Statement of Investment Principles

Valspar UK Pension Plan

January 2024

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1 Introduction

Pensions Act 1995

1.1 Under the Pensions Act 1995, as amended by the Pensions Act 2004, the Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustees of the Valspar UK Pension Plan (the Plan).

Background

1.2 In preparing this document, the Trustees have consulted the Principal Employer and the Trustees will consult the Principal Employer before revising this document. The Trustees will consult the Principal Employer on changes in investment policy. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

1.3 In preparing this document, the Trustees have consulted with the Plan's investment consultant, Towers Watson, and the Scheme Actuary. The Trustees will review this document, in consultation with the investment consultant and Scheme Actuary, at least once every three years and without delay after any significant change in investment policy, or where the Trustees consider a review is needed for other reasons.

1.4 In establishing the Plan’s investment arrangements and preparing this document the Trustees have:

- Had regard to and complied with the requirements of the Pensions Act 1995 as amended by Section 245 of the Pensions Act 2004
- Had regard to and complied with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005
- Had regard to, and where applicable, incorporated the principles and recommendation as set out in the Myners Review of Institutional Investment (The Myners Review)
- Received written advice from the Plan’s investment consultant
- Consulted the Scheme Actuary

Plan details

1.5 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

1.6 Members of the Plan were contracted-out of the State Second Pension under the Pensions Schemes Act 1993.

1.7 The Plan is registered with Her Majesty’s Revenue and Customs under Chapter 2 of Part 4 of the Finance Act 2004.

1.8 The Plan has been closed to future accruals with effect from May 2013.

Financial Services and Markets Act 2000

1.9 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to the appointed investment manager, which may include an insurance company or companies. The investment manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

2 Governance

2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some of these responsibilities.

2.2 Responsibility for all day-to-day investment decisions is delegated to the Plan's investment manager. When choosing investments, the investment manager is required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles laid out in this statement. The Trustees retain direct responsibility for other investment matters which include:

a. Reviewing the content of this Statement of Investment Principles and for modifying it if deemed appropriate, in consultation with the investment consultant and Scheme Actuary

b. Reviewing the investment policy following the results of each actuarial review or review of investment strategy, in consultation with the investment consultant and Scheme Actuary

c. Appointing, monitoring and dismissing the investment managers

d. Assessing the quality of the performance and processes of the investment manager by means of regular, but not less than annual, reviews of the investment results and other information, in consultation with the investment consultant

e. Consulting with the Principal Employer before amending this Statement

2.3 Decisions affecting the Plan's investment strategy should be taken with appropriate advice from the Plan's investment consultant and in consultation with the Scheme Actuary.

2.4 The Trustees are satisfied that they have sufficient expertise and appropriate training to evaluate critically the advice they receive. The Trustees are also satisfied that they have an appropriate set of skills individually and collectively, and the right structures and processes, to carry out their role effectively.

2.5 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Plan. The Trustees of the Plan draw on the skills and expertise of external advisers including the investment managers, custodians, investment consultant and Scheme Actuary.

2.6 The Trustees are aware that they have the flexibility to open the contracts for actuarial services and investment advice to separate competition.

3 Division of responsibilities

Investment manager

3.1 The investment manager's responsibilities include:

- Tracking the relevant benchmark return within an appropriate tracking error.
- Providing the Trustees with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios.
- Informing the Trustees of any material changes in the internal objectives and guidelines of any pooled funds used by the Plan and managed by the investment manager or an associated company.
- Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments and to the criteria for investment set out in the Occupational Pension Scheme (Investment) Regulations 2005.
- Giving effect to the principles contained in the Statement as far as reasonably practicable.

Investment consultant

3.2 The role of the investment consultant is to give advice to the Trustees in the following areas:

- The formulation of an efficient governance structure particularly in the light of the Myners Review.
- The regular updating of the Statement of Investment Principles.
- The development of a clear investment strategy for the Plan.
- Reviewing the Plan's investment strategy by means of asset-liability modelling.
- The construction of a strategic asset allocation benchmark given the liabilities of the Plan and the risk and return objectives of the Trustees (see Section 5 and Appendix B).
- Assist the Trustees to select and appoint appropriate investment management organisations.
- To update the Trustees on current developments at the investment manager's organisation which may affect the Plan.
- Potential new areas or tools of investment such as diversification, alternative asset classes, liability hedging.
- Commentary on investment performance and risk taken by the manager.
- Suitable training on investment matters for the Trustees.
- General advice in respect of the Plan's investment activities.

3.3 Fees are generally calculated by reference to the time spent on a particular assignment and the relevant charge-out rates applying to the member of staff that provides the services in question.

Scheme Actuary

3.4 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future.
- Assessing the scheme specific funding position of the Plan and advising on the appropriate response to any shortfall.
- Liaising with the investment consultant on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.

4 Objectives and long term policy

Objectives

4.1 The Trustees have the following investment objectives:

a. The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Principal Employer, the cost of current and future benefits which the Plan provides.

b. To limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the Scheme Specific Funding requirements.

c. To minimise the long term costs of the Plan by maximising the return on the assets whilst having regard to the objective shown under **b**.

Policy

4.2 The Trustees' policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. They recognise that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of return required by the Plan to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Principal Employer.

Long-term asset allocation

4.3 At the Trustees' meeting in October 2023 the Trustees agreed to a de-risk through transitioning 5% from "return seeking" assets to "matching" assets, as a result of positive funding level results following the preliminary outcome of the triennial valuation as at 5 April 2023 and strong investment performance between the 2023 valuation date and the date of the meeting. This de-risking activity occurred during January 2024, resulting in a revised strategic allocation of 15:85 return seeking:matching assets.

	Current strategic benchmark (%)	Control ranges (%)
Return-seeking allocation	**15.0**	
UK equities	1.0	0.0 – 2.0
Overseas equities	7.0	4.0 – 10.0
Overseas equities (hedged)	7.0	4.0 – 10.0
Matching allocation	**85.0**	
UK index-linked	45.0	42.0 – 48.0
UK index-linked (over 5 years)	18.0	
UK index-linked (over 15 years)	27.0	
UK corporate bonds	40.0	37.5 – 42.5

In setting the investment strategy the Trustees have considered the rates of returns in the past on the various classes of asset available for investment and the expectation of their future long-term returns in assessing the suitability of the asset allocation benchmark.

The specific return assumptions in WTW's Standard Investment Model as at 30 September 2023 are detailed below:

Asset Class	10 year median real return % pa
UK equities	5.1
Global equities, ex UK (GBP unhedged)	5.6
Global equities, ex UK (GBP hedged)	5.4
UK long-dated corporate bonds	2.9
UK long-dated gilts	2.8
UK long-dated index-linked gilts	2.2

4.4 Apart from AVCs, Legal & General Investment Management ("Legal & General") is the sole investment manager for the Plan and maintains the Plan's total asset distribution close to the strategic benchmark and within the control ranges set out in 4.3. Cash flows are directed to Legal & General and investments/disinvestments of monies are applied to maintain the total asset distribution, where possible, as close as reasonably practicable to the benchmark distribution.

4.5 At each month-end, should these cash flows prove insufficient to maintain the Plan's asset distribution within the control ranges, Legal & General are required to rebalance the asset classes that have moved outside its control range back to their benchmark weighting, investing the proceeds of sales or raising the necessary cash for investment from other asset classes such that the resulting distribution is as close as practicable to the central benchmark.

4.6 Asset categories not included here may only be used following a revision of these restrictions which specifically permits their inclusion.

4.7 The Trustees do not borrow money or otherwise leverage the portfolio.

Scheme Specific Funding Requirement

4.8 The Pensions Act 1995, as amended by the Pensions Act 2004, requires that pension schemes achieve a funding level of at least 100% under these calculations and sets out the procedure for dealing with shortfalls. The Trustees comply with this legislation and will consult the Scheme Actuary and the Principal Employer when deciding upon the appropriate response to any shortfall.

4.9 The Trustees consider that the investment policy is consistent with complying with their funding obligations.

AVCs

4.10 The Plan previously allowed members to pay AVCs into Aviva (previously Norwich Union), Prudential and Equitable Life policies to enhance their benefits at retirement. AVCs to the Equitable Life policy ceased in 2002. Only existing AVC members were allowed to continue paying into the Aviva and Prudential policies from 2010 until the Plan closed. Deferred AVC members are offered a range of funds in which to invest their payments. The Trustees' objective is to provide a range of funds which will provide an appropriate choice for members. The range of funds offered includes balanced managed, with-profit and cash funds with Aviva, M&G Prudential and Utmost (following the transfer of funds from Equitable Life to Utmost in January 2020).

Sustainable investment

4.11 The Trustees consider Environmental, Social and Governance (ESG) risks and opportunities, including climate change and stewardship, to be financially material over the long term and therefore relevant to the Plan's investment strategy.

4.12 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the investment managers, as well as the responsibility for the exercising of ownership rights (including voting rights) attaching to the investments The Trustees' policy is that how ESG risks and opportunities are taken into account in these decisions is left to the discretion of the investment managers on a day to day basis. Accordingly, the Trustees' policy is therefore to engage with the managers to understand and monitor their policies and implementation of these delegated responsibilities.

4.13 The Trustees recognise that the passive nature of the Scheme's investments means no material decisions are taken by the investment managers on the holdings to be included in the portfolio. However, the Trustees expect the managers to engage with companies and issuers in which they invest in relation to ESG and other material issues.

Monitoring and alignment

4.14 The Plan's investment manager is signed up to the UK FRC Stewardship Code.

4.15 The Trustees monitor the stewardship activities of the manager to determine whether the level of engagement they undertake is satisfactory.

4.16 Alignment between the manager's management of the Plan's assets and the Trustees' policies and objectives are a fundamental part of the relationship.

4.17 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and the manager's engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

4.18 The Trustees appointed its investment manager with an expectation of a long-term partnership. When assessing performance, the focus is on longer term outcomes, and the Trustees would not expect to terminate the manager based purely on short term performance. Whilst the Plan invests passively, there is an expectation that the engagement with companies will be focused on longer term outcomes.

4.19 The manager is paid a fee as a percentage of the value of the assets, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. Given the passive nature of the investments, it is the Trustees' view that fees linked to investment performance are not appropriate.

Rights attaching to shares

4.20 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers, and to understand, monitor and receive reporting on their policies and the implementation of these delegated responsibilities.

Non-financial matters

4.21 At present, the Trustees do not consider non-financial matters as part of their decision making, but will keep this policy under review.

Diversification

4.22 The Plan's strategic asset allocation is designed to ensure that the Plan's investments are adequately diversified by asset class. Since the Plan is invested in pooled funds, the Trustees cannot influence directly the concentration of investments at a stock selection level. However, the investment manager's internal guidelines are designed to achieve a suitable level of diversification.

Suitability

4.23 The Trustees have taken advice from the Scheme Actuary and the investment consultant to ensure that the asset allocation specified above is suitable for the Plan given its liability profile, and the criteria for investment set out in the Occupational Pension Scheme (Investment) Regulations 2005.

Liquidity

4.24 The Trustees, together with the Plan's administrators, will ensure that they hold sufficient cash to meet the likely benefit outgo from time to time. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy, where possible.

5 Investment manager arrangements

5.1 The Trustees considered the use of both passive and active investment management when reviewing the Plan's strategy. The resultant use of passive management for equities and bonds was determined following consideration of the relative levels of risk involved, set against the efficiency, liquidity and level of transaction costs likely to prevail within each market, allowing for investment manager fees.

5.2 The total Plan benchmark does not involve peer group benchmarks.

Manager structure

5.3 The Plan's assets (equity and fixed-income) are entirely passively managed and invested in Legal & General passive funds. The Trustees' policy is to obtain ongoing and regular advice on whether these pooled funds are satisfactory as required by the Pensions Act. An outline of the features of these funds is included as Appendix B.

5.4 The Trustees have Aviva, M&G Prudential and Utmost as the providers available for members' AVC investments. These funds are kept under regular review.

Performance objectives

5.5 Whilst the Trustees are not involved in the investment manager's day to day method of operation and therefore cannot directly influence attainment of the performance target, they will assess performance on an annual basis. Measurable objectives have been developed for the investment manager, consistent with the achievement of the Plan's longer term objectives. These are:

- Legal & General passive pooled funds - to produce returns in line with the relevant fund benchmark indices over rolling three year periods. These are currently:
  - FTSE All-Share Index
  - FTSE World ex-UK Index
  - FTSE World ex-UK Index (GBP Hedged)
  - FTSE A Over 5 Year Index–Linked Gilts Index
  - FTSE A Index-Linked Over 15 Year Gilts Index
  - iBoxx £ Non-Gilt (ex BBB) Over 15 Year Index.

The manager should achieve this objective in the majority of three year periods under consideration. It is not expected that the managers will achieve this target in every three year period. However, the managers should demonstrate that the skill that they exercise on the portfolio is consistent with this target given the level of risk adopted.

Manager monitoring

5.6 The appointment of the investment manager will be reviewed by the Trustees from time to time, based on the results of their monitoring of performance and investment process and of the investment manager’s compliance with the requirement in the Pensions Act concerning diversification and suitability, where relevant. The investment manager has been provided with a copy of this Statement and the Trustees will monitor the extent to which the investment manager gives effect to the policies set out in it.

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6 Risk management

6.1 The Trustees recognise a number of risks involved in the investment of the assets of the Plan:

- Funding risk and mismatching risk:
  - are measured through a qualitative and quantitative assessment of the expected development of the liabilities to the current and alternative investment policies
  - are managed through assessing the progress of the actual growth of the liabilities and by the review of regular asset liability modelling
- Manager risk:
  - is measured by the expected deviation of the prospective return, as set out in the investment managers' objectives, relative to the investment policy
  - is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the investment managers' appointment
- Liquidity risk:
  - is measured by the level of cash flow required by the Plan over a specified period
  - is managed by the pensions department, who estimate the monthly benefit outgo and ensure that sufficient cash balances are available in order to limit the impact of the cash flow requirements on the investment policy
- Political risk:
  - is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy
- Sponsor risk:
  - is measured by the level of ability and willingness of the Principal Employer to support the continuation of the Plan and to make good any current or future deficit
  - is managed by assessing the interaction between the Plan and the Principal Employer's business
- Climate change risk:
  - is measured through the use of scenario analysis to attempt to quantify the potential impact of climate change on the Plan

- is managed by regular reviews of the strategic asset allocation of the Plan factoring in the potential impact of climate change on the performance of the assets

6.2 The Trustees continue to monitor these risks.

A Current advisers

Scheme Actuary	Spencer Bowman, WTW
Investment consultant	WTW
Investment manager:	Legal & General Investment Management
Administrator:	WTW
Scheme auditors:	RSM UK Audit LLP

B Current investment managers

The Plan's assets are currently invested across a range of Legal & General pooled funds.

Legal & General Investment Management Limited

<u>Legal & General UK Equity Fund</u>

Benchmark:	FTSE All Share Index
Trustees' objective:	Produce returns in-line with the index over rolling three year periods
Holdings:	UK Equities - Direct
Manager's internal objective:	Produce returns within +/- 0.5% of the FTSE All-Share Index
Annual Management Charge:	0.10% pa for the first £5 million
	0.075% pa for the next £5 million
	0.06% pa for the next £20 million
	0.05% pa for the balance over £30 million

<u>Legal & General World (ex-UK) Equity Fund</u>

Benchmark:	FTSE World (ex-UK) Index
Trustees' objective:	Produce returns in-line with the index over rolling three year periods
Holdings:	Overseas Equities (excluding UK) - Direct
Manager's internal objective:	Produce returns within +/- 0.5% of the FTSE World (ex-UK) Index
Annual Management Charge:	0.22% pa for the first £5 million
	0.19% pa for the next £10 million
	0.16% pa for the next £35 million
	0.13% pa for the balance over £50 million

<u>Legal & General World (ex-UK) GBP-Hedged Equity Fund</u>

Benchmark:	FTSE World (ex-UK) Index (update)GBP Hedged
Trustees' objective:	Produce returns in-line with the index over rolling three year periods
Holdings:	Overseas Equities (excluding UK) - Direct– GBP Hedged
Manager's internal objective:	Produce returns within +/- 0.5% of the FTSE World (ex-UK) Index (update)

Annual Management Charge:	0.243% pa for the first £5 million
	0.213% pa for the next £10 million
	0.183% pa for the next £35 million
	0.153% pa for the balance over £50 million

<u>Legal & General Over 5 Year Index Linked Gilts</u>

Benchmark:	FTSE A Over 5 Year Index Linked Gilts Index
Trustees' objective:	Produce returns in-line with the index over rolling three year periods
Holdings:	UK index-linked Gilts - Direct
Manager's internal objective:	Produce returns within +/- 0.5% of the FTSE-A Over 5 Year Index-Linked Gilts Index
Annual Management Charge:	0.10% pa for the first £5 million
	0.075% pa for the next £5 million
	0.05% pa for the next £20 million
	0.03% pa for the balance over £30 million

<u>Legal & General Over 15 Year Index Linked Gilts</u>

Benchmark:	FTSE Over 15 Year Index Linked Gilts Index
Trustees' objective:	Produce returns in-line with the index over rolling three year periods
Holdings:	UK index-linked Gilts - Direct
Manager's internal objective:	Produce returns within +/- 0.25% of the FTSE A Index-Linked Over 15 Year Gilts Index
Annual Management Charge:	0.10% pa for the first £5 million
	0.075% pa for the next £5 million
	0.05% pa for the next £20 million
	0.03% pa for the balance over £30 million

<u>Legal & General AAA-AA-A Corporate Bond Over 15 Year Index Fund</u>

Benchmark:	iBoxx £ Non-gilt (ex BBB) Over 15 Year Index
Trustees' objective:	Produce returns in-line with the index over rolling three year periods

Holdings:	UK Corporate bonds AAA – AA – A rated - Direct
Manager's internal objective:	Produce returns within +/- 0.5% of the iBoxx £ Non-gilt (ex-BBB) Over 15 Year Index
Annual Management Charge:	0.15% pa for the first £5 million
	0.125% pa for the next £5 million
	0.10% pa for the next £20 million
	0.08% pa for the balance over £30 million