Flexitallic UK Defined Benefits Scheme

Statement of Investment Principles

Barnett Waddingham LLP

July 2021

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Flexitallic UK Defined Benefits Scheme (the Scheme). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of:

- Section 36 and other relevant provisions of the Pensions Act 1995, as amended by the Pensions Act 2004; and
- The Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (the Regulations).
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted Flexitallic UK Limited, the principal company of the Scheme (the Employer), and obtained advice from Barnett Waddingham, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

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

1.4. The Trustees will review this Statement at least every three years or without delay if there is a significant change in any of the areas covered by the Statement or the demographic profile of members.

1.5. The investment powers of the Trustees are set out in Clause 3 of the Definitive Trust Deed, dated 29 June 1999. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in Appendix 1 of this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

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

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives) and annuity policies.

4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3. The Trustees monitor from time-to-time 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 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 of this Statement

5.2. The Trustees consider the merits of both active and passive management for the various elements of the Scheme's portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 of this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or other unexpected items.

5.4. 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 liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to their investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and 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.
Asset Allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Fund manager risk	The Trustees monitor each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
Concentration risk	Each fund manager is expected to manage broadly diversified portfolios and 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. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees also undertake an annual review of the internal controls and processes of the fund manager.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
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	This 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.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
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.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. 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.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. 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.

7.4. Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Environmentally and Socially Responsible Investment, Corporate Governance and Voting Rights

9.1. As the Scheme's investments are held in pooled funds, social, environmental and ethical considerations are set by each of the fund managers, who also exercise the rights (including voting rights) attaching to the investments in any pooled funds. Each of the Scheme's fund managers will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk.

9.2. In selecting and reviewing the fund managers, where appropriate, the Trustees will consider fund managers' policies on engagement and how these policies have been implemented.

9.3. The Trustees have taken into consideration the Financial Reporting Council's UK Stewardship Code, and the fund managers all have stated corporate governance policies which comply with these principles. The Trustees believe that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustees delegate the exercise of rights (including voting rights) attached to the Scheme's investments to the fund managers.

9.4. The Trustees have policies on financially material considerations, non-financially material considerations (referred to as "non-financial matters" in the Regulations) and stewardship which are set out in Appendix 2 of this Statement.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment polices

10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

10.2. The Trustees carry out a strategy review, typically at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints.

10.3. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be reviewed, when necessary.

10.4. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager, where relevant.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.5. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.

10.6. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.7. The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.8. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

10.9. The Scheme invests exclusively in pooled funds. The investment managers are remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment managers, they receive more and as values fall they receive less.

10.10. The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment managers to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.11. The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are typically considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.12. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.13. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.14. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.15. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

11.1. 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.

Adopted by the Trustees of the Flexitallic UK Defined Benefits Scheme on 2nd August 2021 following consultation with the employer.

Appendix 1: Note on investment policy in relation to the current Statement of Investment Principles dated July 2021

1. Choosing investments

The Trustees have appointed the following fund managers to carry out the day-to-day investment of the fund:

- Blackrock Investment Management;
- BMO Asset Management Limited.

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters.

2. Kinds of investments to be held

The Trustees have considered the main available asset classes and has gained direct exposure to the following asset classes:

- UK equities;
- Overseas equities;
- Long dated corporate bonds;
- Property;
- Swaps and gilt derivatives;
- Cash.

3. The balance between different kinds of investment and rebalancing

The Scheme has a strategic asset allocation which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification. This is split into a Growth Portfolio and a Protection Portfolio.

The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Benchmark	Objective
BlackRock		
Dynamic Diversified Growth Fund	3M LIBOR	3M LIBOR+3% net of fees over rolling 3 year periods
UK Equity Index Fund	FTSE All-Share Index	Achieve returns in line with its benchmark
US Equity Index Fund	FTSE All-World USA Index	Achieve returns in line with its benchmark
European Equity Index Fund	FTSE All-World Developed Europe Ex-UK Index	Achieve returns in line with its benchmark
Japanese Equity Index Fund	FTSE All-World Japan Index	Achieve returns in line with its benchmark
Pacific Rim Equity Index Fund	FTSE All-World Developed Asia Pacific Ex-Japan Index	Achieve returns in line with its benchmark
Emerging Markets Fund	S&P IFC Investable Composite ex-Malaysia Index	Achieve returns in line with its benchmark
BMO Global Asset Management		
Global Low Duration Corporate Bond Fund	Does not have a benchmark.	To deliver a total return commensurate with investment in low duration non-government bonds and other similar assets.
Credit-Linked Real Dynamic LDI Fund	A typical pension fund's liability profile combined with exposure to credit default swap indices.	To provide exposure to credit markets through derivative exposure and to provide a hedge against real rate liabilities.
Short Profile Real Dynamic LDI Fund	A typical short duration pension fund's liability profile.	To provide a hedge against real rate liabilities (i.e. nominal and inflation risks inherent in the liabilities).
Short Profile Nominal Dynamic LDI Fund	A typical short duration pension fund's liability profile.	To provide a hedge against nominal rate liabilities.

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Protection Portfolio

The Scheme's Protection Portfolio is invested in the following BMO Global Asset Management ('BMO') funds:

- Liability Driven Investment ('LDI') assets, namely:
    - BMO Credit-Linked Real Dynamic LDI Fund;
    - BMO Short Profile Real Dynamic LDI Fund;
    - BMO Short Profile Nominal Dynamic LDI Fund;
- BMO Global Low Duration Corporate Bond Fund.

The allocation to the Protection Portfolio, and to the funds within it, have been set to target interest rate and inflation hedge ratios of 100% of funded liabilities (i.e. assets). However, the Trustees recognise that the allocation of investments within the Protection Portfolio, and the actual hedge ratios, will change over time as a result of market movements. The Trustees will monitor the asset allocation and hedge ratios relative to their targets and make decisions to rebalance as appropriate in the context of the overall investment strategy and prevailing market conditions at the time.

Growth Portfolio

The Trustees have set a long-term strategic allocation within the Growth Portfolio as outlined below.

Fund manager	Strategic Growth Allocation (%)
BlackRock	**100.0**
Dynamic Diversified Growth Fund	33.3
UK Equity Index Fund	33.3
US Equity Index Fund	8.3
European Equity Index Fund	8.3
Japanese Equity Index Fund	5.6
Pacific Rim Equity Index Fund	5.6
Emerging Markets Fund	5.6

Note figures may not sum due to rounding

The Trustees recognise that the allocation of investments within the Growth Portfolio will change over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalancing. The Trustees will monitor the asset allocation relative to the strategic allocation and make decisions to rebalance as appropriate in the context of the overall investment strategy and prevailing market conditions at the time.

Rebalancing and cashflow management

The Scheme is invested in BMO's Dynamic and Credit-Linked LDI funds in an allocation which is designed to hedge a specific proportion of the funded liabilities of the Scheme as measured on the Trustees' Technical

Provisions basis. The value of these investments can change materially over time due to movements in long-term interest rates and market-implied inflation and will therefore deviate from the initial allocation set out above. The Trustees should consider how any investments or disinvestments involving the BMO LDI funds will affect the level of interest rate and inflation hedging before taking action.

Therefore, through the normal course of events, cashflow management transactions will not be made using the BMO assets unless a change in the hedging level is required, or under other circumstances at the Trustees' discretion.

Consequently, any disinvestments or investments should typically be made in order to bring the equity and DGF allocations in line with the strategic asset allocation.

Appendix 2: Financially material considerations, non-financially material considerations and stewardship

1. Financially Material Considerations

The Trustees consider that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material for the Scheme over the length of time during which the benefits provided by the Scheme for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of investment principles.

The Trustees have elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: The Trustees assess the fund managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: The Trustees are developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the fund managers.

Realisation of investments: The Trustees will use information received from fund managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustees will also take those factors into account as part of their investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:-

- The Trustees will obtain training on ESG considerations, as required, in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's fund managers, the Trustees will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's fund managers take account of ESG issues; and
- Through their investment consultant the Trustees will typically request that all of the Scheme's fund managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

2. Non-financially material considerations

The Trustees do not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the Regulations) in the selection, retention and realisation of investments.

3. Stewardship

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the fund managers on the Trustees' behalf. In doing so, the Trustees expect that the fund managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the fund managers about relevant matters (including business performance, strategy, capital structure, management of conflicts of interest, ESG and corporate governance matters), through the Scheme's investment consultant.

Fund managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the fund managers. Where possible and appropriate, the Trustees will engage with their fund managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

4. Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.