WillisTowersWatson

JohnsonDiversey UK Pension Scheme

Statement of Investment Principles

October 2021

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Section 1: Introduction

This document constitutes the Statement of Investment Principles for the JohnsonDiversey UK Pension Scheme ("the Scheme") in compliance with Section 35 of the Pensions Act 1995 ("the 1995 Act") and the Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme's benefits are provided from a pension fund of assets, which is held under the legal control of the Trustee of the JohnsonDiversey UK Pension Scheme ("the Trustee"). The Trustee may delegate certain authorities to the Investment Sub-Committee.

It is the duty of the Investment Sub-Committee to oversee the investments of the Scheme, and to report its activities to the Trustee on a regular basis. The Investment Sub-Committee shall define and review investment policy, and monitor the investment managers and performance on an ongoing basis to ensure that the long-term objectives are being met. The Investment Sub-Committee will meet no less than annually.

The Trustee has received and considered written advice on the content of this Statement from Towers Watson Limited (a Willis Towers Watson company), its investment adviser. The Trustee has consulted the Company about the content of this Statement.

Section 2: Investment Objectives and Considerations

When adopting an investment strategy, the Trustee has considered (amongst other factors) the nature of the Scheme's liabilities, the Scheme's Statutory Funding Objective (SFO), and a longer term objective to reach a position of "self-sufficiency". One of the Trustee's primary investment objectives is the control of the risk of insolvency at an acceptable level. The Trustee also wishes to minimise risks of mismatch between the assets and liabilities particularly by reducing interest rate and inflation risks in the Scheme.

Having consulted with the Company, the Trustee has also considered the impact of the Scheme's investment strategy on the level and volatility of the cost of the Scheme to the Company.

The Trustee does not consult with members when determining the investment strategy. The Trustee considers that the presence of Member Nominated Trustees on the board, and the focus given to investment by an Investment Sub-Committee, means that consulting with members is not deemed necessary.

Section 3: Permitted Categories of Investment

The Trustee has very wide powers of investment under the Trust Deed and Rules and section 34(1) of the Pensions Act 1995. Details of the investment powers and permitted categories of investment can be found in clause 14 of the Trust Deed.

In addition to the limitations set out in the Trust Deed and Rules, individual managers are required to adhere to the specific limitations set out in the individual investment management agreements, insurance policies or proposal forms and this Statement.

Section 4: Investment Policy

The Trustee periodically reviews the asset strategy with the help of its investment adviser to decide on the appropriate strategic asset allocation for the Scheme. Since the last update to the Statement of Investment Principles in 2020, the Trustee performed a full investment strategy review in the second half of 2020. In August 2020, it was agreed that all the remaining equity funds held by the Scheme would be sold and the proceeds invested equally between the existing Diversified Growth Funds (DGFs) already held by the Scheme.

It was subsequently agreed to sell the property fund held with UBS. The Trustee decided to invest the proceeds in the Sterling Liquidity Fund in order to meet short-term benefit payments.

Strategy

A summary of the Scheme's overall asset allocation is currently as follows:

Overall portfolio	Approximate asset allocation (%)
Return-seeking assets	**27**
Diversified Growth Funds (DGFs)	27
Matching assets	**73**
LDI portfolio[1]	54
Buy-in policies[2]	19
Total	**100**

Note that this is a point-in-time position as at 30 June 2021 and the Scheme is not managed to this benchmark. In particular, the relative holdings will naturally vary as the value of the LDI portfolio and buy-in policies rise and fall in line with the value of the underlying liabilities.

The Trustee may hold cash in its bank account from time to time to manage the cash flow requirements of the Scheme, and this is not reflected in the asset allocation above.

The DGF portfolio is split between two asset managers with the following initial strategic allocation:

DGF portfolio	Asset Allocation
TWIM Partners Fund	50%
LGIM Diversified Fund	50%
Total	**100%**

[1] The LDI portfolio comprises the leveraged fixed and real gilt funds, the unleveraged 'Aquila Life' gilt funds, and the Sterling Liquidity Fund.

[2] Note that the annuity policies may be transferred to the relevant insurer in due course (i.e. converted into a 'buy-out'). Until then, the policies remain an asset of the Scheme, and the Scheme remains exposed to the risk of default by the insurer. However, when selecting the insurance provider, the Trustee undertook due diligence to minimise this risk and will continue to monitor publicly available information on the financial strength of the insurers.

The LDI portfolio has the following target hedge ratios, expressed as a proportion of technical provisions liabilities (gilts +0.5% basis, excluding liabilities insured by the buy-in policies):

LDI portfolio	Target hedge ratio
Interest rates	95%
Inflation	95%

The Trustee has delegated authority of the design of the LDI portfolio to the LDI investment manager (currently BlackRock). That is, BlackRock have discretion to choose the specific funds in which the Plan is invested, subject to certain constraints as set out in the Investment Manager Agreement. BlackRock will select appropriate funds in order to meet the objectives set by the Trustees, as defined above. The liability benchmark provided to BlackRock will be reviewed periodically, expected to be in conjunction with the Plan's triennial valuation, or sooner in the event of a significant change in the membership profile.

Disinvestment and rebalancing policy

The Trustee sets a default policy in terms of the funds to be used to meet disinvestments, which is reviewed from time to time. For any material disinvestments, the Trustee will consider if the default option is appropriate. Any new investments will be considered on a case by case basis.

Non-buy-in asset holding at 30 June 2021

The asset allocation for the Scheme, excluding the annuity policies, as at 30 June 2021, allowing for all of the transitions agreed as part of the most recent review, is set out in the following table. It excludes any balance in the Trustee bank account and any other net current assets.

Fund	Manager	Allocation	Performance target	Benchmark Index	Return Tracking Tolerance
		%			*+/- %*
LGIM Diversified Fund	LGIM	16.9	LIBOR +3.5%	3 Month LIBOR	n/a
TWIM Partners Fund	TWIM	16.4	CPI +5.0% over rolling 5 year periods	CPI + 2.0% over rolling 5 year periods	n/a
LDI portfolio	BlackRock	66.7	In line with benchmark	n/a – liability benchmark	n/a

Section 5: Expected Risk and Return

For the non-annuity assets, the Trustee expects to achieve a long-term return in excess of gilts. The table below shows the expected long term portfolio return for the non-annuity assets in excess of liability matching gilts.

It also shows the 1 year "Value at Risk 95" (excluding longevity risk). This is a measure of the variability in the expected outcomes. The £7.4m figure shown below means is that there is a 1-in-20 chance of the deficit (on the "gilts flat" self-sufficiency measure) increasing by this amount, or more, over one year relative to the expected deficit position.

DGFs are expected to generate outperformance over gilts in the long term. LDI funds are expected to track the liability benchmark.

Expected risk and return (non-buy-in assets)	
Expected Return (10 year annualised) relative to gilts	1.1% pa
1 year Value at Risk 95 (VaR95) excluding longevity risk	£7.4m

The above figures are estimates based on the Willis Towers Watson Investment Model as at 31 March 2020 and should be expected to vary from time to time as investment market conditions evolve.

Section 6: Alignment of Investment Managers to Trustee policies

The Scheme uses many different managers and mandates to implement its investment policies. 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.

To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

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.

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.

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 focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, 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.

The Trustee believes that they have taken reasonable steps to satisfy themselves that the Managers have the appropriate knowledge and experience for managing the Scheme's investments.

The Trustee will monitor the investment performance of each manager relative to the pre-agreed performance targets. If the investment performance is out of line with the agreed targets for more than an acceptable period (see Section 9 for further details), the Trustee will review the manager to determine whether any action is required.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. In addition, a fixed fee is paid to BlackRock in respect of the management services provided for the LDI portfolio.

The Trustee reviews the costs incurred in managing the Scheme's assets regularly, 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.

The investment adviser fees are calculated as a fixed fee for a fixed scope of services and on a time cost basis for any other services. This is a standard approach for investment consultants.

Section 7: Risks & Controls

Like any investment in the financial markets, the Scheme's investments result in an exposure to risk. Risk takes many forms.

One of the key risks is that of under-funding against the Statutory Funding Objective (SFO). The Trustee believes that the Scheme's current SFO funding level, the adopted investment strategy and the Company's contribution policy maintains this risk at a suitable and acceptable level. The table below shows the key risks identified by the Trustee and the measures taken to control these risks.

Summary of Risks and Controls	
Risk of…	***Control Measure***
Underfunding on a discontinuance or SFO basis	Investment strategy set with reference to the nature of the Scheme's liabilities. Contributions can be requested following a triennial actuarial valuation
Asset mix deviating substantially from the intended allocation	Regular monitoring by the Investment Sub-Committee
Concentration of assets in any particular investment	Investment in a combination of funds and across a range of asset classes and geographies
Underperformance against benchmark	Majority of assets invested in index-tracking (passive) asset management. Regular monitoring of all assets by the Investment Sub-Committee
Assets not being available when needed	Majority of assets are invested in pooled funds which in turn invest in marketable securities
Significant loss through the use of financial instruments	No direct use of financial instruments
Risk of undesirable liability movement following changes in interest rates and/or inflation	Liability matching portfolio (bonds and LDI) has been put in place resulting in an asset portfolio with a 100% interest rate hedge ratio and 100% inflation hedge ratio to the SFO liabilities. This means that for every £1 of increase/decrease in the SFO liabilities owing to interest rates and expected inflation, the assets are also expected to increase/decrease by roughly £1
Falls in equity markets or non-sterling currencies	Diversification across other non-equity return-seeking assets through use of Diversified Growth Funds and by geography

In addition to having these controls in place the Investment Sub-Committee will:

- Review the investment strategy regularly to ascertain whether the associated risks remain acceptable; and
- Check that the investments remain suitable for the purposes of providing pension benefits to Scheme members.

Section 8: Diversification and Suitability

The Scheme's defined benefit investments are in a range of funds to provide a suitable level of diversification. This reduces the risk of one investment, or a single class of assets, having a substantial negative effect on the Scheme's investments.

Section 9: Monitoring

The Trustee will regularly monitor the investment managers and the performance of the Scheme's investments to ensure the strategy, and the associated risks, remain appropriate.

The Trustee will also monitor changes in the investment managers' internal processes, personnel and governance structure. If a manager fails to provide services or performance to the required standards, then the Trustee will review whether to continue with their appointment.

Section 10: Realisation of Investments

The Trustee will monitor the need to disinvest assets from the investment managers. Any disinvestments must be authorised by two authorised signatories as arranged between the investment manager and the Trustee.

Apart from the annuity policies with AEGON and PIC, the Trustee holds units in pooled funds. The investments with BlackRock and LGIM are readily realisable. Disinvestment from the property funds with UBS can be subject to a notice period under certain market conditions. The investment with TWIM is less liquid. The Trustee has taken into account the cashflow and liquidity needs of the Scheme when setting the investment strategy.

Section 11: Additional Voluntary Contributions (AVCs)

The facility to pay AVCs into the Scheme was withdrawn on 6 April 2006. AVCs paid before this date are managed by Standard Life. The Trustee continues to monitor the performance of these funds and may review Standard Life's appointment if the performance is deemed to be unsatisfactory.

Section 12: Environmental, Social and Governance considerations

The Trustee will generally take account of financially material considerations, over the length of time that the Trustee considers is needed for the funding of benefits by the investments of the Scheme. This may include (but is not necessarily limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change.

In practice, as the Scheme only requires a modest return in excess of gilts to meet its long term self-sufficiency goal, the majority of the Scheme's assets are already invested in government securities and bulk annuities. Therefore ESG considerations are only expected to impact a minority of the portfolio.

The expected time period to full funding on the gilts flat self-sufficiency basis is estimated to be less than 10 years. When that goal is reached, most of the remaining non-government securities are expected to be sold in favour of further investment in bulk annuities. ESG factors are typically expected to play out over the longer term and so are only expected to have a modest impact over the Scheme's relatively short timescales.

The Trustee has therefore taken a proportionate approach to ESG considerations, as follows:

- Much of the Scheme's return-seeking portfolio is in index-tracking equity and credit strategies, in particular the strategies within the LGIM Diversified Fund. The Trustee expects that, as part of their wider governance of the pooled funds, and as one of the largest investors in the UK, LGIM will continue their long standing approach to stewardship - including engagement with firms and exercise of voting rights. The Trustee will monitor LGIM in this regard from time to time.

- The remainder of the Scheme's return-seeking portfolio in invested in a comparatively "unconstrained" mandate, the Towers Watson Partners Fund, where a more "active" investment approach is adopted. The Trustee understands that financially material ESG considerations form a part of active decisions taken as part of the management of this mandate. This includes decisions both at the overall fund level (e.g. when TWIM are considering which underlying managers and strategies to allocate to), and also at an underlying sub-manager level (e.g. which securities to buy and sell, and stewardship). TWIM has also appointed Hermes Equity Ownership Services to provide an engagement overlay, whereby Hermes advise the underlying sub-managers in relation to engagement and voting. The Trustee monitors TWIM in this regard from time to time.

The investment managers' policies on investment and voting practices can be provided on request.

Section 13: IGG Principles and Regulatory Guidance

IGG Principles

The Trustee has considered the six Principles set out by the Investment Governance Group (IGG) which, in turn, was based on the 'Myners Review: Institutional Investments in the UK (revised)'. The table below shows how the Trustee meets these requirements.

Principle	Action taken by the Trustee
Effective Decision Making	Individuals making investment-related decisions have the appropriate level of expertise to critically evaluate advice received.
Clear Objectives	The Scheme's objectives are set out in Section 2. These objectives were determined by considering the nature of the Scheme's liabilities, the financial position of the Scheme and the views of the Company.
Risk and Liabilities	The Trustee has considered a wide range of investment opportunities as part of an asset / liability study before agreeing the Scheme's asset strategy.
Performance Assessment	The Trustee reviews the performance of the Scheme's assets at each Investment Sub-Committee meeting and the performance over the year is included in the annual Trustee Report and Accounts. The Trustee will consider whether to undertake a formal assessment of its own procedures and decisions, alongside an assessment of the performance of their advisors.
Responsible Ownership	The Trustee will comply with the Institutional Shareholders Committee's Statement of Principles on the responsibilities of institutional shareholders and agents and take steps to ensure the Scheme's investment managers also comply with these principles to the extent that this is possible when invested in pooled funds.
Transparency and Reporting	This Statement of Investment Principles sets out who is responsible for making investment decisions, the objectives for the Scheme's investment strategy, what that strategy is and how it has been selected. The Trustee includes a report on the Scheme's investments in the annual Trustee Report and Accounts.

Guidance on DB investment from the Pensions Regulator ("tPR")

In March 2017, tPR released new guidance for trustees of Defined Benefit (DB) pension schemes.

The 6 areas of the guidance are:

1. DB investment governance
2. Investing to Fund DB
3. Matching DB assets
4. DB growth assets
5. Implement a DB investment strategy
6. Monitoring DB investments

The guidance aims to provide trustees with practical information and sets out the key factors to be considered in effectively setting and managing schemes' investment arrangements.

The full guidance can be found at tPR's website.

http://www.thepensionsregulator.gov.uk/db-investment.aspx

The Trustee has had regard to this guidance when formulating their investment policy.

Section 14: Review of Statement

The Trustee will review and revise this Statement at least every three years or when it is necessary to do so. The last review was in September 2020.

Appendix A: Current advisers and delegates

Investment Managers	BlackRock 12 Throgmorton Avenue, London, EC2V 2DL Legal & General Investment Management One Coleman Street London EC2R 5AA Pension Insurance Corporation 14 Cornhill London EC3V 2TW Rothesay Life plc Level 25, The Leadenhall Building 122 Leadenhall Street, London EC3V 4AB Standard Life Standard Life House 30 Lothian Road Edinburgh EH1 2DH Towers Watson Investment Management Watson House London Road Reigate Surrey, RH2 9PQ
Scheme Actuary	Edwin Sheaf FIA Towers Watson Limited (a Willis Towers Watson company) 51 Lime Street, London, EC3M 7DQ
Investment Adviser	Towers Watson Limited (a Willis Towers Watson company) 51 Lime Street, London, EC3M 7DQ
Auditor	RSM UK Audit LLP St Philips Point Temple Row Birmingham B2 5AF

Administrator	Buck Consultants Limited 5th Floor Temple Circus Temple Way Bristol BS1 6HG
Legal Adviser	Shoosmiths Witan Gate, Witan Gate House, 500-600 Witan Gate West, Milton Keynes, MK9 1SH