

DSM UK Pension Scheme

Statement of Investment Principles

October 2023

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Section 1: Introduction

Pensions Acts

- 1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustee of the DSM UK Pension Scheme (“the Scheme”). The agreements between the Trustee, the investment managers and the Scheme’s advisers do not form part of this statement but are contained in separate documents.
- 1.2 The Trustee has consulted the Sponsoring Companies (“the Sponsor”) on the principles set out in this statement and will consult with them further on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme’s investment consultants (WTW). The Trustee will review this document regularly, more often than every three years, and without delay following a significant change in investment policy.

Financial Services and Markets Act 2000

- 1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme details

- 1.5 The Scheme was a contracted-out defined benefit arrangement which operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.6 Exempt approval has been granted by the Inland Revenue under Chapter 1 of part XIV of the Income and Corporation Taxes Act 1988.
- 1.7 The Trustee, which is responsible for the investment of the Scheme’s assets, manages the administration of the Scheme. Under the Occupational Pension Scheme (Investment) Regulations 2005, the Trustee is required to invest assets in the best interests of Scheme members and beneficiaries.

Section 2: Division of responsibilities

- 2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Trustee

- 2.2 The Trustee's responsibilities include:

- Reviewing the content of this Statement regularly, in conjunction with the investment consultants and the Scheme Actuary and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or asset liability modelling exercise.
- Appointing (and dismissing) investment manager(s).
- Consulting with the Sponsor when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

- 2.3 In line with the Myners Principles, the Trustee has reviewed the appointment of an investment sub-committee. The Trustee has decided that it has the ability to provide sufficient time to focus on investment specific items, and therefore an investment sub-committee is not required at this time. This decision will be reviewed from time-to-time, and the Trustee acknowledges that, where appropriate, a sub-set of Trustees could be tasked with reviewing a particular area in more detail and revert to the wider Trustee group with findings and recommendations. The Trustee recognises the need for expertise and appropriate, expert advice and it will seek further training, and issue-specific advice, as required.

Investment Managers

- 2.4 Each investment manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.
- Informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme as soon as practicable.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme

Professional Advisors

- 2.5 The Trustee agrees with the Myners best practice of paying particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). The Trustee believe that the current arrangement (using a single advisory firm for both actuarial and investment advice, together with input from the Company's internal pension fund investment experts) has certain advantages for the Scheme. The Trustee will continue with the current arrangement until these ceases to be appropriate, however the Trustee may at any time make changes to the current arrangement if it is no longer considered appropriate, provided that any such changes meet UK legal requirements.

Investment Consultant

- 2.6 The investment consultant's responsibilities include:
- Participating with the Trustee in reviews of this statement.
 - Advising the Trustee, as requested:
 - through consultation with the Scheme Actuary on how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested
 - on how any changes at the investment manager(s) could affect the interests of the Scheme
 - on how any changes in the investment environment could either present opportunities or problems for the Scheme.
 - Undertaking project work as requested, including:
 - reviews of asset allocation policy
 - reviews of the investment managers.
 - Advising on the selection of new managers.

Scheme Actuary

- 2.7 The Scheme Actuary's responsibilities include:
- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels for the future.
 - Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
 - Monitoring the Scheme's funding level and liaising for the purposes of the dynamic de-risking framework summarised in Section 3 including liaising with the Investment Consultant and Trustees as appropriate.

Section 3: Objectives and long-term policy

Objectives

- 3.1 The Trustee has the following investment objectives:
- a The acquisition of suitable assets of appropriate security and liquidity which will generate income and capital growth to meet, together with new contributions from the Company, the cost of future benefit payments which the Scheme provides.
 - b To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter-term basis.
 - c To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under b.
- 3.2 To achieve the above objectives, the Trustee in consultation with the Company has established a 'journey plan' framework for targeting full funding on a low-risk measure. This is outlined in more detail under the section titled 'Future de-risking'.

Policy

- 3.3 A full triennial valuation of the Scheme will be performed, using asset return assumptions developed by the Scheme Actuary, and considering many diversified asset classes for possible investment. The Trustee will reconsider the asset allocation of the Scheme in the light of this valuation and at other times, as deemed necessary. The last such triennial valuation was carried out as at 31 December 2021.
- 3.4 The strategic weights as at 30 September 2023 are shown in the table below. This reflects the move to a new strategic portfolio targeting an expected return of Gilts +1.75%pa following the triennial strategy review which is being implemented throughout the first half of 2023.

DSM UK Pension Scheme		Strategic weights as of 30 September 2023		
Target allocation				
Asset class	Min	Norm	Max	
Equities				
UK equities	0.75	1.50	2.25	
Europe (ex UK) Equities 100% hedged	2.25	3.375	4.50	
Europe (ex UK) Equities	0.75	1.125	1.50	
North American Equities 100% hedged	2.75	4.125	5.50	
North American Equities	2.75	4.125	5.50	
Japan equities 100% hedged	0.75	1.25	1.75	
Japan equities	0.75	1.25	1.75	
Asia Pacific ex Japan equities	0.75	1.25	1.75	
Emerging Markets equities	1.50	2.50	3.50	
Property				
UK Property (CBRE)	0.00	0.00	0.00	
Global property (LGIM)	1.50	2.00	2.50	
Listed Infrastructure				
Listed infrastructure (LGIM/Magellan)	2.00	3.00	4.00	
Secure Income Assets				
Secure Income Assets (TWIM)	10.00	15.00	20.00	
Bonds				
UK corporate bonds (All Stocks)	3.50	4.50	5.50	
UK corporate bonds (over 15 years)	2.00	2.50	3.00	
LDI pooled funds	46.50	51.50	56.50	
Cash accounts				
HSBC euro account		0.00		
HSBC sterling account		1.00		
Total		100.0		

The strategic weights for the Scheme's equity allocations have been broadly based on a market cap weighting. However, it was agreed that the allocation to North American equities should be capped at c40% of the total equity portfolio with the remaining allocation to be pro-rated across the remaining equity funds broadly in line with market cap weightings..

The UK Property fund, managed by CBRE, was placed into an orderly wind-up in March 2020. CBRE will focus on the sale of assets and return of capital to investors, initially estimated to be over a two-year period from the time of wind up. At the time of writing this process is still ongoing. As the fund returns capital to the Scheme the Trustees, with advice from its investment advisor, will look to re-apportion the strategic allocation to this fund elsewhere within the portfolio as deemed appropriate at that point.

- 3.5** The benchmark indices that the Trustee uses to monitor performance of each of the asset classes are shown in the table below. The Trustee has set the investment managers the objective to track the return of these indices for each of the underlying asset classes through the use of passive and smart beta pooled investment funds (with the exception of the property pooled funds which are actively managed).

Benchmarks as of 30 September 2023

Asset class	Investment manager *	Benchmark index
Return-seeking assets		
UK ESG Screened Equities	SSgA	FTSE All-Share ex Controversies ex Controversial Weapons
North American ESG Screened Equities (100% hedged)	SSgA	FTSE Custom North America ex Controversies ex Controversial Weapons (100% GBP hedged)
North American ESG Screened Equities	SSgA	FTSE Custom North America ex Controversies ex Controversial Weapons
Europe (ex UK) ESG Screened Equities (100% hedged)	SSgA	FTSE Custom Developed Europe ex UK ex Controversies ex Controversial Weapons (100% GBP hedged)
Europe (ex UK) ESG Screened Equities	SSgA	FTSE Custom Developed Europe ex UK ex Controversies ex Controversial Weapons
Japan ESG Screened Equities (100% hedged)	SSgA	FTSE Custom Japan ex Controversies ex Controversial Weapons (100% GBP hedged)
Japan ESG Screened Equities	SSgA	FTSE Custom Japan ex Controversies ex Controversial Weapons
Asia Pacific (ex-Japan) ESG Screened Equities	SSgA	FTSE Developed Asia Pacific ex Japan ex Controversies ex Controversial Weapons
Emerging Markets ESG Screened Equities	SSgA	FTSE Emerging ex Controversies ex Controversial Weapons
UK Property	CBRE	AREF/IPD UK PPF All Balanced Funds
Global REITs	LGIM	FTSE EPRA/NAREIT Global Developed Real Estate Index (GBP hedged)
Listed infrastructure	LGIM	FTSE MFG Core Infrastructure Net Tax (UKPN) – GBP Hedged
Liability matching		
Secure Income Assets	TWIM	FTSE Over 15yrs Index Linked Gilts
Corporate Bonds Over 15 years ESG Screened	SSgA	Bloomberg Sterling Aggregate 100 mm Non-Gilts Over 15 Years
Corporate Bonds All Stocks ESG Screened	SSgA	Bloomberg Sterling Aggregate 100 mm Non-Gilts
LDI Pooled Funds	SSgA	**
Cash	N/A	Actual return

* Abbreviated investment manager names are expanded as follows: SSgA is StateStreet Global Advisors, LGIM is Legal and General Investment Management, TWIM is Towers Watson Investment Management.

** The LDI pooled funds do not have a specific benchmark index. The hedge ratio provided by the liability matching assets (which includes the LDI pooled funds) targets c95% of the PV01 (a measure of sensitivity to changes in interest rates) and IE01 (a measure of sensitivity to changes in inflation) of the Scheme's funded liabilities (i.e. equivalent to the value of the Scheme's assets). The current c95% target is subject to change depending on de-risking activity. For the purposes of total Scheme performance monitoring, the benchmark returns to be used will be set equal to the actual returns from the portfolio. The liability hedge provided by this portfolio will be monitored separately.

- 3.6 The Trustee will monitor and periodically review the overall asset allocation and consider appropriate action if required. Such action may include strategically moving away from the allocations set out above.
- 3.7 The Trustee notes that the allocation to the Liability Driven Investment (LDI) pooled funds may include gilts, index-linked gilts, cash, swaps and repurchase transactions.
- 3.8 The Trustee may use, or permit the investment managers to use, derivative instruments if they contribute to a reduction of risk (including hedging interest rate, inflationary or longevity risk inherent in the Scheme's liabilities) or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk). An LDI approach has been implemented. The approach aims to hedge the inflation and interest rate risks of the Scheme with a target hedge ratio of 95% (as a % of assets). The Trustee has considered the risks associated with the use of derivatives, as set out in Section 6.
- 3.9 The LDI mandate is a portfolio of pooled funds, each containing some combination of physical gilts, derivative contracts and cash, designed to provide a hedge against changes in the value of the Scheme's liabilities owing to changes in interest rates and inflation expectations. The portfolio is managed by State Street Global Advisors Limited who have discretion over the exact combination of assets held subject to the conditions laid out in the signed Services Agreement, originally dated 4 August 2020 with subsequent revisions being made as necessary. This agreement details the target level of hedging to be achieved, the rebalancing tolerances, the liability proxy cashflows to be used as a benchmark for hedging and a full list of permitted funds that the manager may access.
- 3.10 The Services Agreement specifies that the LDI manager will rebalance the portfolio with the aim of achieving the hedging objectives on a weekly basis. If the manager believe that they cannot efficiently manage the LDI portfolio within the parameters that have been agreed, the manager will cease rebalancing activity and inform the Trustee.
- 3.11 Some of the underlying pooled funds within the LDI portfolio will contain derivative instruments designed to introduce 'leverage' to the portfolio. Leverage is essential to achieving the Trustee's desired level of hedging whilst remaining consistent to the profile of the liability cashflows, although each leveraged fund requires a certain level of collateral in order to be managed effectively. The LDI manager has set collateral ranges for each leveraged fund, and has the discretion to rebalance the portfolio to ensure that the collateral levels remain appropriate following any change in market conditions.
- 3.12 The Trustee considers that the target asset allocation for the Scheme includes suitable investments, is appropriately diversified and that there is a reasonable expectation of meeting the objectives in 3.1.
- 3.13 Divergence from the target asset allocation is permitted and the Trustee will review such divergence from time to time to ensure that the asset allocation remains suitable for the Scheme.
- 3.14 Neither the Trustee nor any of the investment managers of segregated assets is permitted to borrow money (or to act as guarantors in respect of the obligations of another person) where the borrowing is liable to be repaid (or liability under a guarantee is liable to be satisfied) out of the assets of the Scheme; but this does not preclude borrowing made only for the purpose of providing liquidity for the Scheme and on a temporary basis. Nor does it preclude investment in leveraged pooled funds, subject to such limits and restrictions as the Trustee may lay down from time to time. Some short-term borrowing for settlement is also allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management). The Scheme's legal advisors have confirmed that the repurchase transactions do not represent "borrowing".

Future de-risking

- 3.15 The Trustee has established a de-risking strategy, agreed with the Company, which is underpinned by a desire to be fully funded based on the demographic assumptions underlying the most recent actuarial valuation and financial assumptions based on a portfolio of low-risk assets that are expected over the long-term to provide an annual return in line with UK Government Bond yields plus a margin of 0.50% (the “Journey Plan basis”). The desire is for this to be achieved through a combination of:
- a Mechanistic de-risking, whereby a de-risking action (see below) will be taken every 3 years commencing 30 June 2017. Due to improvements in the Scheme’s funding position, the June 2023 de-risking was brought forward to 2022, although the investment strategy was subsequently reviewed and amended in March 2023 as detailed below. As such, no de-risking activity was undertaken in June 2023, with the next mechanistic de-risk now due in June 2026.
 - b Dynamic de-risking, whereby a de-risking action (see below) will be taken if and when the funding level of the Scheme is identified (through frequent monitoring) as being materially ahead of schedule versus the projected position on the Journey Plan, which was agreed by the Trustee as being 3.0% ahead of the central expected journey plan (reduced from 3.5% as part of the 2019 Journey Plan Review). Effectively, the dynamic de-risking would aim to ‘lock in’ any material upside gains.

The triggers will be set relative to the Journey Plan basis and will be set at a level which would be expected to support a certain level of de-risking without extending the expected length of the Journey Plan. In March 2023 the existing Journey Plan was reviewed following the latest Actuarial Valuation, with a revised full funding position being projected as 2039 (previously this was expected by 2031). This was owing to a negative impact on the Scheme’s funding level throughout 2022 following the UK Gilts Crisis in September / October 2022. As a result, the Trustee agreed to a level of re-risking, increasing the expected return of the portfolio from Gilts +1.45%pa to Gilts +1.75%pa to bring the expected full funding date forward. The new target portfolio has a Journey Plan with expected full funding date of 2034.

- When the funding level approaches (is within 1% of) a trigger, the Trustee will decide in advance of the trigger being hit, whether to proceed with the de-risking action and the details of de-risking action in preparation for if and when the trigger is subsequently hit.
- 3.16 With regard to both mechanistic and dynamic de-risking, the Trustee will consider in advance possible de-risking actions, including:
- A switch of 3% of the Scheme’s assets from return-seeking assets to liability matching assets (LDI); or
 - An alternative action, provided that such action does not serve to increase the expected length of the Journey Plan. Options include (but are not limited to):
 - o A switch from return-seeking assets to government and/or corporate bonds, cash or an alternative low-risk asset class;
 - o Increasing the liability hedge via the allocation to LDI funds (with no reduction in the allocation to return-seeking assets);

- A buy-in or buy-out of a tranche of the Scheme's liabilities via the purchase of a bulk annuity contract;
 - With regard to mechanistic de-risking, if the Scheme is materially behind schedule, then another available option will be to postpone the planned de-risking.
 - The appropriateness of any de-risking action will be considered by the Trustee, in light of the Scheme's funding level and market conditions at such time, and the Trustee will consult with the Company as appropriate.
 - In advance of a trigger being hit or mechanistic de-risking being implemented, the Trustee will seek confirmation that the switch will not lead to an increase in expected Company contributions. If an increase in contributions is expected then the Trustee will consult on this point with the Company as appropriate prior to implementing the switch.
- 3.17 The de-risking framework and dynamic de-risking triggers will be subject to change at any time following a review by the Trustee and Company, including following each actuarial valuation, to ensure they remain appropriate.
- 3.18 The Trustee may consider re-risking in the event the Scheme falls materially behind the central journey plan. In this event, additional analysis will be provided by the Scheme's Investment Consultant, in conjunction with the Scheme Actuary, to provide analysis on an appropriate level of re-risking. There is a higher threshold for re-risking than de-risking as this typically involves purchasing riskier assets. An example of this activity was executed following the March 2023 Investment Strategy and Journey Plan Review, whereby the Scheme re-risked to ensure that a target full funding date was achieved ahead of peak liability cashflows being reached. This was achieved by selling 8% of the Scheme's allocation to Corporate Bonds and purchasing Global Equities.

Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

- 4.1 The Trustee has appointed investment managers who are authorised under Financial Services and Markets Act 2000 to undertake investment business. After gaining (and, at most, annually reconfirming) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.
- 4.2 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).
- 4.3 When investing (or disinvesting) the Trustee has set a policy on internal controls including requirements in relation to authorised signatories and on the size of any single transition to or from a single fund on any given day. The limit is currently set at £7.5 million. Further details of the Trustee's internal investment controls are set out in a separate document which will be reviewed by the Trustee from time to time.

Socially responsible investments

- 4.4 The Trustee recognises that long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial. The Trustee believes that Environmental, Social and Governance ("ESG") factors, including climate change, affect risk and return in the medium to long-term, and as such investment managers' policies and credentials in this area should be taken into account when reviewing current and new investment opportunities. Where appropriate the Trustee will delegate the responsibility of incorporating ESG principles into the selection, retention and realisation of investments to its investment managers, and will review these policies with the assistance of its investment adviser on an ongoing basis and engage with its investment managers where required. In addition, the Trustee has agreed, where appropriate, to make investments that incorporate ESG tilts in the construction of the assets invested in and that have strong engagement policies in place. The Trustee acknowledges that they act on behalf of the Scheme's members in relation to ESG principles.
- 4.5 When considering the suitability of investments, the Trustee acknowledges the Sponsor's corporate policy on socially responsible investments which proposes to base investments on the United Nations Principles for Responsible Investments (UNPRI) and will endeavour to support a best practice policy on socially responsible investments in line with the strong beliefs in this area shared with the Sponsor.

Rights attaching to investments

- 4.6 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers, and as part of periodic reviews with the assistance of its investment adviser will assess its investment managers' engagement policies and activity. For most of the Scheme's investments, the Trustee expects the

investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

- 4.7 The Trustee supports the Stewardship Code published by the Financial Reporting Council. The investment managers all have stated corporate governance policies which comply with these principles.
- 4.8 The Trustee will periodically review reports from investment managers and receive sustainable investment reviews of its managers from its investment advisor to ensure that the policies outlined in this section are being met. When reviewing the managers' stewardship and engagement activities, the Trustee will consider matters including the capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.

Liquidity and realisation of investments

- 4.9 The Scheme's administrator (WTW) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.
- 4.10 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realizable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy.

The Myners Principles

- 4.11 A Best Practices document, which has regard to the Myners Code, has been drawn up by DSM Corporate Pensions Committee on behalf of all DSM pension schemes. The Trustee uses this document to govern its decision-making processes and reviews its compliance with the document regularly.

Section 5: Investment manager arrangements

- 5.1 The Trustee considered the use of both passive and active investment management when reviewing the Scheme's strategy. The resultant use of active and passive management is formed following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns net of fees.
- 5.2 The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. If segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

Investment manager structure

- 5.3 The assets are divided between a number of investment managers to reduce the risks associated with one investment manager having responsibility for all of the Scheme's assets.
- 5.4 The individual managers, along with their benchmarks, are set out in Section 3.
- 5.5 The investment managers have regard to the:
- need for diversification of investments, so far as appropriate to the circumstances of the Scheme; and to the
 - suitability to the Scheme of both the asset classes proposed and also the particular assets proposed within those classes.
- 5.6 The investment managers may use pooled vehicles to help with diversification.
- 5.7 The Trustee has considered the guidelines and restrictions of each of the mandates in which the Scheme invests and are comfortable with them.

Manager monitoring

- 5.8 Whilst the Trustee is not involved in the investment managers' day to day method of operation and so cannot directly influence attainment of the performance target, they will assess performance and review appointments. Measurable objectives have been developed for each investment manager, consistent with the Scheme's longer-term objectives and an acceptable level of risk. These are also outlined in Section 3.
- 5.9 These investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.

- 5.10 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the Trustee's focus is on longer term outcomes and the Trustee recognises that the active managers' performance will be volatile and that they will not always achieve their target. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with the target given the levels of risks adopted. A manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- 5.11 The Trustee uses the DNP Monitor (provided by DSM Pension Services and based on performance data received from the investment managers) to assess the managers' performance relative to the benchmark returns.
- 5.12 The appointment of the investment managers will be reviewed by the Trustee based on the results of their monitoring of performance and investment process and of the managers' compliance with the requirements of the Pensions Act 1995 (as amended). The investment managers will be provided with a copy of this Statement and are assessed to ensure that the management of the assets is consistent with those policies relevant to the mandate in question. The Trustee will monitor the extent to which they give effect to the investment principles set out in it. The Trustee will provide the investment managers with any material amendment to or replacement of this Statement.
- 5.13 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

Fee structures

- 5.14 The Trustee has agreed fees with each manager for a given scope of services, based on the value of assets in their respective portfolios, which includes consideration of long-term factors and engagement activities. These fees are consistent with each manager's stated fee scale. Details of the fee structures are included in the Investment Management Agreements.
- 5.15 The Trustee reviews the costs incurred in managing the Scheme's assets regularly, via regular cost reporting provided by the managers, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.
- 5.16 Advisors' fees are paid on either an hourly or a project basis.

Soft commission

- 5.17 The Trustee has agreed the conditions under which soft commission arrangements are permissible. The details of these circumstances are outlined in the managers' Investment Manager Agreements.

Section 6: Risk management

- 6.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:
- Solvency risk and mismatching risk
 - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies
 - are managed through assessing the progress of the actual growth of the assets relative to liabilities under current and alternative investment policies.
 - Manager risk
 - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy
 - is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
 - Liquidity risk
 - is measured by the level of cashflow required by the Scheme over a specified period
 - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
 - Currency risk
 - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
 - overseas holdings are diversified across a number of overseas investments and currencies.
 - Custodial risk
 - is managed by the investment managers, who are responsible for the safe custody of the assets in their pooled funds.
 - Political risk
 - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
 - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- Sponsor risk
 - is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
 - is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.
- Derivative-related risks
 - Counterparty risk – this risk is mitigated through the use of pooled funds that use robust ISDA (International Swaps and Derivatives Association) documentation, GMRA (Global Master Repurchase Agreement) or other relevant derivatives documentation, collateral management and diversifying exposure among a number of counterparties.
 - Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.
 - Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
 - Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
 - The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisors, the Trustee monitors these positions on a regular basis.

6.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

6.3 The Trustee continues to monitor these risks through the use of a risk register, which is reviewed on a regular basis.