Scapa Group Limited Pension Scheme

Statement of Investment Principles – August 2023

1. Introduction

Scapa Pension Trustees Limited, the Trustee of the Scapa Group Limited Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the Company (the "Sponsor") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received is, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met. A further objective is to reach a position such that the Scheme's assets are sufficient to fund the buy in or buy out of its liabilities with an insurance company.

4. Risk Management and Measurement

There are various risks to which any defined benefit pension scheme is exposed. The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more volatility in the Scheme's funding position.
- To control this risk whilst a number of liability management projects are undertaken by the Trustee, the Trustee has decided to put in place a low risk investment strategy for the Scheme and has delegated the implementation of the strategy to Mercer.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has put in place suitably diversified arrangements for both the Growth and liability-Matching elements of the investment strategy. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the strategy.
- To help the Trustee ensure the continuing suitability of the current investments, the Trustee delegate responsibility for the hiring, termination and ongoing monitoring of the Scheme’s investment managers to Mercer. Mercer provides the Trustee with regular reports regarding the appointed investment managers.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for investments in asset classes where the opportunity for active management to add value is considered limited.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Scheme’s mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme’s liquidity requirements and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. To control currency risk where it is considered appropriate to do so, the Trustee instructs Mercer to manage the level of non sterling exposure using currency hedging derivatives such as forwards and swaps.
- Responsibility for the safe custody of the Scheme’s assets is delegated to Mercer who has appointed State Street Bank and Trust Company (“State Street”) as custodian and administrator of the assets invested in the Mercer pooled fund vehicles that the Scheme invests in. Mercer is responsible for keeping the suitability of State Street under ongoing review.

Should there be a material change in the Scheme’s circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered.

5. Investment Strategy and Expected Return

The target exposure to the Growth portfolio is a fixed 10% (subject to appropriate control ranges) with the balance invested in the Matching portfolio. The Matching portfolio is designed to hedge the interest and inflation risk inherent in the Scheme's funded liabilities. Investment in each asset class is via pooled funds managed by Mercer and Mercer have full discretion when investing the assets of both.

The expected return on the Growth portfolio is cash +2-3%p.a., the portfolio investing in an actively managed portfolio of global bonds and currencies. For the Matching portfolio, the target funded liability hedge ratio to be maintained on the Trustee's behalf by Mercer is 105%. The Matching portfolio may invest in gilts (unleveraged and leveraged), investment grade credit and inflation swaps). The expected return on the overall strategy is c. 1%p.a. (net of all fees) above the portfolio of gilts that matches the Scheme's liabilities.

6. Day–to-Day Management of the Assets

The Trustee has delegated day-to-day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying specialist investment managers. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints.

The Trustee has taken steps to satisfy itself that Mercer has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Scheme's investments. The Trustee regularly reviews the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

7. Realisation of Investments

Mercer and the underlying investment managers selected by Mercer have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

8. Cashflow and cashflow management

Cash flows, whether positive or negative, are used to move the Scheme's asset allocation and allocation to the individual underlying investment managers back towards the appropriate strategic target allocations.

9. Rebalancing

Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer will review the actual balance between the Growth and Matching portfolios on an ongoing basis. If at any time the actual balance between the Growth and Matching portfolio is deemed to be outside the appropriate tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

10. ESG, Stewardship and Climate Change – Trustee's Beliefs and Policies (Defined Benefit Section)

The Trustee believes that good stewardship and the incorporation of environmental, social, and corporate governance (ESG) factors into its investment decision-making processes can have a material impact on the financial and non-financial performance of the Scheme's assets over the medium and longer term. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustee's explicit consideration.

Given these beliefs, the ESG expertise and capabilities of Mercer are key considerations of the Trustee when reviewing Mercer's ongoing fiduciary management appointment.

The Trustee expects the third party asset managers appointed by Mercer, via MGIE, to manage the Scheme's assets to comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website.

To monitor whether the Scheme's assets are being managed in line with the Trustee's beliefs and policies, the Trustee reviews the following reporting from Mercer on a regular basis:

- UK Stewardship Code Review – this annual review assesses each third party equity manager's compliance against the seven principles of the UK Stewardship Code.
- Stewardship Monitoring Report – these regular reports assess each third party equity asset manager's record of executing and disclosing voting activity, and the extent to which each manager is engaging with the underlying companies in which they invest.
- ESG ratings – these ratings for part of Mercer's quarterly reporting and provide an assessment of the degree to which Mercer believes ESG considerations have been embedded into a third party asset manager's investment philosophy and process.
- Carbon Footprint and Climate Scenario Modelling analysis – this analysis compares the carbon intensity of Mercer equity portfolios relative to appropriate benchmarks and considers the impact of differing climate change models on portfolio performance.

The Trustee has considered, and will continue to consider, including specific sustainability themed investment opportunities within its investment strategy.

MGIE sets the appointed third party asset managers restrictions in relation to particular products or activities. The Trustee reviews MGIE's exclusion policy on a regular basis.

Investment Restrictions

The Trustee has not set any investment restrictions on Mercer, MGIE or the third party asset managers in relation to particular products or activities but may consider this in the future where it is practicable to do so.

Member Views

Scheme member views are not taken into account by the Trustee in the selection, retention and realisation of investments.

How the Trustee incentivises its asset managers to, 1) make portfolio selection decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt/equity and, 2) engage with issuers to improve their performance in the medium to long term

The responsibility for making portfolio selection decisions based on assessments of the medium to long-term financial and non-financial performance of issuers of securities are made by the third party asset managers that are appointed by MGIE. The Trustee is aware that Mercer or MGIE do not make such investment decisions.

In appointing third party asset managers, the Trustee expects that MGIE will select managers where it believes the managers will engage directly with issuers in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party asset managers' compliance with this expectation, the Trustee considers regular reports from Mercer that include an assessment of each third party asset manager's voting and engagement activity.

The Trustee uses this monitoring to identify actions taken by the third party asset managers that appear out of line with the Trustee's policies. In doing so the Trustee seeks to understand the reasons for an asset manager's actions and what, if appropriate, steps have been taken by MGIE and/or the manager to address the issue. Such steps could include a decision by MGIE to terminate an asset manager's appointment.

Should the Trustee consider that MGIE has failed to take appropriate steps to appoint third party asset managers that are consistent with the Trustee's policies, the Trustee will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustee's approach to evaluating its asset managers' performances, and how it remunerates its asset managers, is aligned with the Trustee Directors' policies

All asset manager fees are based on a percentage of the value of assets under management. The Trustee monitors, and evaluates, the fees it pays for all asset management services on an ongoing basis. In doing so, the Trustee considers the degree to which asset manager performance and actions has been consistent with the Trustee's policies. The Trustee believes that its policies will improve the performance of the Scheme's assets over time and thus the current fee arrangements, all other things remaining equal, align the interest of the third party asset managers with the Trustee.

In evaluating performance, the Trustee will consider both financial and non-financial issues based on reports produced by Mercer. From the reports the Trustee expects to see evidence, as a result of actions taken by Mercer, MGIE and the third party asset managers, of an improving trend in the stewardship and sustainability of the issuers of the assets held by the Scheme. Such evidence could be improving compliance by the third party asset managers with the UK Stewardship Code Review or a Mercer Fund's reducing carbon footprint relative to its peers and/or a specified benchmark.

Should the Trustee's monitoring conclude that it sees no evidence of an improving trend in the stewardship and sustainability of the assets held in the Mercer Funds, the Trustee will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustee monitors portfolio turnover costs and how it defines and monitors portfolio turnover/turnover targets

The Trustee does not set explicit portfolio turnover ranges for the overall Scheme's assets or individual Mercer Funds. However, in order to avoid excessive dealing in the Scheme's underlying assets, and encourage the asset managers to adopt a longer-term investment time horizon when selecting investments, investment performance is considered by the Trustee net of all transaction costs. Further, MGIE considers portfolio turnover as part of its monitoring of the asset managers in order to ensure that such activity remains consistent with the asset managers' stated investment approaches.

For some Mercer Funds, the Trustee notes that MGIE, where it believes it appropriate for the mandate, actively encourage the third party asset managers to adopt a "buy and maintain" investment approach by making long-term investments in the debt of issuers, thus reducing portfolio turnover and turnover costs.

The duration of the Trustee Directors' arrangements with its asset managers

There are no duration limits to the Trustee's arrangements with Mercer and MGIE and MGIE does not put in place duration limits for the third party asset managers it appoints to manage the assets of the Mercer Funds. The Trustee will continue to retain Mercer as long as it believes it is in the best interests of the Scheme and expects MGIE to adopt the same approach when managing the Mercer Funds.

11. Additional Voluntary Contributions ("AVCs")

The Scheme also holds assets in respect of AVCs accrued by members when they were activity accruing benefits in the Scheme. These AVCs are invested with Prudential, which is authorised and regulated by the Financial Conduct Authority. The fee arrangements that apply to the AVCs invested with Prudential are summarised below:

Fund name	**Annual Management Charge (p.a.)**
Prudential Unit Linked Funds	0.65% - 0.75%
Prudential With Profits Fund	Bonuses are declared after expenses are taken into account. Currently the expense charge is expected to be 0.8% p.a., based on the assumption that future returns will be 5% p.a.

This AVC arrangement is closed to future contributions and the value of members' AVC benefits depends directly on the returns of the investment funds. The Trustee periodically reviews the suitability of this arrangement.

12. Fee Structures

Mercer levies a fee (plus VAT where applicable) on the value of the assets under management, which covers the design and annual review of the Trustee's strategy and investment management of the assets. In addition the underlying managers also levy fees based on a percentage of the value of the assets under management. Some of the underlying managers may also levy fees based on their performance.

13. Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Rebecca Wood - Trustee

August 2023

For & on behalf of The Trustee of the Scapa Group Limited Pension Scheme