SAPA Holdings Limited Pension & Life Assurance Scheme

Statement of Investment Principles

May 2024

Preface

Scheme background

This Statement of Investment Principles (the ‘SIP’) details the principles governing investment decisions for the SAPA Holdings Limited Pension & Life Assurance Scheme (the ‘Scheme’).

The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries, and provides benefits calculated on a defined benefit (DB) basis. The Scheme has been closed to new entrants since 1 July 1997, but remains open to future accrual for existing active members of the Scheme.

The Trustees have purchased bulk annuity contracts (the “buy-in policies”) that are expected to meet members’ DB benefits in full, notwithstanding certain residual liabilities (for example, in relation to the equalisation of Guaranteed Minimum Pensions), which are currently uninsured but will be added to the buy-in policies where appropriate.

Regulatory requirements and considerations

Under the Pensions Act 1995 (the ‘Act’) and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005 (the ‘Investment Regulations’), the Trustees must secure that a written statement of the principles governing investment decisions is prepared and maintained for the Scheme.

This SIP also reflects the requirements and recommendations within The Pensions Regulator's general code of practice, in respect of the DB assets and any additional voluntary contribution (AVC) arrangements.

The Trustees are responsible for all aspects of the operation of the Scheme including this SIP.

In agreeing their investment strategy, the Trustees have had regard to:

- The requirements of the Act concerning suitability and diversification of investments and the Trustees will consider those requirements on any review of this SIP or any change in the investment policy.
- The requirement of the Investment Regulations: in particular that assets held to cover the Scheme’s technical provisions must also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.
- In respect of the AVC arrangements provided on a money-purchase basis, the Trustees have taken into account the requirements and recommendations within the Pensions Regulator’s code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits and regulatory guidance.

Responsibilities and appointments

Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Scheme. The Trustees draw on the expertise of external persons and organisations including the investment consultant, investment managers and the Scheme Actuary. Full details are set out in this SIP.

Consultation

In accordance with the Act, the Trustees have obtained and considered written advice from Buck Consultants (Administration & Investment) Limited (the investment consultant) prior to the preparation (or revision) of this SIP and have consulted Hydro Building Systems UK Limited ('the Sponsoring Employer'). However, it should be noted that neither the Trustees (nor any investment manager to whom they have delegated any discretion to make decisions about investments) shall require the consent of the Sponsoring Employer to exercise any investment power.

History and review

The Trustees will review this SIP at least every three years and without delay after each significant change in investment policy, taking note of any changes in the Scheme's liabilities. Once agreed, and after consultation with the Sponsoring Employer, a copy of this SIP will be given to the Scheme Actuary and will be made available to Scheme members on a publicly available website.

Previous versions of this SIP are dated:

- March 2023
- September 2020
- September 2019
- June 2017

Contents

Statement of Investment Principles

Investment governance structure

All investment decisions are taken by the Trustees as a whole. However, the Trustees have appointed an Investment Committee (‘IC’) with responsibilities as outlined in the IC’s Terms of Reference. The Trustees will undertake training where appropriate to ensure they have the necessary expertise to take the decisions required and to evaluate critically the advice received.

All investment decisions relating to the Scheme are under the control of the Trustees without constraint by the Sponsoring Employer. The Trustees will consult with the Sponsoring Employer when changing this SIP.

All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios and the buy-in policies. Investment management agreements and/or an insurance contract have been exchanged with the investment managers who are reviewed from time-to-time to ensure that the manner in which they make investments on behalf of the Trustees is suitable for the Scheme, and appropriately diversified.

Investment strategy and objectives

The Scheme’s investment strategy has been agreed by the Trustees having taken advice from the investment consultant.

The benefits payable under the Scheme have been secured under the terms of the buy-in policies, notwithstanding the residual uninsured liabilities referred to earlier in this SIP.

The investment strategy for the non-insurance assets (the “Residual Assets”) is based on an analysis of the Scheme’s estimated residual liability profile, the required investment return, the returns expected from the various asset classes and the associated investment risks.

The Trustees’ primary objectives are:

- To provide appropriate security for all beneficiaries.
- To maintain stability of funding level using an appropriate calculation basis.
- To achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.

The Trustees have translated their objectives into a suitable investment strategy for the Scheme.

In accordance with the Financial Services & Markets Act 2000, the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act.

The Trustees are responsible for reviewing the Scheme’s investment strategy as part of each actuarial valuation in consultation with the Scheme’s investment consultant. The

Trustees may also reconsider the investment strategy outside the triennial valuation period where necessary.

The Trustees consider the Scheme's investment strategy to be consistent with the current financial position of the Scheme and the Trustees' investment objectives.

The investment strategy will be reviewed regularly alongside any funding position update the Trustees may receive and at the next actuarial valuation.

The Trustees' policy in relation to the kinds of investments to be held

The Trustees have full regard to their investment powers as set out in the Trust Deed and Rules dated 26 November 2012.

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including:

- Equities.
- Fixed interest and index-linked bonds.
- Cash.
- Property.
- Private equity.
- Insurance policies.
- Derivatives.
- Hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes.

The Trustees have considered the attributes of the various asset classes (including derivative instruments), these attributes being:

- Security (or quality) of the investment.
- Yield (expected long-term return).
- Spread (or volatility) of returns.
- Term (or duration) of the investment.
- Exchange rate risk.
- Marketability/liquidity (i.e. the tradability on regulated markets).
- Taxation.

The Trustees have purchased the buy-in policies to mitigate the economic and longevity risks associated with the liabilities of members covered by the policies, with an insurance company that is financially strong.

In addition to the buy-in policies, the Scheme also holds a portfolio of assets that are invested taking into account the approximate nature and size of potential residual uninsured liabilities.

The Trustees consider only some of the stated classes of investment to be suitable to the current circumstances of the Scheme. The Scheme invests all of its Residual Assets in pooled funds, other collective investment vehicles and cash. The Trustees have made the decision to invest all the Residual Assets in pooled funds because:

- The Scheme is not large enough to justify direct investment on a cost-effective basis.

- Pooled funds allow the Trustees to invest in a wider range of assets, which serves to reduce risk.
- Pooled funds provide a more liquid form of investment than certain types of direct investment.

The Trustees' policy in relation to the balance between different kinds of investments
The choice of investments is driven by their characteristics, including their sensitivity to factors that influence changes in the value of the Scheme's liabilities (e.g. interest rates and inflation expectations). The sizing of the allocations will be driven, in part, by the level of expected benefit payments to be covered by the asset concerned subject to appropriate limits to ensure appropriate portfolio diversification.

Within this framework, the appointed investment managers will hold an appropriately diversified mix of investments consistent with their agreed benchmark and within their discretion to diverge from the benchmark.

The Trustees' policy in relation to the expected return on investments
The investment strategy is believed to be capable of delivering or exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to maintain a fully funded status under the agreed assumptions.

The Trustees' policy in relation to the realisation of investments
The buy-in policies are illiquid investments and cannot be surrendered, sold or "cashed-in" in the future. They are held in perpetuity until the last payment is made or such time as they are converted to individual buy-out policies for insured members.

The Residual Assets are held in high quality investments that are considered liquid and readily-realisable under normal market conditions.

The Trustees' policy in relation to financially material considerations
The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

The Trustees will review, at least annually, the investment managers' policies in respect of financially material considerations.

The Trustees' policy in relation to the extent to which non-financial matters are taken into account
The Trustees' objective is that the financial interests of the Scheme members is their first priority when choosing investments. The Trustees have decided not to take members' preferences into account when considering these objectives.

Non-financial matters may be taken into account if the Trustees have good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.

Risk capacity and risk appetite

The Trustees have determined the overall level of investment risk and how it is expected to evolve by considering the interplay between investment, funding and covenant risk.

The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

The Trustees' policy in relation to risks
The Trustees consider the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustees consider this risk to be materially mitigated through the purchase of the buy-in policies.

For the Residual Assets, investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's projected liabilities, and with the need to avoid undue additional contributions.

Although the Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the risk:

- associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- of the investment managers failing to achieve the required rate of return.
- due to the lack of diversification of investments.
- of failure of the Scheme's Sponsoring Employer to meet its obligations.
- of the buy-in policies failing to provide the desired benefit payments.
- there are insufficient assets to meet the "true-up" payment due to the buy-in policy provider after the policy inception date in the event of material changes in the data or benefits insured.

The Trustees manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

The Trustees will monitor the change in asset allocation compared to that expected and seek advice from the investment consultant on what, if any, changes should be made.

Stewardship in relation to the Scheme's assets

The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

The Trustees' policy in relation to engagement and monitoring (including peer to peer engagement)
As all the Scheme's investments are held in pooled vehicles or buy-in policies, the Trustees do not envisage being directly involved with peer-to-peer engagement in investee companies. The Trustees expect the investment managers, where appropriate, to undertake these activities and to use their discretion to maximise financial returns for members over the long term.

The Trustees will periodically review the investment managers' engagement activity and if they are dissatisfied with the approach adopted will take this into account in considering the ongoing suitability of the manager concerned.

The Trustees' policy in relation to voting rights
The Trustees expect their investment managers, where appropriate, to exercise rights (including voting rights) attaching to investments, although they recognise that the ultimate responsibility for stewardship of the assets rests with themselves and not the investment managers. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

Given the nature of the Residual Assets, there is limited scope for voting.

Investment management monitoring

The Trustees will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

All investment decisions, and the overall performance of the investment managers, are monitored by the Trustees with the assistance of the investment consultant.

The investment managers will provide the Trustees with quarterly statements of the assets held along with a quarterly performance report, upon request. The investment managers will also report orally on request to the Trustees.

The investment managers will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.

The Trustees will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.

The Trustees receive an independent investment performance monitoring report from the investment consultant on a quarterly basis.

Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

The Trustees' policy in relation to their investment managers
In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

- **How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees' policies**

  The Scheme's Residual Assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment managers, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

- **How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term**

  The Trustees, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled fund(s) to use in order to meet specific Scheme policies. They expect each investment manager to make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

  The Trustees also expect their investment managers to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

- **How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies**

  The Trustees expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustees review the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

  If the Trustees determine that the investment manager is no longer managing the assets in line with the Trustees' policies, they will make their concerns known to the investment manager and may ultimately disinvest.

  The Trustees pay their investment managers a management fee, which is a fixed percentage of assets under management (subject to any applicable minimum annual fixed fee arrangements). The Trustees will also agree to performance related fee structures if deemed appropriate.

  Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

- **How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range**

  The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment managers used by the Scheme.

  The Trustees expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

  The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

- **The duration of arrangements with investment managers**

  The Trustees retain the ability to change investment managers at relatively short notice. The Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

  The buy-in policies are expected to be held until the last benefit payment is made or such time as they are converted to individual buy-out policies for insured members.

Employer-related investments

The Trustees will not make direct investments in the Sponsoring Employer's own securities.

Additional voluntary contributions (AVCs)

The Trustees have full discretion as to the appropriate providers made available to members of the Scheme for their AVCs. Only providers normally considered suitable for voluntary contributions will be considered by the Trustees, having taken appropriate written advice from their investment advisers.

The Trustees have taken advice from their professional advisers on:

- The risks faced by members in investing on a money purchase basis.
- The Trustees will periodically review the continuing suitability of the AVC arrangements having taken professional advice on these matters.
- Members are directed to seek independent financial advice when considering their AVC arrangements.

Appointments and responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

A full list of the Scheme's advisers is provided at the front of the Scheme's Annual Report and Financial Statements. However, at the time of writing this SIP:

- The investment consultant is Buck Consultants (Administration & Investment) Limited.
- For pooled funds, custodial duties may be undertaken by the relevant investment manager or assigned to a third party.
- The buy-in policies are secured with Pension Insurance Corporation plc and Canada Life
- The Scheme Actuary is Paul Butfield from Buck.

Trustees

The Trustees' primary responsibilities include:

- The preparation of this SIP, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The SIP will also be reviewed following a significant change in investment policy.
- Appointing the investment consultant and investment managers as necessary for the good stewardship of the Scheme's assets.
- Setting investment objectives for the investment consultant (and reviewing these at least every three years, and following any significant change to investment strategy), and reviewing the investment consultant's performance against these objectives at least annually.
- Reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant.
- Assessing the processes and the performance of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- Monitoring compliance of the investment arrangements with this SIP and with the relevant sections of the Act, the Investment Regulations and any regulatory guidance on a regular basis.
- Monitoring risk and the way in which the investment managers have undertaken their stewardship responsibilities.

Investment consultant

The main responsibilities of the investment consultant include:

- Obtaining a copy of the Trustees' investment consultant objectives prior to undertaking work to ensure they understand the Trustees' requirements.
- Assisting the Trustees in the preparation and periodic review of this SIP in consultation with the Sponsoring Employer.

- Undertaking project work including the development and review of investment strategy, investment performance and manager structure as required by the Trustees.
- Advising the Trustees on the selection and review of the investment managers.
- Providing training or education on any investment related matter as and when the Trustees see fit.
- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Buy-in policy providers

The main responsibilities of the buy-in policy providers include:

- Updating Scheme data and benefits as agreed with the Trustees under the terms of the policies.
- Providing monthly payments to the Trustees of specified benefits in respect of insured beneficiaries and dependants covered under the terms of the policies.

Investment managers

The investment managers' main responsibilities include:

- Investing the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation.
- Ensuring that the investment of the assets within their portfolio is compliant with prevailing legislation.
- Providing the Trustees with quarterly reports and a review of the investment performance of their portfolio.
- Meetings with the Trustees as and when required.
- Informing the Trustees of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund within their portfolio as and when they occur.
- Considering financially material risks affecting investments within their portfolio.
- Exercising voting rights on shareholdings within their portfolio in accordance with their general policy.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme's funding level and therefore the appropriate level of contributions in order to aid the Trustees in balancing short-term and long-term investment objectives.

Compliance

The Scheme's SIP is available to members on a publicly available website (https://www.sapapensionscheme.co.uk).

A copy of the Scheme's current SIP is also supplied to the Sponsoring Employer, the Scheme's auditors and the Scheme Actuary.

This SIP, taken as a whole, supersedes all others and was approved by the Trustees.

Full name
Signature
Position
For and on behalf of
Date