

ETERNIT PENSION PLAN

STATEMENT OF INVESTMENT PRINCIPLES – JUNE 2020

1. Introduction

This Statement of Investment Principles (the “Statement”) has been prepared by Eternit Pension Trustees Limited as Trustee of the Eternit Pension Plan (the “Plan”). It sets out the principles that govern the decisions about the investment of the Plan’s assets. The Trustee will refer to this Statement when making investment decisions to ensure that they are consistent with these principles.

The Plan’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document (“IPID”) which is available on request. The IPID will be reviewed promptly in response to any changes to the manager structure or strategy and is supplementary to the Statement of Investment Principles.

In preparing this Statement, the Trustee has obtained written advice from the Plan’s Investment Consultant (the “Investment Consultant”). Where matters described in this Statement may affect the Plan’s funding policy, input has also been obtained from the Scheme Actuary.

The Trustee’s investment powers are set out within the Plan’s governing documents and relevant legislation.

The Trustee seeks to maintain a good working relationship with Etex (Exteriors) UK Limited (the “Principal Employer”) and will discuss any proposed changes to this Statement with the Principal Employer. However, the Trustee’s fiduciary obligations to the Plan members will take precedence over the Principal Employer’s wishes should these ever conflict.

The Statement is designed to comply with the requirements of the Pensions Act 1995 (“the Act”) and the Occupational Pension Schemes (Investment) Regulations 2005. It also aims to fulfil the spirit of the Myners Code of Best Practice published in 2001 and updated in 2010.

The Trustee does not expect to revise this Statement frequently as it covers broad investment principles. However, it will be reviewed at least once every three years and without delay after any relevant, material changes to the Plan’s investment strategy.

2. Roles and Responsibilities

The Trustee is accountable for the investment of the Plan's assets. This includes setting investment objectives, establishing risk and return targets and setting the Plan's strategic benchmark and investment manager structure.

The Trustee has appointed an Investment Committee ("IC"), which includes a number of Trustee Directors with a financial background and substantial experience. The IC is principally responsible for advising the Trustee on investment strategy, for implementing the agreed strategy through external investment managers and ongoing monitoring of investment performance.

The investment managers are responsible for the day-to-day management of the Plan's assets in accordance with the guidelines agreed with the Trustee. The investment managers have the discretion to buy, sell or retain individual securities in accordance with these guidelines. The investment managers report to the IC regularly regarding performance, who in turn report back to the full Trustee body. In addition, the Investment Consultant provides monitoring on the Plan's investment managers and the Plan's assets in aggregate.

The safe custody of the Plan's assets is delegated to professional custodians (either directly or via pooled vehicles). The Custodian is also responsible for performing the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting).

The Trustee takes advice from the Scheme Actuary, the Investment Consultant and other professional advisors where appropriate.

The Investment Consultant's fees are determined in line with fixed fees for core work and with agreed fees for particular projects. The investment managers levy fees based either on a percentage of the value of the assets under management, or on the value of the assets and the performance achieved by the manager. Custodian fees are a combination of percentage of assets plus transaction related charges.

3. Investment Objectives

The Trustee aims to invest the assets of the Plan prudently to ensure that the benefits promised to existing members are provided as and when they fall due.

4. Policy on Risk

The Trustee recognises the need to take on risk in a controlled fashion in order to meet the Plan's investment objectives. The Trustee has considered the risks outlined below, which they believe may be financially material to the Plan over its anticipated lifetime. However, they acknowledge that this is not an exhaustive list of all relevant risks:

i. Solvency risk and mismatching risk

Solvency levels are monitored through ongoing triennial actuarial and accounting valuations, with appropriate action to prevent undue deterioration of the funding position.

ii. Manager Risk

The Trustee monitors the managers' performance quarterly, and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. Though the use of active managers increases this risk, the Trustee believes this is outweighed by the potential gains from successful active management in certain asset classes (multi-asset, property and alternatives).

iii. Liquidity Risk

The Trustee has adopted a strategy that makes due allowance of the need for liquidity of the Plan's assets. Where allocations have been made to assets that are not liquid (e.g. Private Market vehicles) these are expected to improve the long term cash flow position through providing high cash yields that can help meet benefit payments.

iv. Currency Risk

The risk introduced by holding securities denominated in foreign currencies. The Trustee has chosen to mitigate this risk through the implementation of a currency hedging programme, covering mandates where there is overseas currency exposure.

v. Counterparty Risk

Counterparty risk arises from the possibility that a counterparty will not live up to its contractual obligations. This is mitigated through diversification across counterparties within the Liability Driven Investment ("LDI") mandate.

vi. Concentration Risk

The Trustee has adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:

- by asset class
- by region (UK and overseas)
- by investment manager

vii. Principal Employer Risk

The Trustee regularly reviews the risk that the Principal Employer may be unwilling or unable to make the necessary level of contributions in future.

viii. Market Risk

The value of securities, including equities, alternative asset classes and interest bearing assets, can go down as well as up. The Plan may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash. In order to manage the active risk, the Trustee monitors the investment managers' performance on a quarterly basis and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance.

ix. Environmental, Social and Governance ("ESG") Risk

The risk that ESG issues, including climate change, may have financially material impacts on the global economy and subsequently investment returns. Further information on the Trustee's policies on managing this risk is set out in section 11.

Non-financial matters including but not limited to members' views in relation to ESG issues, are not explicitly taken into account in the selection, retention and realisation of investments. However, members have a variety of methods by which they can make views known to the Trustee.

The Trustee acknowledges that it is not possible to monitor all of the risks listed above at all times. However, the Trustee seeks to take on those risks which it expects to be rewarded for over time, in the form of excess returns, in a diversified manner.

5. Risk and Return Targets

The Trustee recognises that, with the development of modern financial instruments, it could be possible to select investments that are similar to the estimated liability cash flows, particularly in terms of their sensitivity to changes in inflation and/or interest rates. However, in order to meet the long-term funding objective within a level of contributions that the Principal Employer has indicated it is willing to make, the Trustee has agreed to take some investment risk relative to the liabilities.

This taking of investment risk seeks to target a greater return than the matching assets would provide while maintaining a prudent approach to meeting the Plan's liabilities.

Before deciding to take investment risk relative to the liabilities, the Trustee receives advice from the Investment Consultant and Scheme Actuary. In particular, the Trustee considers carefully the following possible issues:

- Over the short-term, the inclusion of investment risk will mean that the relative value of the assets and liabilities will be more volatile than if investment risk had not been

taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of a discontinuance of the Plan. This consequence is particularly serious if it coincides with the Principal Employer being unable to make good the shortfall.

- The ability of the Plan to take investment risk is dependent on the continuing financial strength of the Principal Employer and its willingness to contribute appropriately to the Plan.
- Having regard to the above issues, the Trustee adopts investment arrangements that they believe offer an acceptable trade-off between risk and return.

6. Strategic Benchmark/Objective

The Trustee has established a strategic objective and investment benchmark for the Plan. The high-level strategic split between growth and defensive assets is given below and full details of the Plan's current objective and benchmark are set out in the IPID.

Asset Type	Allocation (%)
Growth	30
Defensive	70

The current overall investment manager structure is set out in detail in the IPID, as well as the Trustee's rebalancing policy.

7. Investment Managers

Day-to-day management of the assets is delegated to professional investment managers who are all regulated by the appropriate regulators.

The investment managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints. They have been selected for their expertise in different specialisations and each manages investments for the Plan to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured. The IPID gives details of each investment managers' mandate as set out in their respective subscription documentation and investment management agreements.

The Trustee's main objectives when considering the selection of investment managers are as follows:

1. To select a combination of investment products that together (though not necessarily individually) would generate the maximum net of fees added value over the benchmark, given the Plan's tolerance for risk;
2. To employ highly-rated investment managers, according to the Investment Consultant's research, wherever possible (subject to objective 1);

The Trustee regularly assesses the continuing suitability of the Plan's investment managers. The Trustee will review the appointment of any investment manager for any reason it considers appropriate. These will include, but will not be limited to:

- Breach of investment guidelines;
- Changes to the investment management process, personnel or business management of the investment manager that lead to a loss of confidence in the investment manager's ability to perform inline with their stated objectives;
- Changes to the investment management process that result in the investment manager no longer being suitable for the mandate for which they were appointed.
- Performance being out of line with expectations over an extended period of time.

Aligning manager appointments with the Plan's investment strategy

The Trustee is responsible for the selection, appointment, removal and monitoring of the Plan investment managers. 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 being selected for.

The Trustee looks to its Investment Consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. 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 scheme invests in. The Investment Consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the trustees' wider investment objectives.

Some appointments are actively managed and the managers are incentivised through remuneration (via performance related fees) and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds as part of the wider monitoring of the Plan's managers.

The majority of the Plan's investments are made through pooled investment vehicles, and as such the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. Some appointments are segregated and the Trustee have specified criteria in the investment manager agreements for the asset class manager to be in line with the Trustee's specific investment requirements.

With respect to the LDI portfolio, the manager has been appointed to manage the assets in line with a Plan-specific benchmark based on the underlying liabilities of the Plan and a

target liability hedge ratio. In relation to the Buy and Maintain Credit mandate, the Trustee has established a duration target, credit quality limits, and various other risk and return criteria.

Responsible Investing engagement with investment managers

The Trustee will also consider the Investment Consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's 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 Trustee monitoring investment managers' engagement activity on a regular basis and their level of integration is documented at least annually, based on the Investment Consultant's assessment of each manager ESG factors.

Evaluating investment manager performance

The Trustee receives investment manager performance reports from the managers and Mercer on a quarterly basis, which present performance information over 3 month, 1 year, 3 year and since inception periods. The Trustee reviews absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period), on a net of fees basis. The Trustee's focus is primarily on long term performance but short term performance is also reviewed and explored with the manager if necessary.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees instead of terminating the appointment.

There are active mandates with performance related fees, which have hurdle rate structures in place to avoid the trustees paying additional fees during periods of long term underperformance.

The Trustee meets with all the investment managers at least once a year and challenges their portfolio construction and responsible investment philosophy.

Portfolio turnover costs

The Trustee receives MiFID II reporting from their investment managers and Mercer (where applicable) but do not regularly analyse this information.

Portfolio turnover costs are mostly considered as part of manager selection exercises and when a new manager is appointed by comparing portfolio turnover across the same asset class, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus. However, for some portfolios (e.g. Buy and Maintain Credit) the Trustees do monitor turnover and will engage with the manager if this is higher than expected.

Investment manager changes

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

For open-ended funds, the Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate;

For closed-ended funds (private markets), the Plan is invested for the lifetime of the fund. At the time of appointment, the Trustee receives an indication of the expected investment duration of their funds. In order to maintain a strategic allocation to these asset classes, the Trustee may choose to stay with the manager in a new closed ended fund (if available) for that asset class or appoint a different manager.

8. Investment Restrictions

Formal investment management agreements have been drawn up between the respective investment managers and the Trustee, within which strict guidelines and investment restrictions for the manager are specified.

9. Asset Backed Contribution (ABC)

The Plan also has holdings in an asset backed funding arrangement since March 2018, the EPP ABC Limited Partnership ("the EPP ABC"). The Trustee has agreed that the expectation is that the funding shortfall on the Plan as at the 31 March 2017 Valuation will be met in full by payments under the EPP ABC. This was agreed as part of a package of funding, investment and security measures as part of the 2017 Actuarial Valuation discussions.

This arrangement is not considered to form part of the Plan's investable assets due to their unique structure and illiquid nature. The value of the EPP ABC is, however, included in the overall value of the Plan's assets when assessing the Plan's funding level. As such, the EPP ABC provides additional security to the Plan's financial status and this factor is considered by the Trustee when assessing the overall level of investment risk that it deems acceptable.

10. Realisation of Investments

Although a proportion of the pension payroll is met through the ABC, the cash inflow to the Plan is generally lower than the outflow; hence the Plan is considered "cashflow negative". As such, income generated from the Plan's mandates will be used to help meet the cashflow requirements, with any additional requirements met from the collateral supporting the LDI portfolio.

The collateral position in the LDI portfolio is considered quarterly to ensure it is sufficient to support any additional cashflow requirements, and in the event that it is not, the Investment Consultant will advise the Trustee on an alternative source of funds.

11. Responsible Investment and Corporate Governance

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has taken into account the expected lifetime of the Plan when considering how to integrate these issues into the investment decision making process.

The Trustee has given the Investment Managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Plan's investments. Similarly, the Plan's voting rights are exercised by its investment managers 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 Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually. However, the Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Members' views with regard to ESG are not explicitly taken into account in the selection, retention and realisation of investments, but members have a variety of methods by which they can make views known to the Trustee.

12. Additional Voluntary Contribution Assets ("AVCs")

Assets in respect of members' AVCs are invested via a group AVC structure. With the assistance of the Plan's Investment Consultant, the AVC arrangements are reviewed periodically to ensure that the investment profile available remains consistent with the objectives of the Trustee and the needs of the members. More information on the AVC arrangements is detailed in the IPID.



Director

Date 17/6/2020

For and on behalf of the Eternit Pension Trustees Limited as Trustee of the Eternit Pension Plan