

# **tremco illbruck Group UK Pension Plan**

## **Statement of Investment Principles – August 2020**

### **1. Introduction**

The Trustees of the tremco illbruck Group UK Pension Plan (“the Plan”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, and subsequent legislation. The Trustees will continue to take into account all relevant subsequent legislation when reviewing this Statement.

The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments. A separate document, the Plan’s Investment Policy Implementation Document (“IPID”), detailing the specifics of the Plan’s investment arrangements, is available upon request.

In preparing this Statement, the Trustees have consulted the Sponsoring Company, Tremco CPG UK Limited (“the Company”), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan’s investment arrangements.

The investment responsibilities of the Trustees are governed by the Plan’s Trust Deed and Rules (a copy of which is available for inspection on request) and relevant legislation. According to the law, the Trustees have ultimate power and responsibility for the Plan’s investment arrangements.

The Plan comprises both Defined Benefit (Final Salary) and Defined Contribution sections. The Final Salary Section was closed to all members on 30 September 2012. The Defined Contribution Section commenced on 10 October 2003.

In considering the appropriate investments for both the DB and DC sections of the Plan, the Trustees have obtained and considered the written advice of their Investment Consultant, Mercer Ltd, who is registered with the appropriate regulator in relation to investment services. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### **2. Defined Benefit Section (Final Salary)**

#### **2.1. Investment Objectives**

The Trustees’ funding objective is that the Plan has sufficient and appropriate assets to pay its benefits as they fall due (the technical provisions).

Additional objectives are as follows:

- To target a funding level of 105% on the Secondary Long Term Basis (gilts + 0% p.a.) with a view to the liabilities being bought out by an insurance company in 3 to 5 years' time.
- To achieve an investment return on the Plan's assets which is compatible with the level of risk considered appropriate.
- To pay due regard to the Company's interest in the size and incidence of contribution payments.

The Trustees are aware that some of these objectives may conflict with others and realise that a balance must be attained which is consistent with their attitude to risk and desire to maximise long term investment returns.

## 2.2. Process for Choosing Investments

A review of the Plan's investment arrangements was undertaken over 2018. This review focussed on the risks to achieving the Trustees' objective of the Plan being bought out by an insurance company in 3 to 5 years' time.

The Trustees noted that interest rate and inflation risks remained the key risks to achieving this objective, and subsequently decided to implement a Liability Driven Investment ("LDI") portfolio to manage these risks.

In addition, the Trustees decided to reduce risk further via a reduction in the allocation to growth assets, and in particular the removal of the allocation to equities.

## 2.3. Financially Material Considerations, Risk Management and Measurement

There are various risks to which any defined benefit pension plan is exposed. The Trustees' policy on risk management in relation to risks that are potentially financially material to the Final Salary Section of the Plan over its anticipated lifetime is as follows. These considerations are taken into account when making decisions relating to the selection, retention and realisation of investments:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities. These are mainly the strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:
  - Growth asset risk (the risk that growth asset valuations fluctuate in an uncorrelated way with the value of the liabilities)
  - Interest rate risk (the risk that the assets do not move in line with the value placed on the Plan's liabilities in response to changes in interest rates)
  - Inflation risk (similar to interest rate risk but concerning how the assets may not move in line with changes in liability values due to movements in inflation expectations)
  - Credit risk (the risk that payments due to corporate bond investors may not be made)

- The Trustees manage these risks by allocating a portion of the Plan's assets to LDI and corporate bonds which possess similar characteristics to the Plan's liabilities, and via diversification of underlying investments within the diversified growth and credit allocations. The Plan's credit portfolios invest predominantly in investment grade rated bonds.
- There is a potential solvency risk, i.e. a risk that economic circumstances force the winding-up of the Plan at a time when asset values are depressed and the Company cannot afford to make good the deficiency. The Trustees therefore monitor the financial strength of the Company and its perceived commitment to the Plan. It should be noted that a parental guarantee has been put in place on behalf of the Company to demonstrate its commitment to the Plan. The Trustees would also consider reducing risk relative to the solvency funding position should the financial strength of the Company and/or its commitment to the Plan deteriorate.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the Plan's funding position.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Recognising this need to diversify, investment exposure is spread across different asset classes and obtained via pooled vehicles.
- The Trustees recognise the risks of underperformance introduced by the use of active managers but also recognise the potential benefits of active management. As such, a balanced approach is taken, with half of the Plan's corporate bond assets and the entire LDI portfolio managed on a passive (index tracking) basis. The Plan's investment in a Diversified Growth Fund ("DGF") is actively managed. The Trustees believe that the potential returns available from this type of investment justify the use of active management. The Plan also has an allocation to actively managed corporate bonds, an asset class where the Trustees believe active management can add value, particularly by aiming to avoid any "defaults" in the portfolio. Arrangements are in place to monitor the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from their investment managers and investment consultant.
- The Trustees recognise the risks arising from environmental, social and corporate governance ("ESG") issues, including climate change and stewardship. The Trustees believe that these risks present threats but also opportunities, and that they are only one risk to which the Plan is exposed. See Section 7 for dedicated comments on these risks and the Trustees' approach.
- The Trustees adopt a cautious approach in those instances where there is a lack of risk transparency in the underlying investment. The Trustees recognise the issue of liquidity risk and the ease with which assets are marketable and realisable.
- There is currency risk in investment in overseas markets, inherent within the Plan's DGF mandate. The policy of the investment manager is to hedge all unintended risks within the portfolio. Hence all currency exposures are hedged unless they reflect an active view by the manager.

- The documents governing the investment managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The managers are prevented from investing in asset classes outside of their mandate without the Trustees' prior consent. The managers are registered with the appropriate regulators.
- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles. The investment managers are responsible for the selection of the custodians.
- No direct investment is allowed in securities issued by the Company or affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

Should there be a material change in the Plan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

#### 2.4. Investment Strategy

The Trustees recognise that it is not necessarily possible, or even desirable, to select investments that exactly match the characteristics of the Plan's liabilities. Given the on-going commitment of the Company to the Plan (as demonstrated by the parental guarantee in place), a degree of mismatching risk can be accepted on the basis that it is also acceptable to the Company. As the sponsoring employer, the Company bears some risk, along with members, in its obligation to fund any deficit.

Given the investment objectives, the Trustees, after taking advice from Mercer, have determined a benchmark mix of asset types and believe this mix is appropriate for achieving the objectives set out in 2.1 and for controlling the risks identified in 2.3. Following reviews of the Plan's investment strategy and arrangements, the agreed investment strategy comprises a broad allocation of **15% Diversified Growth** (an investment in a diversified mix of assets within a single fund) **40% Corporate Bonds, and 45% LDI.**

Further information on the investment strategy is set out in the IPID. The investment strategy will be reviewed periodically, with a view to amending it to reflect any changes in the liability profile of the Plan, strength of Company covenant and/or the funding objective of the Trustees if necessary.

#### 2.5. Expected Return

Given the investment strategy adopted, over the long term, the Trustees expect to generate a return of approximately 1% p.a. above that which would have been achieved had no investment risk been taken within the portfolio (i.e. had it invested solely in a portfolio of long dated Government debt, which can be used as a proxy for the growth of the Plan's liabilities). It is recognised that over the short term performance may deviate significantly from the long term target and there are no guarantees that such a return will be achieved.

#### 2.6. Rebalancing Policy and Cash Flow

The Trustees have put in place a rebalancing policy as set out below.

Objectives of rebalancing policy:

- i. To retain the overall level of strategic risk within acceptable limits taking into account transactions costs.
- ii. To “bank” gains from outperforming asset classes and re-distribute amongst underperforming asset classes which have breached their ranges.

The Trustees monitor the Plan’s asset allocation on a regular basis to ensure that the allocations do not deviate significantly from the benchmark.

Further details on rebalancing policy are set out in the IPID. It should be also noted that:

- Given the Plan’s assets are managed by more than one manager, the decision to rebalance assets between investment managers is not mechanistic but is taken on a discretionary basis by the Trustees in line with the above objectives.
- Furthermore, when rebalancing, consideration is given to any potential change in the future investment arrangements.

The Trustees have instructed the Plan’s administrator in respect of the investment and disinvestment policy.

### **3. Defined Contribution Section**

#### **3.1. Investment Objectives**

The Trustees recognise that members of the Plan have differing investment needs and that these may change during the course of their working lives. The Trustees also recognise that members have different attitudes to risk and believe that members should make their own investment decisions based on their individual circumstances.

The Trustees’ objectives are therefore:

- (a) Ensuring there are appropriate investment options available to allow members to save in and plan for retirement.
- (b) Providing general guidance to the members as appropriate as to the purpose and objective of each investment option.
- (c) Encouraging members to seek independent financial advice from an appropriate person in determining the profile of their own investments.

In making decisions, the Trustees have taken appropriate, professional advice. Following such advice, the Trustees undertake dialogue from which a decision is made.

The Trustees have reviewed and established investment objectives for the Plan. These are:

- (a) That investment choices are made available for members to invest in which are expected to provide sustained long-term growth, recognising the associated risks and volatility of such investments.
- (b) To ensure that investment options are available to members that aim to achieve a real return over the long term which is at least expected to exceed rises in the Retail Prices Index (“RPI”).
- (c) To provide pre-retirement arrangements which protect members against short-term fluctuations in the investment markets in the run-up to their retirement.

### 3.2. Process for Choosing Investments

The Trustees undertook a review of the arrangements in place for the Defined Contribution Section in 2017. Following a provider selection exercise, the Trustees made a decision to remain on the Mercer Workplace Savings (“MWS”) platform but to switch from Standard Life Investments Limited (“Standard Life”) to Aviva Investors (“Aviva”). As a result of this review, changes were also made to the member fund choice and default arrangement.

The Trustees consider the characteristics of a range of members and their associated investment needs when choosing which types of investment to make available. The range of funds offered include those which offer the prospect of growth which exceeds the rate of inflation in the long term, as well as funds that provide greater protection against changes in the cost of securing retirement benefits or volatile nominal market values.

### 3.3. Investment Strategy

The Trustees undertook a review of the arrangements in place for the Defined Contribution Section over 2017. As a result of this review, significant changes were made to the platform provider, member fund choice and default investment option. Further details are set out in the IPID.

The Trustees have considered the types of assets and the different style of investment management at their disposal and believe that their investment objectives will be met by offering members a range of funds across different asset classes as well as giving members the options of active or passive management, so that members can choose their investment arrangements according to their risk tolerance and return expectations.

Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member’s assets and should be related to the member’s own risk appetite and tolerances. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings/issuers.

A default investment option is made available should members not wish to make their own investment decisions or are not comfortable in doing so. Further details are provided in Section 3.5.

In designing the default strategy, the Trustees have explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The default investment option utilises a diversified strategic allocation consisting of traditional and alternative assets. The Trustees took advice from their Investment Consultant when deciding on this

asset allocation. The asset allocation is consistent with the expected amount of risk that is appropriate given the age of a member and when they expect to retire.

Full details of the fund range available to members can be found in the IPID.

### 3.4. Financially Material Considerations, Risk Management and Measurement

There are various risks to which any defined contribution pension plan is exposed, which the Trustees believes may be financially material for members. The Trustees have considered risk from a number of perspectives and believe that the appropriate time horizon within which to assess these risks should be viewed at the member level. This will be dependent on the member’s age and when they expect to take their benefits from the Plan. These considerations are taken into account when making decisions relating to the selection, retention and realisation of investments.

The Trustees have considered risk from a number of perspectives. The below list is not exhaustive but covers the main risks that the Trustees consider and how they are managed and measured:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the investment returns over members’ working lives will not keep pace with inflation and does not, therefore secure an adequate retirement income.	The Trustees make available a range of funds, across various asset classes, which they believe will outperform inflation, after the impact of any currency market movements where applicable, over the long term. Performance is measured on a regular basis.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	The Trustees offer a range of asset classes along the risk / return spectrum in order to allow members to tailor their choices in line with their risk tolerance. Lifestyle strategies are also offered which provide an automated de-risking approach.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the anticipated level of retirement benefit.	Within active funds, many of these market risks are the responsibility of the investment manager to the extent that the funds objectives and constraints allow.
Environmental, Social and Corporate Governance (“ESG”) risk	The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Plan’s assets.	The day to day management of ESG related risks is the responsibility of the investment managers. However, the Trustees monitor how ESG is integrated within investment processes.  See Section 7 of this Statement for the Trustee’s responsible investment and corporate governance statement.	

Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	<p>The Trustees regularly review performance of investment funds.</p> <p>The Trustees consider the ratings of investment strategies from their investment consultant during the selection process and monitors on an ongoing basis.</p> <p>The Trustees recognise that the use of active managers involves such a risk. Therefore, where appropriate, more than one manager is used to diversify manager risk. The Trustees have also made available a range of passive funds.</p>
Liquidity risk	The risk that the Plan's assets cannot be realised at short notice in line with member demand.	The Trustees access daily dealt and daily priced pooled funds through a unit-linked insurance contract.
Pension Conversion risk	The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	<p>The Trustees make available three lifestyle options suitable for the different ways members may take their benefits.</p> <p>Lifestyle strategies provide an automated de-risking approach, switching member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.</p>

Member views on non-financial matters (where “non-financial” include members’ ethical views separate from financial considerations such as financially material ESG issues), are not taken into account in the selection, retention and realisation of investments. However, the Trustees have made two funds available which members are able to invest in:

- A UK equity fund which screens out companies that are deemed to do unacceptable harm to people, animals or the environment.
- A global equity fund which invests in companies whose business is deemed to be compliant with the principles of Shariah Law.

Should there be a material change in the Plan’s circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered.

### 3.5. Default Arrangement

For members who do not wish to take an active role in investment decisions, the Trustees offer a default investment option which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who

intends to take 25% of their funds as cash at retirement (in line with current regulations regarding tax-free cash) leaving the remainder invested and using it to provide income on a regular or occasional basis known as income drawdown. The default investment option includes “lifestyling” arrangements to de-risk investments to an asset allocation, at retirement, designed to be appropriate for these benefits.

This does not mean that members have to take their benefits in this format in retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or choosing their own investment strategy.

The Trustees continue to review the Plan’s investment arrangements as they monitor corresponding membership demographics, behaviour and market developments which may lead to changes in the default arrangement. The Trustees believe that the current default strategy is appropriate and will continue to review this over time, at least triennially,

The aims of the default investment option, and the ways in which the Trustees seek to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the “growth” phase of the strategy whilst managing downside risk.

*The default strategy’s growth phase structure invests in equities and other growth-seeking assets through a diversified growth fund. These investments are expected to provide growth with some protection against significant market falls and some protection against inflation erosion.*

- To provide a strategy that reduces investment risk for members as they approach retirement.

*As a member’s fund grows, investment risk will have a greater impact on retirement outcomes. The Trustees believe that a default strategy that seeks to reduce investment risk as the member approaches retirement is therefore appropriate. This is achieved via automated lifestyle switches over the five-year period immediately prior to retirement.*

- To offer to members a mix of assets at retirement that are broadly appropriate for an individual planning to drawdown on their pension pot in retirement.

*At the member’s selected retirement date, around 25% of the member’s assets will be invested in money market instruments, with the remaining 75% invested in a diversified mix of assets including equities, bonds and alternatives such as commodities and property with the aim to provide returns in excess of inflation while protecting against market volatility.*

A range of asset classes are included within the default arrangement, including: developed market equities, emerging market equities, money market investments, diversified growth funds and pre-retirement funds. Both active and passive management funds are utilised, depending on asset class.

The Trustees have considered risk from a number of perspectives. The below list is not exhaustive but covers the main risks that the Trustees consider and how they are managed and measured in relation to the default investment strategy:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the investment returns over members' working lives will not keep pace with inflation and does not, therefore secure an adequate retirement income.	The growth phase of the default option is designed to provide protection against inflation erosion after the impact of any currency market movements where applicable. Performance is monitored on a regular basis.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	The strategy for the default is set with the intention of diversifying these risks to reach a level of risk deemed appropriate.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Within active funds, many of these market risks are the responsibility of the investment manager to the extent that the funds objectives and constraints allow.
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the anticipated level of retirement benefit.	
Environmental, Social and Corporate Governance ("ESG") risk	The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Plan's assets.	The day to day management of ESG related risks is the responsibility of the investment managers. However, the Trustees monitor how ESG is integrated within investment processes.  See Section 7 for the Trustees' policy on Responsible Investment, ESG Issues, Stewardship and Climate Change.	
Investment Manager risk			The Trustees regularly review performance of investment funds.  The strategy for the default is set with the intention of diversifying many of these risks to reach a level of risk deemed appropriate.
		The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustees recognise that the use of active managers involves such a risk. Therefore, where appropriate, more than one manager is used to diversify manager risk. The Trustees have also made available a range of passive funds.  The Trustees consider the ratings of investment strategies from their investment consultant during the selection process and monitors on an ongoing basis.

Liquidity risk	The risk that the Plan's assets cannot be realised at short notice in line with member demand.	The Trustees access daily dealt and daily priced pooled funds through a unit-linked insurance contract.
Pension Conversion risk	The risk that the investment profile of the default investment option is unsuitable for the requirements of members who invest in it.	<p>The default option is a lifestyle strategy which automatically switches member assets into investments are expected to be less volatile relative to the way they are expected to take their benefits as they approach retirement age.</p> <p>As part of the triennial default strategy review, the Trustees consider membership demographics, behaviours and market developments to ensure the default destination remains appropriate for members and that the strategy is fit for purpose.</p>

The above items listed in are in relation to what the Trustees consider 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the investment objectives.

The Trustees considered the broad characteristics of the membership in order to inform decisions regarding the default investment option. Based on these considerations and the options available, a default that targets flexible access drawdown is considered appropriate. Members will be supported by clear communications regarding the aims of the default and the alternative investment options. This does not mean that members have to take their benefits in this format at retirement – it merely determines the investment strategy that will be in place pre-retirement.

Member views on non-financial matters (where "non-financial" include members' ethical views separate from financial considerations such as financially material ESG issues), are not taken into account in the selection, retention and realisation of investments in relation to the default investment arrangement.

Taking into account the characteristics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default arrangement is appropriate. However, as noted at the start of this section, the Trustees will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic or membership behaviour.

#### 4. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the Plan's assets to professional investment management firms. The Trustees have taken steps to satisfy themselves that their managers have the appropriate knowledge and experience for managing the Plan's investments. Investments are managed for the Plan to a specific mandate which includes

performance objectives, risk parameters and timescales over which performance will be measured.

The Trustees accept that it is not possible to specify investment restrictions where assets are managed via pooled funds as the investment manager has discretion over the timing and realisation of investments. Nevertheless, notwithstanding how the assets are managed, the Trustees will take appropriate legal and investment advice regarding the suitability of the investment management agreements and relevant investment vehicles.

The Trustees regularly review the continuing suitability of the Plan's investments, including the appointed managers, which may be adjusted from time to time.

Further details can be found in the IPID, which is available to members upon request.

## **5. Additional Assets**

Under the terms of the trust deed, the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen AVC provider on a regular basis and take advice as to the providers' continued suitability. Details of the current providers can be found in the IPID.

## **6. Realisation of Investments**

The Plan's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

## **7. Responsible Investment, ESG Issues, Stewardship and Climate Change**

The Trustees believe that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and may therefore be considered as part of the Plan's investment process. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. When setting investment strategy, ESG factors, including climate change, may be considered alongside a number of other factors that can influence investment strategy.

The Trustees have given the appointed investment manager(s) full discretion when evaluating ESG factors, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the Plan's investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees also consider the investment advisor's assessment of how each of the investment managers embed ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees periodically review the responsible investment policies of the appointed investment manager(s). The Trustees will, where it is deemed necessary, engage the manager(s) in discussion on their policies. It will however be made clear to the manager(s)

that any decisions taken by the manager(s) should be in the best long term financial interest of the Plan and its members.

The Trustees have not set any ESG related investment restrictions on the appointed investment manager(s) in relation to particular products or activities, but may consider this in future.

Member views are not taken into account in the selection, retention and realisation of investments but the Trustees retain the right to seek member views in future.

In selecting any new or replacement investment manager(s), the Trustees will explicitly consider, where relevant, potential managers' approaches to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making,

## **8. Investment Manager Appointment, Engagement and Monitoring**

### **8.1. Alignment with the Trustees' Policies**

When engaging with investment managers to implement the Trustees' investment strategy outlined above, the Trustees are concerned that, as appropriate and to the extent applicable, the investment managers are incentivised to align their strategy and decisions with the objectives of the Section.

However, as the Trustees invest in multi-client pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the funds, but appropriate mandates can be selected to align with the overall investment strategy. The Trustees will therefore select vehicles that best align with their own policy in terms of investment objectives and guidelines as set out in this Statement. The investment managers are incentivised by the knowledge that the Trustees will review their appointment if, over time, they do not meet expectations.

In line with sections 2.2 and 3.2, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected to manage over a suitable time horizon.

The Trustees look to their Investment Consultant for its forward-looking assessment of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in or is made available to members of the DC Section. The Investment Consultant's Manager Research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from their Investment Consultant in relation to their forward-looking assessment of the manager's ability to achieve the stated mandate objectives.

If the investment objectives for a particular fund change, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

## 8.2. Incentivisation and Medium/Long-Term Decision Making

The Trustees do not have a policy about making investment decisions based on their assessment of the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the investment managers, where applicable. These managers may be in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees do however consider the Investment Consultant's assessment of how each investment manager embeds ESG issues into their investment process. Further detail can be found in Section 7.

## 8.3. Evaluation and Remuneration

As part of regular reporting to the Trustees, within the DB Section of the Plan the Trustees receive performance reports on a six-monthly basis from their Investment Consultant, and within the DC Section, the Trustees receive investment reports on a quarterly basis. For both sections, the Trustees review the absolute performance and relative performance against a suitable index used as the benchmark, on a gross of fees basis, over various time periods. The Trustees' focus is on long-term performance but will put a manager 'on watch' if there are short-term performance concerns.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. Investment managers are not remunerated based on portfolio turnover.

## 8.4. Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs in respect of the DB Section, and have no set portfolio turnover targets. For the DC Section, transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money ("VfM") assessment.

## 8.5. Duration of the Arrangements

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis. There is no set duration for investment manager appointments. The Trustees will retain the investment managers unless there is a change to the overall investment strategy that no longer requires exposure to that asset class or manager, or the manager appointment has been reviewed and the Trustees have decided to terminate the mandate.

Within the DC Section, all the funds are open-ended with no set end date for the arrangement. The fund range and default strategy are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range. Where the Trustees identify potential improvement during the annual VfM assessment, the Trustees will take action.

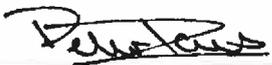
Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

**9. Compliance with this Statement**

The Trustees monitor compliance with this Statement on a regular basis.

**10. Review of this Statement**

The Trustees will review this Statement at least once every three years and without delay after any material change in any aspects of the Plan. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

Signed:  Date: 19/8/20

Name: PETER PAES

Signed:  Date: 20/8/20

Name: GRAHAM BROOKS.

**For and on behalf of the Trustees of the tremco illbruck Group UK Pension Plan**