Statement of Investment Principles for the Essex International Limited Pension Scheme

April 2023

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Essex International Limited Pension Scheme (the "Trustee") on various matters governing decisions about the investments of the Essex International Limited Pension Scheme (the "Scheme"), a Defined Benefit ("DB") scheme. This SIP replaces the previous SIP dated April 2022.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. LCP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

- Appendix 1 sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- Appendix 2 sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- Appendix 3 sets out the Scheme's investment manager arrangements.

2. Investment objectives

The Trustee's primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. A secondary objective is that the Scheme should be fully funded (ie the asset value should be at least that of its liabilities). The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Scheme.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy in June 2022, taking into account the objectives described in Section 2 above.

The result of the review was that the Trustee decided that the investment strategy of the Scheme should be based on the allocation set out in the table below.

Asset class	Strategic allocation
Investment grade buy and maintain credit	40%
Portfolio of fixed interest and index-linked gilts, and a liquidity fund	60%

The Trustee, with its advisers, monitors the asset allocation from time to time to consider whether it remains appropriate.

3.1. Interest rate and inflation hedging

The Trustee has agreed to a liability hedge aimed at matching movements in the value of around 100% of LCP's estimated buyout basis due to changes in long-term interest rates and inflation expectations. This is achieved through the Scheme's investments in fixed interest and index-linked gilts, and corporate bonds.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In setting the strategy the Trustee also took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustee's primary investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and

- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustee's key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive[1] management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment manager arrangements are set out in Appendix 3.

The Trustee has signed an agreement with Legal & General Assurance (Pension Management) Limited, to invest via its institutional fund platform in respect of the DB Section, setting out in detail the terms on which the underlying portfolios are to be managed.

The investment manager's primary role is the day-to-day management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment manager to whom discretion has been delegated exercise their powers giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

[1] Passive management includes a range of rules-based portfolio construction strategies

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment manager has discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment manager of any liquidity requirements. In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation.

7. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members, since it recognises that these factors can be relevant to investment performance.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

Within each asset class, the Trustee has considered investment options that give increased weight to ESG factors. The Trustee has chosen to invest the Scheme's investment grade buy and maintain credit allocation in an actively managed sustainable pooled fund which seeks to promote ESG characteristics.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

8. Voting and engagement

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee review how these are implemented in practice.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee has selected some ESG priority themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee will review the themes regularly and update them if appropriate. The Trustee's current priorities are climate change and corporate transparency.

The Trustee chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore, the Trustee believes it is in the Scheme's members' best interests that the Scheme's investment managers adopt strong practices in these areas.

The Trustee will write to its investment managers regularly to notify them of its stewardship priorities, set out viewpoints and issues of interest ahead of the voting season and remind them of the Trustee's expectations of the investment managers in relation to responsible investment – ie ESG considerations, climate change, voting and engagement. If the Trustee's monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvement.

Approved by the Trustee of the Essex International Limited Pension Scheme on 20 April 2023.

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employer;
- developing a mutual understanding of investment and risk issues with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments; appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters; such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers;
- rebalancing the portfolio to a benchmark allocation (where applicable); and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. Investment manager and custodians

In broad terms, the investment manager will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee/investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolio (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolio.

4. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment manager, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment manager and platform provider receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively. It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time.

7. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk, risk measurement and risk management

Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should generate its target return so that is has adequate assets to meet its liabilities as they fall due. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee has managed this risk by investing in a low risk portfolio of fixed interest and index-linked gilts funds, a liquidity fund and an investment grade buy and maintain credit fund.

3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from its investment adviser, and may undertake an investment manager selection exercise. The Trustee monitors the investment manager on a regular basis.

4. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

5. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to solvency of the investment manager and custodian of those funds.

Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers and the regulatory environments in which the pooled fund managers operate. The Trustee carries out due diligence checks prior to the appointment of any new investment manager or fund, and monitors for changes to the operating environment of the pooled funds with the help of its investment advisers.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds. Indirect exposure to credit risk arises from the Scheme's investment in gilts, corporate bonds and money market instruments (within the liquidity fund).

The managers of these pooled funds manage credit risk by having a diversified exposure to issuers of the underlying assets and conducting thorough research on the probability of default of those issuers.

6. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure.

7. Environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

8. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.

9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Investment manager arrangements

Details of the investment manager, its objectives, and investment guidelines are set out below.

1. Legal & General Investment Management ("LGIM")

The Scheme invests in fixed interest gilts, index-linked gilts, corporate bonds (within an investment grade buy and maintain credit fund) and money market instruments (within a liquidity fund) through a number of pooled funds managed by LGIM.

The fixed interest gilts and index-linked gilts pooled funds are managed on a passive basis; as such the objective of these funds is to provide a return in line with their respective benchmarks, before the deduction of fees. The funds are priced weekly. The investment grade buy and maintain credit and liquidity funds are managed on an active basis and deal weekly. All funds are open-ended and are unlisted.

The benchmark of the funds is set out in the table below.

Asset class	Benchmark index
Sterling Liquidity Fund	SONIA (Sterling Overnight Index Average)
All Stocks Gilts Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index
Under 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts up to 5 Years Index
5 to 15-year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts 5-15 Years Index
Over 15 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index
Over 15 Year Gilts Index Fund	FTSE Actuaries UK Conventional Gilts Over 15 Year Index
Future World Net Zero Buy & Maintain Fund	There is no formal benchmark for this fund

LGIM is responsible for custody of the assets of the Scheme. The Trustee does not have a direct relationship with the custodians.

2. Additional Voluntary Contributions ("AVCs")

Members are not permitted to pay AVCs to the Scheme. Legacy AVCs have been paid on an added years basis.