to long-term financial and non-financial performance of investee companies and any issuers of debt or equity. The investment managers are incentivised to make decisions based on the medium to long-term financial and non-financial performance of issuers in order to improve their performance in the medium to long-term. The Trustees monitor the performance of investment managers on a quarterly basis, where the Trustees have concerns they will raise this with the investment managers.

13. Oversight of investment manager approach

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

Implementation of policies

continued

14. Monitoring performance and remuneration

The Trustees monitor the performance of their investment managers on a quarterly basis and carry out formal reviews of each investment manager on an ad hoc basis.

When assessing the performance of an investment manager, the Trustees consider:

- The investment managers' financial performance against stated benchmarks and the rest of the market, both in terms of individual performance and their wider role in helping the Scheme meet its long-term objectives.
- How well the investment managers are aligned with the Trustees' investment policies.
- The quality of service provided by the investment managers, including the quality of reporting.

Where the Trustees believe that an investment manager has performed poorly for a material period, they will carry out a formal review and look to replace the manager where necessary.

The Trustees will ensure that the remuneration of the investment managers are consistent with the Trustees' investment policies and the SIP, in that the levels typically available in the industry and the nature of services provided. This will be monitored on an ad hoc basis, and where the Trustees believe there are grounds for a reduction in fees, for example after a period of poor performance, this will be discussed with the respective manager.

15. Monitoring portfolio turnover and costs

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers.

The Trustees monitor the costs incurred by the investment managers in buying and selling investments. The Investment Committee consider the costs of asset transitions on an ad hoc basis and considers the cost of buying and selling when reviewing any change of investment.

The Trustees do not believe in setting a portfolio turnover target – being the frequency with which assets are expected to be bought and sold – because they believe that the investment managers have sufficient expertise to make judgement on the appropriate portfolio turnover.

The Trustees will monitor turnover costs on a periodic basis and any shortcomings will be followed up with the respective investment manager.

16. Duration of arrangements with investment managers

The duration of the Trustees' arrangements with its investment managers vary depending on the investment strategy and asset allocation of the relevant portfolio. Due to the long-time horizon for the Scheme, the Trustees do not wish to enforce a maximum duration on any investment manager at present, and there is no minimum investment period for the investments.

17. Rebalancing investments

Rebalancing will be undertaken manually by the Trustees. In practice it will be reviewed quarterly at meetings of the Investment Committee of the Trustees. New money will be used to rebalance the portfolio towards its target benchmark.

Any rebalancing will take into account transaction costs and look to minimise these where possible.

Implementation of policies

continued

18. Fees

The investment managers, except for Schroders, are paid a management fee on the basis of assets under management. The Schroders segregated portfolio fees are calculated as a proportion of notional amount hedged and vary in tiers with this amount. Therefore, this fee may change as the liability hedge changes. The management fee for the liquid asset-backed securities fund held within the Schroders segregated portfolio is calculated on the basis of assets under management.

The Scheme does not pay performance fees on any assets.

The Trustees' investment consultant is paid on a time-cost or fixed fee basis, as agreed between the Trustees and investment consultant from time-to-time. Fees for the investment consultant are paid directly by the Principal Employer.

The Trustees' general policy is not to pay fees outside of the above described arrangements, but will consider any additional fees on a case by case basis.

19. Realisation of investments

The Scheme's invested assets are held in a combination of a segregated mandate and pooled funds. The ability and dealing frequency to realise assets of the Scheme varies across the different funds. The Trustees have documented details of the liquidity, dealing frequency and trade timings of each investment mandate in their document titled "*Liability Driven Investment Policy*" (latest version 1.0).

Where it is necessary to make payments out of the Scheme, in the first instance payments will be taken from any residual cash holdings within the Trustees' Bank Account. Where there is insufficient residual cash, cash will be raised by the sale of investments of the Scheme. The policy for meeting cash realisations will be reviewed on a regular basis by the Trustees, who are required to authorise all disinvestments and its sources.

20. Liability driven investment

The aim of the liability driven investment allocation is to hedge 80% of the interest rate exposure and inflation exposure of the liabilities, on the technical provisions funding basis, as agreed by the Investment Committee and the Trustees' investment consultant, although this may deviate in times of extreme market volatility. These funds are invested in a combination of bespoke swaps and physical gilts, using leverage.

The leveraged positions in the portfolio are supported by collateral, a portion of which is invested in a liquid asset-backed securities fund (Schroders International Selection Fund Securitised Credit GBP Hedged) in order to generate a return in excess of cash. The remainder of the collateral is held in cash and gilts.

The Trustees have documented how the Scheme uses LDI as an asset of the Plan, the collateral framework supporting the levered LDI assets and the Trustees' governance processes, in their document titled "*Liability Driven Investment Policy*" (latest version 1.0). The Trustees regularly review this document.

In implementing the liability driven investment portfolio, the Trustees makes an approximate allowance for the hedging characteristics of the rest of the Scheme's portfolio, namely the M&G Secured Property Income Fund.

4. Suitability

The Trustees have taken advice from their investment advisers to ensure that the assets held by the Scheme and the proposed strategy is suitable given its liability profile, the Trustees' objectives, regulatory guidance and specifications in the Trust Deed.

The Trustees confirm that the Statement of Investment Principles reflects the investment strategy they have implemented for the Scheme. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

This statement was agreed by the Trustees and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Scheme auditor upon request.



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Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

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Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).