FINNFOREST UK PENSION PLAN
STATEMENT OF INVESTMENT PRINCIPLES

9TH EDITION

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1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by the Trustees of the Finnforest UK Pension Plan ("the Plan") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Plan and the activities undertaken by the Trustees to ensure the effective implementation of these principles.

In preparing the Statement, the Trustees have:

- Obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees' investment policy for the Plan.

Previously the Trustees reviewed this Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements; or if there was a significant change in investment policy. However, given that the Plan has entered into a Bulk Purchase Annuity ("BPA") managed by Legal and General Assurance Society ("LGAS") Limited, the Statement is no longer set to be regularly updated. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustees' have purchased an insurance contract for all of the Plan's members, leaving the Plan with no non-insured liabilities.

The Trustees have agreed that an appropriate objective for the residual assets in excess of the cost of the insurance contract should be to invest it to minimise the chances of a reduction in its capital value.
The trustees have agreed that the residual assets will be retained in the Trustee Bank account to meet expenses and other payments as they fall due.

3 INVESTMENT RESPONSIBILITIES

3.1. TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the Investment Manager and Investment Adviser
- The assessment and review of the performance of each investment manager
- The setting and review of the investment parameters within which the investment managers can operate
- The assessment of the risks assumed by the Plan at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Plan
- The compliance of the investment arrangements with the principles set out in the Statement

Some of these duties are no longer relevant now that the Trustees have secured an insurance policy and the residual assets are being held in the Trustee Bank Account.

3.2. INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have appointed Mercer as the Investment Adviser to the Plan. Mercer provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which Mercer expects to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 2).

The Trustees do not anticipate taking tactical investment decisions and there is no responsibility placed on Mercer to proactively provide tactical investment advice to the Trustees.

Any services provided by Mercer will be remunerated primarily on a time-cost basis.

In particular, Mercer does not receive commission or any other payments in respect of the Plan that might affect the impartiality of their advice

The Trustees are satisfied that this is the most appropriate adviser remuneration structure for the Plan.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3. ARRANGEMENTS WITH THE INVESTMENT MANAGER

Buy-In Policy

The Trustees have secured a buy-in policy with Legal & General to pay to the Plan an amount equal to the contractual payments specified under the policy. In due course it is intended that this will be converted to a buy-out policy and written into the names of the individual members as part of the winding up of the Plan. The initial premium was paid in July 2022, and the policy is non-surrenderable.

The primary responsibility of Legal & General is to ensure that the correct amount is paid to the Plan, and this was the primary concern of the Trustees when they took out the policy and the strategic reason for investing in a buy-in policy. Legal & General's charges for managing the policy were crystallised into the up-front premium that the Trustees paid when securing the policy.

Legal & General is also authorised by the PRA and the FCA.

3.4. SUMMARY OF RESPONSIBILITIES

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the scheme administrators, so far as they relate to the Plan's investments, is set out at Appendix 2.

4 INVESTMENT STRATEGY

4.1. SETTING INVESTMENT STRATEGY

The Trustees have determined that the best way to secure the payment of benefits for Scheme members is to enter into a buy-in agreement with a reputable insurance company.

They have determined that it would be appropriate for the residual non-insured assets to be retained in the Trustee Bank Account to meet expenses and other payments as they fall due.

Taking all of these factors into consideration, the Trustees have determined that the investment strategy set out in Appendix 1 is suitable for the Scheme.

4.2. INVESTMENT DECISIONS

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Plan.

The Trustees take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the suitability of entering into a buy-in policy for the Scheme
- Determining an appropriate policy for the non-insured assets
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

Given the Plan's circumstances, the Trustees do not expect to make any tactical investment decisions.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers in which the Plan is invested.

4.3. TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including insurance contracts.

The residual assets are retained in the Trustee Bank Account.

4.4 FINANCIALLY MATERIAL CONSIDERATIONS

The Trustees consider many risks which they anticipate could impact the financial performance of the Plan's investments over the Plan's expected lifetime. Such risks are set out in the next section of this statement.

The Trustees recognise that environmental, social and corporate governance ("ESG") factors, such as climate change, can influence the long term investment risk and return outcomes of the Plan's portfolio and in normal circumstances it would be in members' and the Scheme's best interests that these factors are taken into account within the investment process. However, the Trustees have secured a buy in policy with an insurer for the member's benefits, and are working towards the wind up of the Plan. The lifetime of the Plan is therefore expected to be very short and the Trustees are satisfied that it is appropriate not to embed ESG considerations into the Plan's investment strategy.

4.5 NON FINANCIAL CONSIDERATIONS

The Trustees have determined that the financial interests of the Plan members are their first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members' preferences into account when setting the investment strategy for the Scheme.

4.6 STEWARDSHIP

The Plan is invested in the buy-in policy with LGAS. The Trustees' policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the investment managers and expects LGAS to use its discretion to act in the long term financial interests of the investors.

5 RISK

Under the Pensions Act 2004, the Trustees are required to state its policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by investing in a buy-in policy to secure the Plan's liabilities.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by Mercer's manager research process.

Liquidity Risk

- This is monitored according to the level of cashflows required by the Plan over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Plan's non-insured assets are invested in the Trustees Bank Account.
- The buy-in policy is a contract of insurance to pay to the Plan an amount equivalent to the pensions at the time of taking out the policy, and their dependants. It is not realisable.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by taking out a buy-in policy to secure the Plan's liabilities.

Corporate Governance Risk

- This is assessed by reviewing the Plan's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are available to the Trustees and take into account the financial interests of the shareholders, which should ultimately be to the Plan's advantage.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit.
- It is managed by taking out a buy-in policy to secure the Plan's liabilities.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
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- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- The Plan invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.
- The Plan's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.
- The Plan is exposed to the risk of the bank defaulting, but this is considered to be a low risk.
- In addition, the Plan is exposed to direct credit risk in respect of the buy-in policy with Legal & General, in the event of the Legal & General failing. In order to manage this risk, the Trustees carried out appropriate due diligence when selecting Legal & General and the Trustees note that there are considerable protections through the regulatory regime that applies to insurance companies.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk; currency risk, interest rate risk and other price risk.

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, it may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Plan's non-insured assets are held in the Trustee Bank account and are therefore not subject to currency risk.

Interest rate and inflation risk

- This is the risk that an investment's value will change due to a change in the level of interest and/or market-implied inflation rates. This affects debt instruments more directly than growth instruments.
- The Trustees recognise that the Plan's liabilities are exposed to a significant level of interest rate risk movement and have therefore taken out a buy-in policy to remove this interest rate risk.
- The Plan's non-insured assets are held in the Trustee Bank account and are therefore not subject to interest rate risk.

Other Price risk

- This is the risk of volatility that principally arises in relation to return seeking assets.
- This has been minimised by retaining non-insured assets in the Trustee Bank Account.

ESG Risk

- This is 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 Trustees have managed this risk by securing the Plan's liabilities in a buy-in policy and working towards winding up the Plan.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1. INVESTMENT ADVISER

The Trustees do not anticipate requiring further investment advice, but to the extent that investment advice is required, the Trustees will review the performance of their adviser in a qualitative way.

6.2. PORTFOLIO TURNOVER COSTS

The Trustees note that they have no oversight of the assets backing the buy-in policy with Legal & General and therefore consider that these requirements are not relevant to the buy-in policy.

7 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Trustees hold assets invested separately from the main Plan in the form of individual investments in funds set up for those members who elected to pay additional voluntary contributions.

Previously there was a Money Purchase (DC) Section, however this has now been wound up and is no longer in operation.

8 CODE OF BEST PRACTICE

The Trustees notes that in March 2017, the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustees have received training in relation to this guidance and are satisfied that the investment approach adopted by the Plan is consistent with the guidance so far as it is appropriate to the Plan’s circumstances. Now that the Plan’s liabilities have been secured through a buy-in policy with Legal & General, the Trustees note that much of the guidance is no longer relevant.

9 COMPLIANCE

The Plan's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Plan's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Plan's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustees on 14 December 2022

APPENDIX 1: INVESTMENT ARRANGEMENTS

The Trustees have secured a buy-in policy with Legal & General Assurance Society Limited to pay to the Plan an amount equal to the contractual payments specified under the policy. In due course it is intended that this will be converted to a buy-out policy and written into the names of the individual members as part of the winding up of the Plan.

The primary responsibility of Legal & General is to ensure that the correct amount is paid to the Plan as defined by the buy-in contract. The payments from Legal & General will be used to fund the payment of the Plan's pensioners.

The Trustees, have retained the Scheme's non-insured assets in the Trustee Bank Account to meet expenses and other cash requirements.

APPENDIX 2: RESPONSIBILITIES OF PARTIES

TRUSTEES

The Trustees' responsibilities include the following:

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation with the Investment Adviser and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Investment Adviser and Scheme Actuary
- Appointing the Investment Manager(s) and custodian (if required)
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of investment returns and other relevant information, in consultation with the Investment Adviser
- Consulting with the sponsoring employer regarding any proposed amendments to this Statement
- Monitoring compliance of the investment arrangements with this Statement on a continuing basis

Some of these are no longer relevant given that an insurance contract has been secured to meet the Plan's liabilities.

INVESTMENT ADVISER

The Investment Adviser's responsibilities include the following:

- Participating with the Trustees in reviews of this Statement of Investment Principles
- Production of performance monitoring reports
- Advising the Trustees, at their request, on the following matters:
  - Through consultation with the Scheme Actuary, how any changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested
  - How any significant changes in the Investment Managers' organisation could affect the interests of the Plan
  - How any changes in the investment environment could present either opportunities or problems for the Plan
- Undertaking project work, as requested, including:
  - Reviews of asset allocation policy
  - Research into and reviews of Investment Managers
- Advising on the selection of new managers and/or custodians

INVESTMENT MANAGERS

Buy-Out Policy

The primary responsibility of Legal & General Assurance Society Limited is to ensure that the correct amounts are paid in respect of the members on a timely basis as set out in the buy-in contract.

SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser regarding the suitability of the Plan’s investment strategy given the financial characteristics of the Plan
- Assessing the funding position of the Plan and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

ADMINISTRATOR

The Administrator’s responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustees’ instructions.

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