Egger (UK) Pension Scheme

Statement of Investment Principles

29th September 2020

Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the Egger (UK) Pension Scheme ('the Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and the Pension Regulator's investment guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Andy North of Mercer Limited, and the Investment Adviser is River and Mercantile Solutions (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the Sponsoring Employer and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser.

The Trustees are responsible for the investment of the Scheme's assets and where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustees set general investment policy, but have delegated day-to-day investment of the Scheme's assets to be undertaken through the fiduciary management service of River and Mercantile Investments Limited ('R&M Solutions'), hereafter referred to as the 'Fiduciary Manager'.

Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Fiduciary Manager or the Advisers as appropriate.

The Trustees will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the Fiduciary Manager or Adviser as part of such a review.

Suitability

The Trustees have defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustees have taken advice from the Advisers to ensure that the proposed strategy, and the assets held by the Scheme through that strategy, are suitable given its liability profile, the Trustees' objectives, legislative requirements, regulatory guidance and specifications in the Trust Deed and Rules governing the Scheme.

Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this Statement, which will generate income and capital growth to pay, together with contributions from the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustees invest in a blend of Growth Assets that broadly target a return of 4% per annum above gilts over the long-term, and Matching Assets (a portfolio of UK government bonds) which aim to move broadly in line with the value of the Scheme's liabilities. The Trustees decide the allocation between these two components to target the appropriate level of return for the Scheme.

Implementation of investment strategy

The Trustees have delegated the investment of the Scheme assets to the Fiduciary Manager, which has discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers (hereafter referred to as the 'Underlying Investment Managers') to run the portfolio on a day-to-day basis. The Trustees have acknowledged and considered with sufficient diligence the potential conflict that may arise from the Fiduciary Manager and the Investment Adviser being the same organisation.

Monitoring

The Trustees will monitor the performance of the Fiduciary Manager against the agreed performance objectives.
The Trustees, or any other suitably qualified Adviser on behalf of the Trustees, will regularly review the activities of the Fiduciary Manager to satisfy themselves that the Fiduciary Manager continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustees will consider whether or not the Fiduciary Manager:

a. is carrying out their function competently;

b. has regard to the need for diversification of investments;

c. has regard to the suitability of each investment and each category of investment; and

d has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with the Fiduciary Manager they will ask the Fiduciary Manager to take steps to rectify the situation. If the Fiduciary Manager still does not meet the Trustees' requirements, the Trustees will remove the Fiduciary Manager and appoint another.

Corporate Governance and Stewardship

The Trustees and Fiduciary Manager have agreed, and will maintain, formal agreements setting out the scope of the Fiduciary Manager's activities, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and 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 Pensions Act 1995.

The Trustees have appointed the Fiduciary Manager to implement the Scheme's investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Investment Managers.

The Fiduciary Manager's is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Fiduciary Manager's remuneration is based on the Scheme's asset size, and the Fiduciary Manager is therefore incentivised to maximise the Scheme's asset size over the long term. The Trustees are satisfied that these arrangements incentivise the Fiduciary Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement; and

- to assess and make decisions based on the medium to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustees' long-term performance objectives.

The Scheme investments are generally made via pooled investment funds, in which the Scheme investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Investment Managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Investment Manager holdings to the Fiduciary Manager. The Fiduciary Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Fiduciary Manager are subject to additional sign-off by the appropriate representative of the Fiduciary Manager.

The Fiduciary Manager undertakes regular reviews of all Underlying Investment Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Fiduciary Manager reviews the governance structures of Underlying Investment Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Investment Manager remuneration arrangements are aligned with the Trustees' objectives. The method and time horizon for evaluating and remunerating Underlying Investment Managers is determined by criteria set by the Fiduciary Manager, as detailed above.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where Underlying Investment Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager directly monitors these as part of their regulatory filings (where available), the Fiduciary Manager also monitors this as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available publicly here:
https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Fiduciary Manager oversees the turnover costs incurred by Underlying Investment Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Fiduciary Manager's expectations. Where there are material deviations the Fiduciary Manager engages with Underlying Investment Managers to understand the rationale for such deviations and take appropriate action.

Realisation of Investments

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustees so require. The Fiduciary Manager is permitted to hold up to 20% of Growth Assets in illiquid investments (as defined in the Investment Management Agreement), which can take additional time to realise. The Trustees have considered this risk against the possibility of needing to realise these assets and are comfortable it is a reasonable approach to take.

Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Fiduciary Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

Additional Voluntary Contributions (AVCs)

Prior to the Scheme's closure to benefit accrual, members could increase their benefits by making additional voluntary contributions. The Trustees have made available to members a choice of funds at Legal and General Investment Management for their AVCs to be invested in.

The Trustees review these arrangements regularly having regard to their performance, the objectives and the views of the Advisers.

Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustees delegate consideration of financially material factors to the Fiduciary Manager who considers these when constructing the portfolio, including looking at Underlying Investment Managers. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Fiduciary Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Investment Manager is appointed, the Fiduciary Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

Risks

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

a. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

- A liability benchmark is used as a proxy for the liabilities in order to measure the approximate changes in the liabilities (due to changes in gilt yields). The Trustees monitor this change relative to the change in asset values on a quarterly basis. The liability benchmark is reviewed following each actuarial review, or when significant market or Scheme events (e.g. a significant change in inflation expectations) imply that an amendment may be appropriate.

- The Trustees also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the discount rate used by the Scheme Actuary.

- When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the liability benchmark and can therefore also be assessed as part of the quarterly review process.

- This risk is also monitored through regular actuarial and investment reviews including monthly portfolio updates.

b. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:

- Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.

- The use of instruments and strategies designed to control the extent of downside exposure.

- The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.

- Regular monitoring of the Fiduciary Manager's performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Investment Managers by the Fiduciary Manager.

c. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.

d. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.

e. **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

f. **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
g. **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustees mitigate this risk by electing to allow the Fiduciary Manager to use currency hedging.

h. **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Fiduciary Manager and Underlying Investment Managers, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.

i.**ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Fiduciary Manager's ESG assessment at the point of investment with Underlying Investment Managers. A summary of the overall ESG characteristics in the portfolio is provided in the Fiduciary Manager's quarterly governance report which is reviewed by the Trustees.

j. **Mismanagement risk** – the risk of unsuitable investment activity by the Fiduciary Manager. This is addressed in the agreement with the Fiduciary Manager, and in turn by the Fiduciary Manager with the Underlying Investment Managers, which contain restrictions on the proportion and type of asset classes that the Fiduciary Manager or Underlying Investment Managers may invest in.

k. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Fiduciary Manager and Advisers by the Trustees, and of the Underlying Investment Managers by the Fiduciary Manager.

l. **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Sponsoring Employer.

The Trustees will keep these risks and how they are measured and managed under regular review.

Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members) when making investment decisions.

Signed: Michael A Slorick Date: 29th September 2020

For and on behalf of the Trustees of the Egger (UK) Pension Scheme