

Paper Converting Machine Company Ltd Staff Pension Plan (the "Plan")

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Paper Converting Machine Company Ltd Staff Pension Plan (the "Plan") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustees' investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

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

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustees' strategy whereby the level of investment risk reduces as the Plan's funding level improves. In this capacity, and subject to agreed restrictions, the Plan's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Plan's assets on a day to day basis. In considering appropriate investments for the Plan, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan's current and ongoing solvency funding positions. The Trustees recognise that equity investment will bring increased volatility to the funding level, but in the expectation of improvements in the Plan's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Plan can be met. In meeting this objective, the Trustees' further objectives are to:

- Reach a position such that the Plan's assets would be sufficient to exceed the liabilities as determined, in the event of the Plan winding-up, on the basis of a buyout with an insurance company.
- By means of an agreed combination of investment return and funding budget from the Sponsor, move the Plan to a position of being above the fully funded position, targeting a funding level of 110% on a de-risked funding basis (gilts +0.5% p.a.) within a reasonable timeframe.
- In doing so, to opportunistically reduce the degree of risk in the Plan's investment arrangements, thereby helping to protect the Plan's improving funding position.

The Trustees recognise this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed below.

The Trustees have agreed that the Plan should move progressively towards a target of an entirely bond based investment strategy ("Matching Portfolio") as its funding level increases. The Trustees will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in Section 4 of this Statement are those that the Trustees determine to be financially material considerations. Environmental, Social and Governance risks are discussed in Section 9, which can be both financial and non-financial.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management, over the Plan's anticipated lifetime, is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustees recognise 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 Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.
- To control the risk outlined above, the Trustees, having taken advice, set the split between the Plan's Growth and Matching Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.
- Whilst moving towards the target funding level, the Trustees recognise that even if the Plan's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk, the Trustees have delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise 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 one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient Markets, the scope for achieving added value is more limited.
- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Plan's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Plan's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Plan are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.

Should there be a material change in the Plan's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustees, with advice from the Plan's Investment Consultant and Scheme Actuary, reviewed the Plan's investment strategy in 2019. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the key decision was to seek a long-term solution to "de-risk" the Plan's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustees engage Mercer to implement their de-risking strategy by way of its Dynamic De-risking Solution. The approach undertaken relates to the asset allocation to the Plan's funding level (on an actuarial basis using a single discount rate of 0.5% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.5% basis"). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target a position of being above the fully funded position, targeting a funding level of 110% on a de-risked funding basis (gilts +0.5% p.a.) within a reasonable timeframe;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Plan's initial funding level on a gilts +0.5% basis and is based on a model of the progression of the Plan's funding level over future periods, taking into account the expected contributions from the Sponsor as agreed at the latest triennial actuarial valuation.

The de-risking triggers which form the basis of the Plan's dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements.

Once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and amended if required.

Responsibility for monitoring the Plan's asset allocation, and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities.

6. Realisation of Investments

The Trustees on behalf of the Plan hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Plan's assets in line with the Plan's strategic allocation Mercer is responsible for raising cash flows to meet the Plan's requirements.

8. Rebalancing

As noted, responsibility for monitoring the Plan's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

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

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced Growth Portfolio weighting, under the new de-risking band, as defined in the Statement of Investment Arrangements.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

9. Environmental, Social and Corporate Governance, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may 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 increasingly may require explicit consideration. Given their positive view on ESG, the Trustees view the selection of satisfactory sub-investment managers from an ESG perspective to be likely to have a positive impact on the performance of their long-term investment strategy.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a range of Mercer Funds managed by MGIE. When considering the selection and retention of their discretionary investment manager, the Trustees have considered the level of ESG integration they expect from a discretionary manager, and thus the underlying sub-investment managers. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. For the avoidance of doubt, the Trustees are also expected to adhere to the UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios. Mercer and MGIE are also expected to include these elements in the portfolio construction process where applicable.

Member views

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustees believe that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interest of the Plan as a whole. This belief is noted earlier in this section.

Investment Restrictions

Mercer has given their appointed investment managers restrictions in relation to particular Mercer Funds. Mercer is also a signatory of the Principles of Responsible Investment and engages with the UN Compact.

The Trustees have not currently set any additional investment restrictions but may do so in the future.

10. Trustees' Policies with Respect to Arrangements with, and Evaluation of the Performance and Remuneration of, Asset Managers and Portfolio Turnover Costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 3. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of

managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

Engagement activities in respect of investments will generally occur on behalf of investors in Mercer Funds (including the Trustees) when Mercer, MGIE or the underlying asset managers have identified underperformance by an issuer of debt or equity, where the company has failed to meet accepted corporate practice, or where the issuer's conduct places in doubt its reputation and value. The issues addressed will generally focus on material ESG factors or business strategy/performance issues — for example, mergers and acquisitions, capital structure and capital allocation, remuneration, climate change risk management and workforce management, including workforce diversity.

As part of its review and appointment process, Mercer and MGIE assess whether underlying assets managers have policies and procedures that are designed to manage actual and potential conflicts of interest in relation to stewardship and those underlying asset managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts policy and reported any breaches.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees they pay for asset management services on an ongoing basis taking into account the progress made in achieving their investment strategy objectives as outlined in section 3. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Plan's annualised, MiFID II compliant Personalised Cost & Charges statement. The Plan's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed by the Trustees net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE. The Trustees have the responsibility to assess Mercer's performance as discretionary investment manager net of all costs, including turnover, but given the de-risking nature of the mandate do not feel it appropriate to set explicit limits.

11. Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of any Additional Voluntary Contributions paid by members. The Trustees review the investment performance of the chosen providers as appropriate and take advice as to the providers' continued suitability.

12. Review of this Statement

The Trustees 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 Trustees 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 plan investments.

Signature

Date

Signature

Date