XPS Investment

The Ahlstrom Pension Scheme

Statement of Investment Principles

August 2019

Statement of Investment Principles

The Trustees of the Ahlstrom Pension Scheme ("the Scheme") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees in respect of assets covering Defined Benefit liabilities, and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustees have:

- Obtained and considered advice from the Scheme's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustees set the investment strategy and investment policies for the Scheme.

The Trustees have considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustees rely on Investment Managers for the day-to-day management of the Scheme's assets but retain control over all decisions made about the investments in which the Scheme invests. In particular, they make decisions about the choice of investment and the investment vehicles used by members for AVCs.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustees rely on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustees rely on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective and strategy

Investment objectives

The Trustees have set the following long-term objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Employer, the cost of all current and future benefit payments which the Scheme is committed to meet under the Trust Deed and Rules.
- To limit the risk of the assets failing to meet the liabilities over the long-term, in particular in relation to the Technical Provisions, by considering the liability profile of the Scheme, the Trustees' risk tolerances when setting the asset allocation policy and having regard to the strength of the Employer's covenant.
- To bring the Scheme to a fully funded position on a solvency basis and to secure bulk annuity policies in respect of all Scheme benefits.
- To wind up the Scheme
- To adhere to the provisions contained within this SIP.

Investment strategy

A review of the investment strategy has been carried out as at 31 December 2018 to assess the nature and duration of the invested assets relative to the unsecured liabilities at that date. This Statement, including the overall strategy set out in the Appendix to this statement, takes into account the results of that review.

Investment policy

The Trustees have adopted an investment policy as detailed in the Appendix, having taken into account the liability profile of the Scheme and the Scheme's medium to long term plan to buy out the remainder of the Scheme's liabilities with an insurer with a target date between 1 January 2025 and 31 December 2027.

The Trustees consider that the policy currently represents a suitable allocation for the Scheme's assets. The management of the Scheme's assets will be undertaken with regard to the overall strategy specified in the Appendix and the benchmarks as specified in the Appendix.

The Trustees understand that the asset mix underlying these benchmarks will change from time to time. The Trustees consider that an asset allocation policy for the Scheme that corresponds to these benchmarks will ensure that the assets of the Scheme include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives.

The Trustees will hold cash to the extent that they consider it necessary to meet impending anticipated liability outflows. A bank account is used to facilitate the holding of cash awaiting investment or payment.

The Trustees may also elect to hold cash over the short-term pending decisions on its allocation into the Scheme's investment strategy.

The actual strategy adopted for the Scheme, including the allocation to different assets and expected returns is set out in the Appendix.

Investment restrictions

There are no specific restrictions on the type and range of assets held. The investment manager imposes internal restrictions that are consistent with their house style. However, the Trustees have established the following overriding investment restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be used where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets or in other markets if at a prudent level.

Investment risk

The Trustees have identified a number of risks involved in the investment of the assets of the Scheme. The Trustees manage and measure these risks as follows:

- **Solvency risk and mismatching risk** – the risk that assets do not respond to market changes in the same way as the liabilities resulting in volatility in the funding position. *Addressed through the investment policy of investing all assets in matching asset classes and monitoring funding through ongoing triennial actuarial valuations and interim valuation updates.*
- **Strategy risk** – the risk that the investment manager's asset allocation deviates from the Trustees' investment policy. *This is addressed through regular review of the asset allocation and if necessary, rebalancing.*
- **Liquidity risk** – the risk that the assets cannot be sold quickly enough to enable benefits to be paid. *This is addressed through the funding payments made by the Employer and the process by which the administrator estimates the monthly benefit outgoings and ensures that sufficient cash balances are available, and through the Trustees' policy on realisation of assets (see below).*
- **Inappropriate investments** – the risk that the investment manager invests in assets or instruments which are not considered appropriate by the Trustees. *This is addressed through investment constraints and restrictions and the Trustees' policy in relation to the range of assets held (see below).*
- **Political risk** – the risk of an adverse influence on investment values from political intervention. *The vast majority of the Scheme assets are invested in UK denominated Gilts and corporate bonds of appropriate duration so that the market value of the assets moves in line with the cost of purchasing bulk annuity policies.*
- **Custodian risk** – the risk that a custodian fails to provide the services expected. *This is addressed through the agreement with the third party custodian and ongoing monitoring of the custodial arrangements. The Trustees may delegate the monitoring of the custodial arrangements to the investment manager.*
- **Counterparty risk** – the risk that a third party fails to deliver cash or other assets owing to the Trustees' investment manager. *This is addressed through the investment manager's guidelines with respect to cash management.*
- **Manager risk** – the risk of an investment manager failing to meet their stated objectives. *This is addressed through the Performance Objectives set out in the Appendix and through the ongoing monitoring of the investment manager.*

- **Fraud / Dishonesty** – the risk that the Scheme's assets are reduced by illegal actions. *This is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.*

Realising investments

The Trustees recognise that assets may need to be realised to meet Scheme obligations at any time.

The Trustees will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustees will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

Environment, Social, & Governance and Stewardship of Voting Rights

The Trustees have considered their approach to Environmental, Social and Governance (ESG) factors and believe that there can be financially material risks to the Scheme relating to ESG including climate change. The Scheme assets, other than insurance policies, are invested largely in pooled funds. The size of the Scheme, and the level of influence which the Trustees have, limit their ability to influence or set targets for the underlying investment managers. Reflecting this, the Trustees will review the extent to which the managers monitor and take into account ESG risks and those relating to climate change in their selection, retention and realisation of investments. The Trustees require the Scheme's investment managers to take into consideration ESG and climate change risks into consideration, recognising that how they do this will be dependent on the asset class and Fund characteristics in which they invest. The appropriate time horizon over which the Trustees consider ESG and climate change issues to be relevant for the Scheme is 5 years, which is the timescale over which the Trustees would wish the Scheme to reach a funding level which would allow all benefits to be secured with an insurer. Given this timeframe and the nature of the Scheme's investments, the Trustees recognise that their key focus in relation to ESG issues will be within the corporate bond fund over this period.

The Trustees will take their views on the potential for ESG and climate change risks into account in any future investment manager selection exercises for the underlying investments that the Scheme makes. Further to this, the Trustees, with the assistance of the Investment Adviser, will monitor the ESG integration practices of the managers they are invested in to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments and the undertaking of engagement activities in respect of those investments to the investment managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustee's policy is that the views of members and beneficiaries are not taken into account in the selection, retention and realisation of investments.

Signed on behalf of the Trustees:

Signature: ....

Name: STUART NIXON

Date: 26/8/2019

Signed on behalf of the Investment Consultant:

Signature: ....

Name: SIAN PRINGLE

Date: 29/8/2019

Appendix – Investment strategy

Overall strategy

The investment strategy of the Scheme is summarised in the table below. Bulk annuity policies, which provide an exact match for the corresponding liabilities are excluded.

Asset class	Target Allocation 31 March 2019	Tolerances	Manager fund	Fund Objective	AMC (pa)	Modified Duration (years)
IL Gilts Fund	62%	+/- 2%	LGIM Index Linked Gilts (Over 15 Years) Index Fund	To track the Sterling total return of the FTSE-A Index Linked (Over 15 Years) Index to within +/- 0.25% p.a. for two years in three	0.10%	30
IL Gilts Fund	8%	+/- 2%	LGIM Index Linked Gilts (All stocks) Index Fund	To track the Sterling total return of the FTSE-A Index Linked (All Stocks) Index to within +/- 0.25% p.a. for two years in three	0.10%	22
Corporate Bond Fund	30%	+/- 2%	LGIM Active Corporate Bond Over 10 year Fund	To track the Sterling total return of the Markit iBoxx non-Gilt over 10 year+ Index to within +/- 0.25% p.a. for two years in three	0.25%	13
	100%					

Nature and duration of invested assets and unsecured liabilities

The Scheme's invested assets are 70% real (i.e. inflation linked) and 30% fixed in nature. The average duration of the invested assets is 24 years, with the fixed assets having shorter duration than the real assets. The Scheme's unsecured liabilities are 75% real and 25% fixed, with average duration of 23 years. The Scheme's fixed liabilities have shorter duration than the real liabilities as they relate to the earliest periods of pensionable service. As noted in this statement, the Scheme's invested assets provide a good match for the Scheme's unsecured liabilities.

Rebalancing investments

Rebalancing is carried out on the instructions of XPS Pensions Consulting Limited after seeking Trustee authorisation.

Realising investments

Where assets need to be realised to meet member benefits, the Trustees will consult with the Investment Consultant regarding the source and timing of disinvestments.

Provision of Additional Voluntary Contributions (AVCs)

The Scheme has in the past provided a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement. As the Scheme has closed to accrual, contributions can no longer be made to members' AVC funds.

Investment funds for the Scheme's AVC arrangements are currently provided by Friends Provident, Prudential and Scottish Widows.

Provision of Additional Voluntary Contributions (AVCs) contd.

The Trustees will review the AVC provider, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustees are aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

The Trustees consider that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

XPS Pensions Group

Registration

All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

Authorisation

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 03842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049.