

# The Infineum UK Pension Plan

---

## Statement of Investment Principles

September 2020

# Table of Contents

1. INTRODUCTION
2. GENERAL OBJECTIVES AND CONSIDERATIONS
3. ASSET ALLOCATION AND EXPECTED RETURN
4. RISK
5. DIVERSIFICATION, REALISATION OF INVESTMENTS AND CASH FLOW
6. DELEGATION, APPOINTMENT OF ADVISORS AND MONITORING
7. AVC INVESTMENTS
8. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS / EXERCISE OF RIGHTS
9. REVIEW OF STATEMENT

## **APPENDICES**

- I. ASSET ALLOCATION
- II. INVESTMENT ARRANGEMENTS
- III. BLACKROCK CORPORATE GOVERNANCE POLICY

## **1. INTRODUCTION**

- 1.1.** This document constitutes the Statement of Investment Principles ("the Statement") for the Infineum UK Pension Plan ("the Plan").
- 1.2.** In preparing this Statement Infineum UK Pension Plan Trustee Limited ("the Trustee") has had regard to the requirements of the UK Pensions Acts.
- 1.3.** The Plan was established with effect from 1 January 1999. The Plan's assets ("the Fund") are held under the legal control of the Trustee under a trust constituted between Infineum UK Limited ("the Company") and the Trustee. The operation of the Plan is governed by the establishing Trust Deed and Rules and any subsequent deeds of amendment.
- 1.4.** Before preparing this statement, the Trustee has received advice from the Plan's investment advisers, Exxon Mobil Corporation, and has consulted the Company.
- 1.5.** The Trustee believes that its investment policies and implementation are in keeping with best practice.
- 1.6.** The Appendices provide details of the Plan's current investment arrangements and form part of this Statement.
- 1.7.** This Statement was formally established by the Trustee with effect from 25 September 2020 and replaces any earlier statements.

Signed by:

Trustee Director 1

**F Cupillini**

Trustee Director 2

**M Ricker**

## **2. GENERAL OBJECTIVE AND CONSIDERATIONS**

- 2.1.** The Trustee's investment objective is the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions, the cost of current and future benefits which the Plan provides whilst having appropriate regard to the statutory funding requirements. The Trustee will take advice from the Scheme Actuary to determine the statutory funding requirements.
- 2.2.** In setting investment policy, the Trustee will:
  - 2.2.1.** Seek to achieve the objectives through investing in a suitable balance of equity and fixed income assets, taking into consideration the suitability of investments and the strength of the covenant provided by the member company. This balance across asset classes should provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk.
  - 2.2.2.** Set an asset allocation policy to ensure that the assets of the Plan include suitable investments; that these assets are appropriately diversified; and that they provide a reasonable expectation of meeting the objectives.
  - 2.2.3.** Consider the ability of the Company to contribute to the Plan and to make up any shortfall compared to the statutory funding requirements.
- 2.3.** In setting investment policy, the Trustee will also take into account any further deterioration of the funding position.
- 2.4.** Before preparing a Statement, the Trustee will:
  - 2.4.1.** Obtain and consider the written advice of persons or firms that it believes to be appropriately qualified in investment matters.
  - 2.4.2.** Consult with the Company.

### **3. ASSET ALLOCATION AND EXPECTED RETURN**

- 3.1.** The Trustee recognises the importance of setting a strategic asset allocation for the Plan. The Trustee will review the Plan's strategic asset allocation at intervals of not more than 3 years. The Trustee will take into account both assets and liabilities when setting a strategic asset allocation.
- 3.2.** The Trustee will consider a broad range of assets in setting a strategic asset allocation. The Trustee will consider the balance between assets that are expected to offer higher but more uncertain returns with those that offer lower returns but are more closely linked to changes in the Plan's liabilities.
- 3.3.** The Trustee expects to achieve a long-term return in each of the asset classes in which the Plan's assets are principally invested as follows:
  - 3.3.1.** Quoted equities - A long term higher rate of return than fixed income assets with higher volatility
  - 3.3.2.** Fixed Income - A fixed nominal rate of return, taking into account income and redemption proceeds, if held to maturity, the level of return depending upon market conditions at the time of purchase. The real return is more unpredictable and is expected to be lower but less volatile than equities

## **4. RISK**

**4.1.** There are various investment risks to which the Plan is exposed, including, but not limited to, the following:

**4.1.1.** The risk of deterioration in the Plan's funding level and the impact on the Company's contribution rate (funding level risk);

**4.1.2.** The risk of a shortfall of assets relative to the liabilities as determined if the Plan were to wind up (solvency risk);

**4.1.3.** The risk that the Investment managers, in the day to-day management of the assets, will not achieve the rate of investment return expected by the Trustee (manager risk);

**4.1.4.** 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 (interest rate risk);

**4.1.5.** The risk that the assets do not move in line with the value placed on the Plan's liabilities in response to changes in inflation (inflation risk), and;

**4.1.6.** The risk that payments due to bond investors might not be made (credit risk).

**4.2.** The Trustee seeks to monitor these risks as far as possible during the process of setting the Plan's investment strategy, strategy implementation and monitoring the Plan's investments. In addition, to help control these risks, the Trustee seeks advice on a regular basis from their investment advisors as to the suitability of the assets with regard to the liabilities and the most appropriate diversification of the Plan's portfolio.

## **5. DIVERSIFICATION, REALISATION OF INVESTMENTS AND CASH FLOW**

- 5.1.** The Trustee recognises that the uncertainty of future returns within each asset class and the uncertainty of future economic conditions mean that prudent diversification should be undertaken.
- 5.2.** The Trustee has taken investment advice to ensure that all the kinds of assets included in the investments are suitable for the Plan.
- 5.3.** Within each asset class, the Trustee shall ensure that a prudent level of diversification is maintained.
- 5.4.** The Trustee will invest in assets that are realisable and marketable unless it considers that expected returns are sufficient to justify any possible delays in realising investments.
- 5.5.** The Trustee will consider the likely cash requirements of the Fund for benefit purposes and will determine whether investment or disinvestment will be required.
- 5.6.** The Trustee will, when possible, provide the Investment Managers with reasonable notice of future cash needs. The Investment Managers may act only in accordance with the instructions set out in the Investment Management Agreements.

## **6. DELEGATION, APPOINTMENT OF ADVISORS AND MONITORING**

- 6.1.** The Trustee will determine which investment decisions it is appropriate for it to take and which decisions should be delegated. The Trustee may from time to time establish an investment sub-committee.
- 6.2.** The Trustee will appoint one or more advisors that they believe are competent and reasonably qualified in investment matters for the purposes of Section 35 of the Act.
- 6.3.** The Trustee will appoint one or more Investment Managers to manage the Plan assets on a day to day basis. In appointing Investment Managers, the Trustee will consider:
  - 6.3.1.** The extent, if any, to which any of the assets should be actively managed;
  - 6.3.2.** The ability of the Investment Manager to meet performance objectives over an appropriate timescale, and the risks of not doing so;
  - 6.3.3.** The commitment of UK-based Investment Managers of UK Equities to the UK Stewardship Code; and
  - 6.3.4.** The nature and level of fees charged.
- 6.4.** The Trustee will monitor the performance of the Fund and the Investment Manager(s) on a regular basis.
- 6.5.** The Trustee will monitor its Investment Advisor and the effectiveness of its own decision-making (or that of the investment sub-committee) on a regular basis.



## **7. AVC INVESTMENTS**

- 7.1.** The Trustee will determine a range of fund options that are broad enough to allow members to address the various risks faced by AVC investors as retirement approaches.
- 7.2.** The Trustee will continue to monitor the appropriateness of these AVC investment vehicles from time to time and will consider the advice from its Investment Advisers, with particular consideration being given to the different forms of investment risks that face AVC contributors.

## **8. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS / EXERCISE OF RIGHTS**

- 8.1.** The Trustee has considered the extent to which environmental, social and governance considerations (including but not limited to climate change) should be taken into account in the selection, retention and realisation of assets. The Trustee considers that in the exercise of its investment powers it should act in the best financial interests of the beneficiaries of the Plan. Other factors should be considered only to the extent that they have an impact on the best financial interests of the beneficiaries.

The Trustee considers that it is acting in the best financial interests of members by adopting a generally passive indexing strategy and investing in pooled, broadly diversified low-cost index based funds. Therefore, as a consequence of this approach, environmental, social and governance considerations in the selection, retention and realisation of investments are taken into account through the matching applicable market index security weightings and returns. Engagement with portfolio companies in each fund is delegated to the respective Investment Managers, who act on behalf of the investors in each fund, including the Trustee.

Members of the Plan remain free/welcome to comment on any aspect of the investment of the Plan's assets, including environmental, social and governance matters.

- 8.2.** Alignment between an Investment Manager's management of the Plan's assets and the Trustee's policies and objectives are a fundamental part of the appointment process of a new manager. Before investing, the Trustee will seek to understand the manager's approach in passive index based investing (including engagement with portfolio companies). When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives.

To maintain alignment, Investment Managers are provided with the most recent version of the Plan's Statement of Investment Principles on an annual basis and are required to explicitly confirm that the Plan's assets, that they manage, are managed in line with the Trustee's policies as outlined in that

statement. Investment funds are monitored on an ongoing basis. This monitoring process includes tracking of fund returns versus index benchmarks and discussion of material deviations. Periodic discussions with managers are held on their engagement activities with portfolio companies, including the manager's approach to proxy voting.

Should the Trustee's monitoring process reveal that an Investment manager's portfolio is not aligned with the Trustee's policies or the manager's stated fund objectives, the Trustee will engage with the manager further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

- 8.3.** For most of the Plan's investments, the Trustee expects the Investment manager to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance for shareholders over these periods. The Trustee also requires that managers' engagement with portfolio companies will include environmental, social and governance matters

The Trustee's policy for the governance of equity investments is to be put into action via its appointed Investment managers. It is recognised that Investment managers can fulfil their role in corporate governance, on behalf of the Trustee, through direct contact with the management of the companies in which the Trustee has invested and also through the exercise of voting rights. Investment managers' actions must at all times enhance the value of the Plan assets.

The Trustee seeks that votes should be cast on every issue. By voting regularly, shareholders can influence the way in which directors run a company so that its value to shareholders may be increased through the promotion of best practices in company management.

The UK Investment manager of UK equities must provide a statement of commitment to the principles and recommendations of the UK Stewardship Code and will report regularly on corporate governance activities, including voting performance and the manager's responses to contentious issues.

For other equity investments the Investment manager will annually confirm that votes are cast on every issue, in line with their published guidelines, unless country specific procedures make voting procedurally difficult or uneconomic.

- 8.4.** The Trustee appoints its Investment managers with an expectation of a long-term partnership. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes fund management, reporting and engagement with portfolio companies. It is the Trustee's view that fees linked to investment performance are generally not compatible with a passive investment approach whereby fund returns should closely track passive benchmark returns. The Trustee reviews the costs incurred in managing the Plan's assets regularly.

## **9. REVIEW OF STATEMENT**

- 9.1.** The Act requires the Trustee to review this Statement at least every three years or without delay after any significant changes in investment policy.
- 9.2.** This Statement shall be reviewed at least every year, but otherwise in accordance with the Act.

## **APPENDIX I**

### **ASSET ALLOCATION**

The strategic asset allocation of the Plan has been determined by the Trustee as set out in the table below:

<b>Asset Class</b>	<b>Asset Allocation</b>
Global equities	30%
Corporate Bonds	35%
Fixed Interest Gilts	35%
<b>Total</b>	<b>100%</b>

#### **Notes:**

- Foreign currency exposure is limited to 30%
- For rebalancing purposes, updated values for GBP components will be utilised

## **APPENDIX II**

### **INVESTMENT ARRANGEMENTS**

#### **Rebalancing**

Rebalancing activities can be undertaken at any time. The rebalancing costs should, however, be weighed against the impact of any deviation from target mix. In addition, the need and timing of a transaction should be assessed in the light of cash flows anticipated in (at least) the next three months.

General guidance: Rebalance quarterly back to asset allocation targets

- Rebalance at February, May, August, and November month end. This cycle is intended to avoid periods of low market liquidity such as around calendar year-end
- Account for known cash flows (i.e., contributions, benefit payments) that are occurring within the next succeeding quarter when calculating rebalancing trades
- Exclude illiquid asset classes from rebalancing calculations and allocate any difference between actual and target weights in these illiquid classes proportionally across other like asset classes (i.e., equity or fixed income)
- Quarterly deviations of less than 0.5% (percentage points) from target allocations for each asset class are considered within allowable tolerance and do not require active rebalancing (i.e., rebalancing beyond that which can be accomplished through allocation of known cash flows)

Rebalancing activities may be temporarily adjusted/suspended based on certain exceptions, for example, Investment Manager advises adjusting rebalancing timing/amount due to market conditions, unique cash flow situations or pending material changes in investment strategies.

Any such suspension of rebalancing should be communicated to the Trustees, any proposed suspension of a rebalance for greater than one month requires authorisation by the Trustees.

It is anticipated that the need to regularly make contributions or raise cash to and from the Fund to finance the monthly net in and outflows will provide opportunities to keep the fund in line with the benchmark.

### **Reviews and Appointments**

The Trustee monitors the performance of the Plan investments on a quarterly basis.

The allocations between asset classes will be reviewed periodically by the Trustees. For each asset class the return should approximate as closely as possible or exceed the return of an appropriate index (benchmark) for that category of asset.

The Trustee has appointed BlackRock as the Investment Manager for the non-AVC assets of the Plan. All assets of the Plan are managed in pooled investment vehicles. The assets held by BlackRock will be managed on a passive (index tracking) basis.

The Trustee has appointed ReAssure as a provider of a range of passively managed unit linked funds for members' AVCs. This range is designed to be broad enough to allow members to address the various risks faced by AVC investors as retirement approaches. The range also includes a lifestyle option whereby members' assets are automatically switched between the most appropriate funds at the appropriate times.



### **APPENDIX III**

BlackRock's "Global Corporate Governance & Engagement Principles" and BlackRock's "Statement on compliance with the UK Stewardship Code" may be found here:

<https://www.blackrock.com/corporate/about-us/investment-stewardship#our-responsibility>