Recticel Retirement Benefits Scheme ("the Scheme") Statement of Investment Principles ("SIP")

Investment Objective

The Trustees aim to invest the assets of the Scheme prudently with the intention that the benefits promised to members are provided. In setting investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

The overall objective has been agreed with the Employer and is as follows:

To set an investment strategy which targets an expected return over the liabilities (as valued by gilt yields) of around 2% per annum (net of fees).

STRATEGY

The current **planned asset allocation strategy** chosen to meet the objective above is set out in the table below. LGIM will monitor the actual asset allocation versus the target weight on a quarterly basis and will re-balance towards the target weighting if the asset allocation is outside of the control ranges below. These ranges are, however, meant as a guide and the Trustees have latitude to move outside them if they consider it appropriate.

Asset Class	**Target Weighting (%)**	**Control Ranges (%) +/-**
Global Equities	30.0	2.00
Index-Linked Gilts	35.0	2.25
Fixed Interest Gilts	17.5	1.50
Corporate Bonds	17.5	1.50

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustees' policy is to make the assumption that equities will outperform gilts over the long term. However, the Trustees recognise the potential volatility in equity returns, particularly relative to the Scheme's liabilities and the risk that the fund managers do not achieve the targets set. When choosing the Scheme's planned asset allocation strategy the Trustees considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes including private equity, property and hedge funds.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustees also consulted with the sponsoring employer when setting this strategy.

RISK

The Trustees maintain a ‘Statement of Funding Principles’ which specifies that the funding objective is to have sufficient assets so as to make provision for 100% of the Scheme’s liabilities as determined by an actuarial calculation.

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for its liabilities (“funding risk”). The Trustees have identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustees and their advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustees will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustees (“manager risk”). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustees and their advisers considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s sponsoring employer (“covenant risk”). The Trustees considered this risk when setting the investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk was modelled explicitly as part of the most recent investment strategy review.

Having set an investment objective which relates directly to the Scheme’s liabilities and implemented it using a range of funds, the Trustees' policy is to monitor these risks quarterly, where possible. The Trustees receive quarterly reports showing:

- Performance of individual funds versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustees.

IMPLEMENTATION

Aon has been selected as investment adviser to the Trustees. They operate under an agreement to provide a service which ensures the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. Aon are paid an annual fee for an agreed range of services needed on a regular basis. Any additional services falling outside those agreed will be charged for separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

The fund manager structure and investment objectives for each fund are as follows:

Legal & General

- **World Equity Index Fund** – To perform in line with the FTSE AW World Index
- **Over 5 Year Index-Linked Gilts Index Fund** – To perform in line with the FTSE UK Index Linked Over 5 Year Index.
- **Over 15 Year Gilts Index Fund** – To perform in line with the FTSE UK Gilts Over 15 Years Index
- **Investment Grade Corporate Bond Over 15 Year Index Fund** – To perform in line with the iBoxx £ Non-Gilts Over 15 Year Index

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager. When choosing investments, the Trustees and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4) and amendments to date.

Arrangements with Fund Managers

The Trustees monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the fund managers are aligned with the Trustees' policies. This includes monitoring the extent to which fund managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive quarterly reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and assess the fund managers over 3-year periods.

The Trustees will also receive annual stewardship reports on the monitoring and engagement activities carried out by their fund manager, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

Where fund managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the investment adviser will typically first engage with the manager and the Trustees could ultimately replace the manager where this is deemed necessary.

There is typically no set duration for arrangements with fund managers, although the continued appointment all for managers will be reviewed periodically.

Stewardship

The Trustees regularly review the suitability of the Scheme's appointed fund managers and take advice from their investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustees will review the stewardship activities of their fund managers on an annual basis, covering both engagement and voting actions. The Trustees will review the alignment of the Trustees' policies to those of the Scheme's fund managers and aim to ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner.

The investment adviser will engage with the fund managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained.
From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, a fund manager or another holder of debt or equity, and other stakeholders. The Trustees may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

COST MONITORING

Understanding Costs:

Fund managers are remunerated on an ad valorem basis which ensures the fund managers' interests are aligned with those of the Scheme. In addition, fund managers may pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustees are aware of the importance of monitoring their fund managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges (AMC), there are a number of other costs incurred by the fund managers that can increase the overall cost incurred by the Scheme's investments.

The investment adviser collects annual cost transparency reports covering all of the investments and asks that the managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustees to understand what they are paying their managers. The Trustees work with their investment adviser and managers to understand these costs in more detail where required.

Evaluation of performance and remuneration:

The Trustees assess the performance of the fund managers on a quarterly basis and the remuneration of the managers on an annual basis via collecting cost data in line with the CTI templates.

Transaction costs:

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustees are supported in their cost transparency monitoring activity by their investment adviser.

GOVERNANCE

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

Trustees
- Set structures and processes for carrying out their role.
- Select and monitor planned asset allocation strategy.
- Monitor actual returns versus the Scheme's investment objective.
- Select and review direct investments (see below).

Investment Adviser
- Advise on all aspects of the investment of the Scheme's assets, including implementation.
- Advise on this statement.
- Provide required training.

Fund Managers
- Operate within the terms of this statement and their written contracts.
- Select individual investments with regard to their suitability and diversification.
- Comment, where applicable, on the suitability of the indices in their benchmark.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect their fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

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