

Colthrop Board Mill Pension Scheme (the Scheme)

Statement of Investment Principles

May 2024

Contents

- 1. Definitions..... 3
- 2. Introduction..... 5
- 3. Investment Beliefs 6
- 4. Investment Objectives and Investment Strategy 8
- 5. Investment Manager Arrangements.....10
- 6. Selection of a Pooled Fund.....13
- 7. Monitoring.....15
- 8. Stewardship.....16
- 9. Risks.....18
- 10. Future Amendments21

Appendix 1: The Trustee's Investment Strategy

1. Definitions

AVCs	Additional Voluntary Contributions
Deutsche Bank	Deutsche Bank Wealth Management
ESG	Environmental, Social and Governance
Investment Advisers	<p>The Trustee is advised on investment matters by Deutsche Bank Wealth Management (Deutsche Bank) and First Actuarial LLP.</p> <p>Deutsche Bank Wealth Management is an authorised investment management company and, as such, is regulated by the Financial Services Authority (FSA).</p> <p>First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.</p>
Legislation	<p>This statement has been drafted to comply with relevant legislation.</p> <p>In particular, consideration has been given to:</p> <ul style="list-style-type: none">• the Pensions Act 1995;• the Occupational Pensions (Investment) Regulations 2005;• the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and• the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
Scheme	Colthrop Board Mill Pension Scheme

Trustee

The Trustee of the Scheme

2. Introduction

This statement is made in accordance with the requirements of legislation. The main body of the document sets out the principles and policies that govern investments made by the Trustee whilst details of the specific investment arrangements in place are provided in the Appendix.

Throughout the statement, wording in blue represents actions that will be taken by the Trustee in the implementation and monitoring of the Scheme's investment arrangements.

Investment advice

The Trustee received and considered written investment advice from the First Actuarial to help with the preparation of this statement.

The Trustee will obtain and consider written advice from the Investment Adviser when reviewing the Scheme's investment strategy or when considering the suitability of potential investments. The Trustee expects that such advice will be consistent with any guidance issued by The Pensions Regulator.

Legal advice

The Trustee will seek legal advice relating to investment matters whenever deemed necessary.

Consultation with the sponsoring employer

In preparing this statement, the Trustee consulted with the sponsoring employer.

The Trustee will consult with the sponsoring employer before making any changes to the Scheme's investment strategy.

Conflicts of interest

The Trustee is satisfied that the Scheme's investment strategy meets its responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustee and are reflected in the Scheme's investment strategy.

Basic investment principles

The Trustee believes that the following three basic investment principles should be taken into account in the construction of the Scheme's investment strategy:

- i) Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.
- ii) Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.
- iii) Asset diversification helps to reduce risk.

Financially material considerations and the appropriate time horizon

The Trustee believes that the potential impact of any financially material considerations that may affect the Scheme's investments should be assessed over the period during which benefits are expected to be paid from the Scheme. In the terminology used by legislation, the Trustee considers this period of time to be "the appropriate time horizon of the investments".

ESG

The Trustee believes that the impact of ESG risks and opportunities can be financially material and the Trustee recognises that ESG matters, particularly climate change, should be assessed over the appropriate time horizon.

Use of active management

The Trustee believes that active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility.

The Trustee believes that active management may help to mitigate the financial impact of ESG risks.

3. Investment Beliefs (continued)

Stewardship

The Trustee believes that good stewardship can help create, and preserve, value for companies and markets as a whole.

Members' views (non-financial matters)

Legislation defines non-financial matters as meaning the views of the members and beneficiaries including (but not limited to) ESG matters and the present and future quality of life of the members and beneficiaries of the Scheme.

The Trustee believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustee's Investment Objectives are designed to ensure this duty is achieved.

In reaching this conclusion, the Trustee considered whether to take members' views into account when determining a suitable investment strategy and in the selection, retention and realisation of investments. However, the Trustee has determined that it would not be practical to do so. In particular, the Trustee concluded that it is likely that members and beneficiaries would hold a broad range of views, which would be difficult to accommodate.

At least every three years, the Trustee will:

- Review the suitability of their investment beliefs.
- Review its policy on whether to take account of members' views within the Scheme's investment strategy and in the selection, retention and realisation of investments.

4. Investment Objectives and Investment Strategy

The Trustee's primary investment objectives are:

- To ensure that the assets are sufficient and available to pay members' benefits as and when they fall due.
- To generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members.
- To protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustee's investment approach is designed to strike a balance between the above primary objectives but also considers:

- The nature and timing of benefit payments.
- Expected levels of investment return on different asset classes.
- Expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position. This takes into account any financially material considerations.
- The sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position.
- The full range of available investments (within the bounds of practicality).

The Trustee has taken advice from one or both of their Investment Advisers to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material.

Details of the current investment strategy are provided in Appendix 1.

[The Trustee will review their investment objectives and the Scheme's strategic asset allocation at least every three years.](#)

Types of investments to be held

The Trustee is permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- Equities
- Bonds
- Property
- Commodities
- Multi-asset funds
- Liability driven investment
- Derivatives
- Cash

5. Investment Manager Arrangements

Use of an investment manager

The Trustee has appointed Deutsche Bank Wealth Management to administer, on its behalf, the assets of the Scheme. Deutsche Bank is an authorised investment management company and, as such, is regulated by the Financial Services Authority (FSA). The Trustee's contract with Deutsche Bank is evidenced by a formal investment management agreement ("the Agreement"). The Agreement provides important protections for the Scheme itself and for the Trustee. It also sets out the terms on which the assets are managed, the investment briefs, guidelines and restrictions under which the investment manager works.

Use of pooled funds

Day-to-day management of the Scheme's assets, including the selection, retention and realisation of investments, is delegated to Deutsche Bank. Whilst the future use of pooled funds is expected to be limited, the Scheme may utilise pooled funds managed by third party investment managers. The appointment of such funds is delegated to Deutsche Bank. When the Trustee requires funds to meet cashflows, Deutsche Bank will be instructed to make a disinvestment.

To ensure safekeeping of the assets, ownership and day-to-day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where a pooled fund is held, the custodian will typically be appointed by the investment manager.

The assets held by the Scheme are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

[The Trustee delegates administration of the Scheme's assets to Deutsche Bank and will ensure the Scheme's assets are predominantly invested on regulated markets.](#)

Use of derivatives

The Trustee may select pooled funds which are permitted to use derivative instruments to reduce risk or for efficient portfolio management. Risk reduction would include mitigating the impact of a potential fall in markets or the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

Leverage

Investments held to match the sensitivity of the Scheme's liabilities to changes in interest rates and inflation may be leveraged. The use of such assets can reduce the volatility of the Scheme's funding position.

5. Investment Manager Arrangements (continued)

Alignment with the Trustee's investment principles

Where the Scheme's assets are held in pooled funds, the Trustee has limited influence over the investment managers' investment decisions. In practice, investment 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 therefore the Trustee's responsibility to ensure that the approaches adopted by investment managers are consistent with the Trustee's 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 investment managers are incentivised to maintain an approach consistent with that when they were appointed by the Trustee by the payment of the investment management fee (and in the knowledge that a change of approach may cause investors to reconsider the investment).

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. The Trustee assesses this when selecting and monitoring managers.

Duration of Investment Manager Arrangements

Although the Trustee reviews the ongoing suitability of the funds held regularly, the expectation is that funds will normally be held for several years.

AVCs

AVCs are held separately from the Scheme's other investments and the AVCs are used to secure benefits on a money purchase basis for members at retirement. From time to time the Trustee reviews the ongoing suitability of the AVC arrangements.

6. Selection of a Pooled Fund

In assessing the suitability of a pooled fund, the Trustee considers, in conjunction with one or both of the Investment Advisers, how the fund would fit within the Scheme's investment strategy and how the fund is expected to help the Trustee meet its investment objectives. As part of this consideration, all matters which are deemed to be financially material are taken into account including:

- Whether the investment manager has appropriate knowledge and experience.
- The pooled fund's objective and whether that objective is consistent with the performance that the Trustee expects from that fund.
- The risks associated with the pooled fund.
- Whether the pooled fund's return is expected to exceed inflation over the long-term.
- Past performance – with the emphasis being on assessing long-term performance.
- The assets that will be held within the pooled fund, including whether the asset allocation is expected to change over time, and the extent of any exposure to overseas currencies.
- The pooled fund's fee structure - to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the pooled fund in a way that differs from the expectations of the Trustee.
- Where appropriate, whether the higher fees associated with active management are justified.
- How frequently underlying investments within the pooled fund are expected to be traded by the investment manager.
- Portfolio turnover costs.
- The investment manager's approach to ESG matters.

6. Selection of a Pooled Fund (continued)

- The investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the pooled fund.
- The investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the pooled fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG considerations. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

At least every three years, the Trustee will review whether the ongoing use of each fund remains consistent with their investment strategy.

The Trustee will ensure any new pooled funds introduced into the investment strategy are appropriate to the circumstances of the Scheme.

7. Monitoring

The Trustee reviews the Scheme's investments for all matters considered to be financially material (including ESG matters) regularly. This includes reviewing that each fund continues to operate in a manner that is consistent with the factors used by the Trustee to select the fund and that the choice of funds remains appropriate.

When assessing the performance of a fund, the Trustee does not usually place too much emphasis on short-term performance although it will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

One or both of the Investment Advisers will also provide regular updates on the investment managers' actions regarding ESG matters and shareholder engagement.

Action when a pooled fund is causing concern

Where concerns about a fund are identified, the Trustee may look to reduce exposure to that fund or disinvest from it entirely. However, such action is expected to be infrequent and, in the first instance, the Trustee would normally expect one or both of their Investment Advisers to raise the concerns with the investment manager. Thereafter, the Trustee, in conjunction with one or both of their Investment Advisers, would monitor the position to assess whether the situation improves.

The Trustee will regularly assess the ongoing suitability of each pooled fund held for all matters deemed to be financially material (including ESG matters and portfolio turnover costs).

8. Stewardship

The Trustee's policy in relation to the exercise of rights attaching to investments and undertaking engagement activities in respect of investments is that they wish to encourage best practice in terms of stewardship.

However, because the Scheme's assets are invested via Deutsche Bank's investment platform, the Trustee accepts that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by Deutsche Bank and, where third party investment managers are used, the investment managers' own policies on such matters. The Trustee considers policies on engagement and voting in making decisions about retaining and appointing investment managers.

When using pooled funds, the Trustee recognises that its ability to directly influence the action of companies is limited. Where the Trustee is unhappy with a manager's engagement and / or voting, then in the first instance they would discuss this with the manager. Should this not resolve the Trustee's concerns, then ultimately the Trustee may choose to disinvest.

The Trustee recognises that members might wish the Trustee to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustee's priority is to select investment managers which are best suited to help meet the Trustee's investment objectives, and ultimately to ensure that members' benefits can be paid as and when they fall due. In making this assessment, the Trustee will receive advice from one or both of the Investment Advisers.

The Trustee recognises that investment managers' engagement policies are likely to be focussed on environmental or societal benefits largely to the extent that these are consistent with maximising financial returns and minimising financial risks.

Nevertheless, the Trustee expects that each investment manager should discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, such as the UK Stewardship Code and the UN Principles for Responsible Investment.

The Trustee expects that, where appropriate, each investment manager should take ESG considerations into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

The Trustee expects that the investment managers selected to manage the Scheme's assets should invest for the medium to long term and should engage with issuers of debt or equity with a view to improving performance over this time frame.

The Trustee will review the stewardship policies of the investment managers on an annual basis.

9. Risks

The principal investment risks identified by the Trustee are listed below together with an explanation of how they are mitigated.

Indirect credit risk

The risk that an investment held within a pooled fund will suffer a financial loss because of a third party failing to pay monies that it owes.

Currency risk

The risk that the value of an investment will fall because of adverse movements in currency markets.

Real return risk

The risk that the Scheme's assets do not deliver a long-term return in excess of inflation.

ESG risk

The risk that ESG factors will adversely impact the value of the Scheme's investments.

Investment manager risk

The risk that an investment manager does not deliver returns in line with expectations.

Mitigation of the above risks

The risks listed above are mitigated by the Trustee monitoring the suitability of the investments used by the Scheme.

9. Risks (continued)

Solvency and employer covenant risk

The risk that the Scheme's assets fall short of the amount required to pay all benefits and expenses as they fall due and that insufficient assets could be recoverable from the sponsoring employer to meet the shortfall.

Mitigation

The Trustee's funding approach is designed to be prudent and, in determining the funding and investment strategy, the Trustee considers the strength of the covenant of the sponsoring employer.

Self-Investment risk

The risk that the Scheme's assets are linked to the sponsoring employer which could mean a reduction in the covenant of the sponsoring employer would simultaneously decrease the value of the Scheme's assets.

Mitigation

The Trustee will ensure exposure to employer-related assets does not exceed limits prescribed in legislation.

Direct credit risk

The risk that disruption with an investment manager (such as fraud or insolvency) could adversely impact the value of the Scheme's investments.

Mitigation

Any pooled funds held are structured such that the Scheme's assets are ringfenced from the assets of the investment manager and other investors.

There are a number of mitigants in relation to fraud, including the investment managers' internal controls.

9. Risks (continued)

Interest rate risk and inflation risk

The risk that movements in interest rates/expectations for future inflation will adversely impact the value of the Scheme's investments.

Mitigation

Any assets held which have significant interest rate/inflation exposure will be selected to offset the sensitivity of the Scheme's liabilities to interest rate/inflation movements. This approach mitigates interest rate risk and inflation risk.

Market Risk

The risk that the Scheme's assets do not deliver a sufficient return, because of falls in investment markets.

Mitigation

The Trustee has an investment approach which is diversified across different sectors of the investment market.

Liquidity Risk

The risk that assets cannot be realised for cash when required.

Mitigation

The Trustee will invest the majority of the Scheme's investments in funds which can be realised for cash at relatively short notice without incurring high costs. However, the Trustee recognises that the Scheme's liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

The Trustee will:

- Review the investment risks faced by the Scheme at least every three years.
- Ensure the Scheme does not hold any direct employer-related assets and that any indirect exposure is expected to be less than 5% of total assets.
- Ensure that the majority of the Scheme's investments can be realised for cash at relatively short notice without incurring high costs.

10. Future Amendments

The Trustee will review this statement at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustee will consult with the sponsoring employer before amending this statement.

The Trustee will obtain and consider written advice from one or both of the Investment Advisers before amending this statement.

The principles set out in this Statement have been agreed by the Trustee:

Signed: John Tomkins

Date: 15 May 2024

For and on behalf of the Trustee of the Colthrop Board Mill Pension Scheme

Appendix 1: The Trustee’s Investment Strategy

Strategic Asset Allocation

The Scheme’s strategic asset allocation is set out below. The assets were chosen to be appropriate for a Scheme targeting a Buy-Out arrangement in the short term.

Asset Class	Current
Investment Grade Corporate Bonds	25-30%
Gilts	65-70%
Cash	0-5%
Total	100%

The cash allocation is expected to be held in cash-like funds with Deutsche Bank Wealth Management with the intention of being used to make short term benefit payments. The Trustee may also hold cash in the Trustee’s bank account.

The Trustee has adopted the following benchmark to assess the performance of the portfolio:
2% Cash Index: Barclays Benchmark Overnight GBP Cash Index, 68% Index Linked Gilts Index: Bloomberg UK Government Inflation-Linked Bond Index, 30% Corporate Bonds Index: Markit iBoxx GBP Liquid Large Cap Corporates Large Cap TRI Index

The Investment Strategy was designed to utilise liability matching assets to hedge the interest rate sensitivities up to the value of the Scheme’s funded liabilities as calculated on a Buy-Out basis (this is equivalent to the value of the Scheme’s assets at a set point in time). Liability Matching Assets are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is therefore expected to protect the funding position of the Scheme.

In order to effectively match the Scheme’s liabilities, the asset allocation has been designed targeting a duration of around 13 years as at 31 March 2024, with around 67% of assets in index-linked gilts, and with a broadly similar duration between the allocation to corporate bonds and the allocation to gilts.

Cashflow Management

Any investments or disinvestments will be made at the discretion of the Trustee, but the Trustee would normally expect that disinvestments will be taken from money market instruments or short dated bonds, and that any investments are invested as per the strategic allocation set out above. The Trustee will take advice from one or both of the Investment Advisers on how any investments or disinvestments should be dealt with.