

*Swan Mill Paper Company Limited Retirement Benefits Plan
Statement of Investment Principles*

**SWAN MILL PAPER COMPANY LIMITED
RETIREMENT BENEFITS PLAN**

STATEMENT OF INVESTMENT PRINCIPLES

March 2023

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1. INTRODUCTION

- 1.1 This document constitutes the Statement of Investment Principles (“the SIP”) required under Section 35 of the Pensions Act 1995 (“the Act”) and subsequent legislation for the Swan Mill Paper Company Limited Retirement Benefits Plan (“the Plan”). The sponsoring Company is the Swan Mill (Holdings) Limited (“the Company”). This Statement describes the investment policy being pursued by the Trustees of the Plan (“the Trustees”).
- 1.2 The Trustees confirm that, before preparing this SIP, they have consulted with the Company and have obtained and considered written advice from the Investment Adviser and, if there is an inconsistency with the funding assumptions, the Scheme Actuary (“the Advisers”). The Investment Adviser is Mercer Limited and the Scheme Actuary is Richard Francis of Mercer Limited. The Trustees believe the Advisers to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the arrangements of the Plan. The Trustees also confirm that they will consult with the Company and have taken advice from the Advisers prior to this SIP being revised.
- 1.3 Administration of the Plan is arranged by the Trustees who are responsible for the investment of the Plan’s assets. Where they are required to make an investment decision, the Trustees receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.
- 1.4 In accordance with the Financial Services & Markets Act 2000 (“the FSMA”), the Trustees set general investment policy, but have delegated the day-to-day investment of the Plan’s assets to a professional investment manager. The investment manager is authorised under the FSMA and provide the expertise necessary to manage the investments of the Plan competently.

2. PLAN GOVERNANCE

2.1 The Trustees consider that the following governance structure is appropriate for the Plan since it enables the Trustees to retain the majority of the decision-making roles, whilst delegating those tasks that the Trustees believe they are not suitably qualified to make.

Trustees

2.2 The responsibilities of the Trustees of the Plan include:

- (i) Determining the investment objectives of the Plan and reviewing these from time to time.
- (ii) Consulting with the Company on any changes to investment strategy as required by the Pensions Act 1995.
- (iii) Reviewing from time to time the content of the SIP and for modifying it if deemed appropriate, in consultation with the Advisers.
- (iv) Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- (v) Assessing the quality of the performance and process of the investment manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- (vi) Appointing and dismissing the investment manager(s).
- (vii) Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.

Investment Manager

2.3 The responsibilities of the investment manager include:

- (i) At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class.
- (ii) Providing the Trustees with quarterly reports of the assets, transactions, cash reconciliation, performance, actions and future intentions, and any changes to the process applied to their portfolio.

Investment Adviser

2.4 The Investment Adviser's responsibilities include:

- (i) Assisting the Trustees in reviewing the SIP.
- (ii) Advising the Trustees how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.
- (iii) Undertaking reviews of the Plan's investment arrangements, including reviews of the asset allocation strategy and investment manager, as well as manager and fund selection.
- (iv) Advising the Trustees of any changes at the Plan's investment manager that could affect the interests of the Plan.
- (v) Advising the Trustees of any changes in the investment environment that could present opportunities or problems for the Plan.

Scheme Actuary

2.5 The Scheme Actuary will be responsible for:

- (i) Liaising with the Investment Adviser to check that the expected return of the Plan's investment strategy is consistent with the assumptions underlying the triennial valuation.
- (ii) Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- (iii) Commenting on the appropriateness of the investment strategy relative to the liabilities of the Plan at the triennial valuations.

3. INVESTMENT OBJECTIVES

3.1 The Trustees' objectives for the Plan are as follows:

- (i) To make sure that the Plan can meet its obligations to the beneficiaries of the Plan. In recognition of this, the Trustees expect to reduce investment risk as the Plan's funding position improves over time.
- (ii) To pay due regard to the Company's interests on the size, stability and incidence of the Company's contribution payments.
- (iii) To achieve a real return (i.e. in excess of inflation) on investments, expected at least to exceed the Scheme Actuary's assumptions over the long term.

4. ASSET ALLOCATION STRATEGY

4.1 Having considered advice from the Advisers, and having due consideration for the objectives and attitude to risk of the Trustees and the Company, as well as the liabilities of the Plan, the Trustees decided upon the following long-term asset allocation strategy.

Asset Class	Manager	Manager Style	Benchmark Allocation	Tolerance Range
Growth Portfolio			9.0%	±5.0%
World Equity	LGIM	Passive	9.0%	
Matching Portfolio			91.0%	±5.0%
Corporate Bonds	LGIM	Active	36.5%	
LDI	LGIM	Passive	54.5%	
Total			100.0%	

4.2 The Trustees have appointed Legal & General Investment Management (“LGIM”) to manage the Plan’s assets. The Trustees believe that active management can add additional value in certain asset classes, in this case corporate bonds. LGIM also manage a passive mandate, as the Trustees felt this is a more appropriate management style for the Plan’s equity holding (due to size of holding) and LDI strategy (due to its aim of managing the interest rate and inflation risk of the Plan’s liabilities), where the case for using active management is limited.

4.3 A rebalancing policy has been introduced. If allocations breach the ±5% range the Trustees will rebalance back to the growth/matching benchmark, subject to consultation with their Advisors.

4.4 A recent history of the Trustees’ changes to the asset allocation strategy is set out below:

- (i) In January 2018, a switch was made from the Plan's long-dated fixed and index-linked government bonds into a bespoke LDI solution with LGIM. The LDI portfolio can use UK government bonds (both levered and unlevered) as well as derivative instruments to hedge 100% of the impact of interest rate and inflation movements on the long-term liabilities (on a Technical Provisions basis). The solution is expected to provide a higher and more accurate liability hedge, which will in turn lower portfolio risk.

- (ii) In November 2018, the Trustees agreed an investment de-risking policy with the aim of moving the investment strategy to a position of 'Self-Sufficiency' by the time of the 2023 actuarial valuation. The policy includes three de-risking 'triggers' set in relation to the Plan's funding level on the Self-Sufficiency (gilts + 0.5%) basis, each of which implies a switch from growth assets to matching assets. The 'destination' portfolio, to be implemented as and when the third and final de-risking trigger is breached, will consist of 100% matching assets. Details of the policy, including precise trigger levels, monitoring responsibilities and the implementation process, are set out in the Trustees' De-Risking Terms of Reference document, dated February 2019.
 - (iii) In March/April 2019, the Self-Sufficiency funding level breached the first and second de-risking policy triggers in quick succession, following which the Trustees agreed to implement the required switches to reduce the strategic target allocation to growth assets from 27% to 9% of total Plan assets, with a corresponding increase in matching assets.
 - (iv) In July 2021, it was identified that the Plan could be making better use of the credit allocation held with PIMCO in order to improve its cashflow generating characteristics. A switch was subsequently made from PIMCO to LGIM. The LGIM funds provide a bespoke cashflow matching approach that is broadly expected to meet benefit outgo over the next 15 years.
 - (v) In November 2022, the Trustees agreed to consolidate the Plan's assets with a single Manager in order to simplify its investment governance.
- 4.5 The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Plan. If the actual allocation between growth and matching assets moves further than $\pm 5\%$ from the strategy shown above, then the Trustees will make a decision as to whether to switch assets between classes to move back to the strategy after consideration of advice from the Advisers.
- 4.6 New money (or disinvestments) will be invested (disinvested) on a mechanical basis to bring the asset allocation back to the benchmark strategy as far as possible. The Investment Adviser will liaise with the administrators of the Plan to ensure that the new money is invested correctly.

Rates of Return

- 4.7 Based on Mercer's central asset class assumptions (as at 30 September 2022) and the long-term asset allocation, the Trustees expect to achieve a rate of return for the total Plan of approximately 0.9% per annum in excess of the Plan's liabilities over the long term (i.e. ten years).

Diversification

- 4.8 The choice of asset allocation strategy is designed to ensure that the Plan's investments are adequately diversified and liquid. The Trustees monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.
- 4.9 The Manager will invest in a diverse portfolio of investments in order to reduce investment risk given the circumstances of the Plan. The range and proportion of assets held in any one fund will be agreed by the Trustees. These guidelines will be specified in the formal Investment Manager Agreements and may be revised from time-to-time according to appropriate investment advice provided to the Trustees and having regard to the investment powers of the Trustees as defined in the Trust Deed.

Suitability

- 4.10 The Trustees have taken advice from the Advisers to ensure that the asset allocation strategy is suitable for the Plan, given its liability profile.

5. INVESTMENT MANAGER BENCHMARKS AND OBJECTIVES

5.1 LGIM manage the assets of the Plan across a number of portfolios:

5.1.1 **The World Equity portfolio** aims to track the performance, within acceptable tolerance, of the developed world equity market as represented by the FTSE World Index.

5.1.2 **The Liability Driven Investment (“LDI”) portfolio** is invested in a range of ‘Matching Plus’ funds. These include single stock fixed interest and index-linked gilt funds, as well as leveraged fixed interest and index-linked gilt funds.

5.1.3 A range of **cashflow matching credit funds** are used to approximately match the Plan’s expected liability outgoings period using a basket of investment grade credit assets.

5.1.4 A **Sterling Liquidity Fund** is also held by the Plan to support the LDI portfolio in the event of a de-leveraging or re-leveraging exercise in respect of one or more of LGIM’s leveraged ‘Matching Plus’ funds.

The LDI Portfolio

5.2 The objective of the LDI portfolio is to hedge 100% of the exposure of the Plan’s liabilities to interest rates and inflation (as measured on the Technical Provisions basis). Some tracking error around this target is expected given the difficulty in constructing a portfolio that precisely matches the Plan’s liability profile and the Trustees decision to refresh the LDI portfolio, to capture changes in market conditions and membership, on an annual basis.

5.3 Should interest rates (or inflation expectations) rise (fall) such that additional monies need to be invested in one (or more) of the LDI funds held to reduce leverage (a ‘recapitalisation event’), LGIM will automatically source additional monies in line with the instruction provided by the Trustees.

5.4 The Trustees note that these sources of additional monies are liquid and that having an instruction in place means there is a framework in place to support the Scheme’s hedge as market conditions change.

5.5 If interest rates (or inflation expectations) were to fall (rise) such that monies need to be released from one (or more) of the LDI funds held to increase leverage (a ‘re-leveraging event’), they would be held invested into LGIM’s Sterling Liquidity Fund whilst the Trustees discuss potential uses for this cash.

Suitability

5.6 The Trustees have taken advice from the Advisers to ensure that the Manager and its objectives are suitable for the Plan.

6. INVESTMENT MANAGER ARRANGEMENTS

Aligning Manager Appointment with Investment Strategy

- 6.1 Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected.
- 6.2 The Trustees will seek guidance from the Investment Advisor, where appropriate, for their forward looking assessment of an active manager's ability to outperform over a full market cycle. This view will be based on the Investment Advisor's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in.
- 6.3 For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the Investment Advisor in relation to their forward looking assessment of the manager's ability to achieve the stated mandate objectives.
- 6.4 The Investment Advisor's manager research ratings assist with due diligence and where available are used to inform decisions around selection, retention and removal of manager appointments.
- 6.5 The Trustees will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.
- 6.6 As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the Manager, but appropriate mandates can be selected to align with the overall investment strategy.
- 6.7 The Manager is aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to review the appointment.

Evaluating Investment Manager Performance

- 6.8 The Trustees will monitor the performance of the Manager against the agreed performance objectives.

- 6.9 The Trustees receive performance reports from the Manager on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and 5 years. The Trustees review the absolute performance, relative performance against a suitable index (where appropriate) used as the benchmark, and against the Managers' stated target performance (over the relevant time period). The Trustees' focus is on long-term performance but may review a manager's appointment if:
- (i) There are sustained periods of underperformance;
 - (ii) There is a change in the portfolio manager;
 - (iii) There is a change in the underlying objectives of the investment manager;
 - (iv) There is a significant change to the Investment Advisor's rating of the manager, or
 - (v) If there are changes to the regulatory requirements that require them to do so.
- 6.10 The Trustees also hold regular meetings with the Manager to satisfy themselves that the Manager continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Plan.
- 6.11 The Manager is remunerated by way of fees calculated as a percentage of assets under management.

Portfolio Turnover

- 6.12 The Trustees will monitor portfolio turnover costs as part of its ongoing monitoring of the investment manager
- 6.13 The Trustees will engage with the investment manager if portfolio turnover is higher than expected. This may be assess by comparing portfolio turnover across the same asset class on a year-on-year basis, or relative to the expected portfolio turnover range in the investment guidelines or prospectus for each strategy.
- 6.14 The Trustees are long-term investors and are not looking to change the Plan's investment arrangements on a frequent basis. As all the investments are made via open-ended funds, there is no set duration for the manager appointments. The Trustees will therefore retain an investment manager unless:
- (i) There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
 - (ii) The basis on which the manager was appointed changes materially (e.g. manager fees or investment process); or

- (iii) The manager appointment has been reviewed in line with 6.8 to 6.10 and the Trustees have decided to terminate the mandate.

7. RISKS

7.1 The Trustees recognise a number of risks involved in the investment of assets of the Plan:

- (i) *Funding and Asset/liability mismatch risk* – the primary risk upon the Plan’s assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and will be managed by careful structuring of the funding and investment arrangements as well as regular monitoring.
- (ii) *Asset concentration risk* – the Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from the mismatch of assets and liabilities, the Trustees aim to ensure that the asset allocation policy results in an adequately diversified portfolio.
- (iii) *Manager risk* – the Plan’s assets are invested with a single manager. Allocations to different managers increase the level of diversification at the manager level.
- (iv) *Underperformance risk* – addressed through diversifying across more than one manager and by regular monitoring of the Manager.
- (v) *Country risk* – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- (vi) *Liquidity risk* – risk of holding assets that cannot easily be realised should the need arise. Addressed through the choice of asset class; private equity and property are not held.
- (vii) *Default risk* – addressed through the restrictions for the Manager, in particular sterling corporate bonds are managed using a diversified portfolio of investment grade bonds.
- (viii) *Organisational risk* – addressed through regular monitoring of the Manager and Advisers.
- (ix) *Cash flow risk* – addressed through monitoring the cash flow requirements of the Plan to control the timing of any investment and disinvestment of assets.
- (x) *Tax risk* – the risk that the Plan’s tax status is prejudiced. Addressed through the appointment of suitably regulated managers and by the Manager Agreements.

- (xi) *Exchange rate risk* – this risk arises from unhedged investments overseas. The Trustee may, from time to time, hedge currency exposures.
- (xii) *Counterparty risk* – derivatives will be employed in the Plan's liability hedging mandate for the purposes of efficient portfolio management. These derivatives are likely to be traded directly with other counterparties, which gives rise to counterparty risk, namely the risk that the counterparty is unable to honour their commitment at the maturity of the derivative contract. LGIM mitigates this risk by restricting trading to 'high quality' counterparties (i.e. those with the lowest chance of defaulting), trading across a number of high quality counterparties, and by ensuring margin is posted by these counterparties (to lower the risk of default).
- (xiii) *Collateral adequacy risk* – as derivative instruments are used to hedge the Plan's liabilities, leverage will be employed in the liability hedging mandate. Using leverage means small changes in underlying conditions can produce larger changes in the value of the Plan's investment than if only physical assets were held (i.e. there is an implied 'lever effect'). Collateral adequacy is therefore the risk that underlying conditions negatively impact the Plan to the extent that additional assets will need to be used to support the use of derivatives. LGIM monitors this risk on an ongoing basis and will inform the Trustees and Investment Advisor should additional collateral be required for the Plan's liability hedging mandate.
- (xiv) *Sponsor risk* – the risk of the Company ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy. This risk includes that associated with the Company terminating the Plan. The strength of the employer's covenant was taken into consideration by the Trustees when setting the investment strategy.
- (xv) *ESG risk* – this refers to the risk that environmental, social and corporate governance (ESG) factors, including climate change, may have substantive impacts on the global economy and subsequently investment returns. The Trustees' policies on managing ESG risks are set out in Section 8.

7.2 The Trustees will keep these risks under regular review as part of their monitoring of the investment strategies and investment manager.

8. RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

ESG, Stewardship and Climate Change

- 8.1 The Trustees believe that ESG factors have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration.
- 8.2 The Trustees believe that voting rights are an important aspect of shareholder value and wish to exercise the voting rights attaching to the Plan's investments to promote and support good corporate governance principles.
- 8.3 The Trustees have given the appointed Manager full discretion in evaluating ESG factors, including climate change considerations, and the exercising of voting rights and stewardship obligations attached to the investments. This will be done in accordance with the Managers' own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees increasingly consider how ESG, climate change and stewardship is integrated within investment processes when monitoring the Manager, investing in new investment products or appointing new investment manager.
- 8.4 The Trustees will also consider the Investment Advisor's assessment of how the Manager embed ESG into its investment processes and how the Manager's responsible investment philosophies align with the Trustees' responsible investment policy. This includes the Managers' policies on voting and engagement. The Trustees will use this assessment to inform decisions around selection, retention and realisation of manager appointments.
- 8.5 The Trustees will review the Managers' ESG policies and engagement activities (where applicable) at least annually as part of preparing the Plan's Engagement Policy Implementation Document.
- 8.6 The Trustees can regularly review the decisions made by the Manager, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best medium to long-term performance.

Member Views and Investment Restrictions

- 8.7 Members have a variety of methods by which they can make views on financial and non-financial matters known to the Trustees. The Trustees will reflect on any views expressed by members, as deemed relevant, in their discussions on the selection, retention and realisation of investments.

- 8.8 The Trustees have not set any investment restrictions on the appointed Manager in relation to particular products or activities, but keep this position under review and may re-consider this in the future.

9. OTHER ISSUES

Other Assets

- 9.1 The Trustees retain a working capital balance in the Plan's bank account.

Additional Voluntary Contributions

- 9.2 The Trustees make available to members various funds with Standard Life for the investment of Additional Voluntary Contributions (AVCs). In addition, some AVCs are held in various MGM Assurance unitised funds. No new AVC have been made by members since 2018.

Realisation of Assets

- 9.3 The assets are held in pooled funds which can be easily realised if the Trustees so require.

Manager Agreements

- 9.4 The Trustees and the Manager have agreed, and will maintain, formal Manager Agreements setting out the scope of the Managers activities, their charging basis and other relevant matters. The Manager is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Act.

Custody

- 9.5 The Trustees are required to ensure that adequate custody arrangements are in place. As the Plan is investing via a pooled arrangement this has been delegated to the investment manager.

CMA Compliance

- 9.6 Each year, the Trustees have confirmed compliance with Parts 3 and 7 of the Investment Consultancy and Fiduciary Management Market Order 2019 in line with the requirements. They reasonably expect to continue to give this confirmation to the Pensions Regulator going forward as now required.

10. TRUSTEE APPROVAL

This document is approved for and on behalf of the Trustees of the Swan Mill Paper Company Limited Retirement Benefits Plan.

Signed..... Date.....