The Amtico Company Pension Scheme

Statement of Investment Principles
Defined Benefit Section

June 2019

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustees of The Amtico Company Pension Scheme (the Scheme) for the Scheme's Defined Benefit Section. 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 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.

1.2 In preparing this statement the Trustees have consulted The Amtico Company Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

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 Scheme has two sections, a Defined Benefit (DB) Section and a Defined Contribution (DC) Section. There is a separate Statement of Investment Principles for the Scheme's DC Section, dated May 2019.

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

1.6 The investment powers of the Trustees are set out in Clause 3.2 of the Definitive Trust Deed & Rules, dated 22 December 2000. 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 (detailed in the Appendix to 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 the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer when amending the investment strategy.

3 Investment Objectives

3.1 The Trustees' main investment objectives for the DB Section are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;
- 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 the participating employer, the cost of 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.

3.2 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

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

4.2 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 the Appendix to this Statement.

5.2 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 Appendix to 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 any short term cashflows requirements or any 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 its investment policy and the Scheme's liabilities:

6.2 **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.

6.3 **Asset allocation risk:** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.

6.4 **Fund manager risk:** The Trustees monitor each of the Scheme's fund managers' 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.

6.5 **Concentration risk:** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.6 **Loss of investment:** The risk of loss of investment by each fund manager and custodian is assessed by the Trustees.

6.7 **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 cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.8 **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.

6.9 **Solvency and mismatching:** 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.

6.10 **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, whom 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 Socially Responsible Investment, Corporate Governance and Voting Rights

9.1 The Trustees believe that environmental, social and governance ("ESG") factors are potentially financially material and therefore have a policy to review these, alongside other factors, when selecting or reviewing the Scheme's investments. The Trustees will be reliant on the information presented by the fund managers and their investment advisor regarding the extent to which a fund manager allows for ESG in making their investment decisions. Furthermore, a fund manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

9.2 The Trustees understand that ESG analysis is not conducted on derivatives-based instruments and therefore ESG factors are not considered by the fund managers in the selection and management of such instruments.

9.3 As the Scheme's investments are held in pooled funds, ESG considerations are set by the fund managers who will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk. The Trustees do not currently impose any specific restrictions on the fund managers with regard to ESG issues, but will review this position from time to time.

9.4 The Trustees receive regular information from the fund managers on their approach to selecting investments and engaging with companies with reference to ESG issues.

9.5 The Trustees believe that good stewardship and positive engagement may lead to improved governance and better risk-adjusted returns. The Trustees delegate the exercise of rights (including voting rights) attached to the Scheme's investments.

9.6 In selecting and reviewing their fund managers, where appropriate, the Trustees will consider the fund managers' policies on engagement (including exercise of voting rights) and how these policies have been implemented.

10 Agreement

10.1 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 manager, the actuary and the Scheme auditor upon request.

Signed: W. A. Newman .... **Date:** 6. 6. 19 ....

On behalf of the Amtico Company Pension Scheme

Appendix Defined Benefit Section Investment policy as at June 2019

Choosing investments

The Trustees have appointed BlackRock to carry out the day-to-day investment of the fund. BlackRock is authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments. Barnett Waddingham is remunerated on a time cost basis.

The fee arrangements with BlackRock are summarised below:

Fund	Fees
Aquila Life MSCI World Index Fund	0.10% pa
Aquila Life MSCI World Index Fund Currency Hedged	0.12% pa
Ascent UK Long Corporate Bond Fund	0.25% pa
Liability Matching Funds Range	0.20% pa on the first £50m invested, and 0.15% pa thereafter

The total fee payable in respect of the assets under management with BlackRock is subject to minimum fees of £15,000 pa in respect of assets managed under the Equity Portfolio (which comprises the Aquila Life MSCI World Index Fund and the Aquila Life MSCI World Index Fund Currency Hedged) and £50,000 pa in respect of assets managed under the LDI portfolio (which comprises the Ascent UK Long Corporate Bond Fund and the Liability Matching Funds Range).

The Trustees have Additional Voluntary Contributions (AVCs) contracts with Equitable Life Assurance Society and Scottish Widows for the investment of members' AVCs. The arrangement is reviewed from time to time.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Fund	Benchmark	Objective
Aquila Life MSCI World Index Fund	MSCI World Index Net Total Return GBP	To track benchmark to within 0.2% pa, gross of fees, over 3 year periods.
Aquila Life MSCI World Index Fund Currency Hedged	MSCI World Index Net Total Return GBP Hedged Index	To track benchmark to within 0.2% pa, gross of fees, over 3 year periods.
Ascent UK Long Corporate Bond Fund	iBoxx £ Non-Gilts Over 15 Year Index	Outperform benchmark by 1% pa, gross of fees, over rolling 3 year periods
Liability Matching Funds Range	n/a	Provide interest rate and inflation exposure and take advantage of market opportunities to enhance yield.

The performance of BlackRock 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.

The Scheme has a strategic asset allocation as set out in the table below. The Trustees recognise that the asset allocation of investments in different asset classes will vary 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 rebalances. In addition, the Trustees have decided to invest any surplus Employer contributions into the LDI portfolio (which comprises the Ascent UK Long Corporate Bond Fund and the Liability Matching Funds Range) and to make any required disinvestments from the Equity portfolio. Therefore, the allocation to the Bond portfolio is expected to drift upwards over time, subject to review at the time of the next triennial actuarial valuation or sooner if required.

Fund	Allocation
Equity portfolio	**60%**
Aquila Life MSCI World Index Fund	29%
Aquila Life MSCI World Index Fund Currency Hedged	31%
Bond portfolio	**40%**
Ascent UK Long Corporate Bond Fund	25%
Liability Matching Funds Range	15%
Total	**100%**

The Scheme rebalances the Equity Portfolio on a monthly basis, using the control ranges detailed in the table:

Fund	Benchmark	Control Range
Aquila Life MSCI World Index Fund	48%	+/- 1.5%
Aquila Life MSCI World Index Fund Currency Hedged	52%	+/- 1.5%

The Scheme's allocation to the LDI portfolio is not rebalanced over time (unless a re-leveraging or de-leveraging event occurs, as discussed below, or until the Trustees subsequently review the allocations, which will happen periodically).

The Scheme may from time to time hold funds in cash with BlackRock and in the event that the Liability Matching Funds Range distribute excess collateral as a result of a Liability Matching Fund re-leveraging, the proceeds will be invested in a cash fund with BlackRock. In the event that a Liability Matching Fund requires additional collateral (de-leveraging), any cash held with BlackRock would be used first; next call would be the Aquila Life MSCI World Index Funds (in line with the benchmark). The Liability Matching Funds Range themselves are the final recapitalisation source on the priority list.

Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following asset classes through the above funds: equities, leveraged index-linked gilts and corporate bonds.

Investment of new money and realisation of investments

As noted above, the Scheme's allocation to the LDI portfolio is not rebalanced over time although the Trustees have decided to invest any surplus Employer contributions into the LDI portfolio. Therefore, any new money is normally invested in the LDI portfolio (in line with BlackRock's mandate which is to increase the hedging of the Scheme's interest rate and inflation risk using the current Liability Matching Funds Range, while aiming for a fairly "smooth" profile of future expected assets cash flows).

Where the Principal Employer's contributions are insufficient to meet the Scheme's cash flow requirements, the Trustees may disinvest some of their investments and disinvestments would normally be taken from the Aquila Life MSCI World Index Funds (in line with the benchmark).