Statement of Investment Principles
Lucite International UK Pension Fund
(August 2020)

Introduction

1. This document is the Statement of Investment Principles (‘SIP’) made by the Lucite International UK Pensions Trustees Limited (“the Trustee”) of the Lucite International UK Pension Fund (the ‘Fund’) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2. In this document Scheme Actuary means the actuary appointed to advise the Trustee of the Lucite International UK Pension Fund.

3. The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took advice from a suitably qualified firm and consulted Lucite International (the ‘Employer’). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Defined Benefit section

Investment objectives

4. The Trustee has the following investment objectives:

   • The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Company, the cost of current and future benefits which the Fund provides, and to ensure the security, quality and profitability of the portfolio as a whole.

   • To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.

   • To minimise the long-term costs of the Fund by maximising the return on the assets whilst having regard to the other objectives shown above.

Investment strategy

5. The Trustee has received advice to determine an appropriate investment strategy for the Fund. The Trustee has a desire to diversify risk exposures and to manage its investments effectively.

6. In addition, the Trustee believes in the importance of sustainable investment, in the sense of long-term, finance driven strategies that incorporate environmental, social and governance (ESG) factors, effective stewardship and real world impact in investments. We see these principles as one of the cornerstones of successful long term investment and we therefore expect the assets held by the Fund to reflect them where practical and appropriate.
7. The investment strategy can make use of two key types of investments:
   - a range of instruments that provide a broad match to changes in liability values; and
   - a diversified portfolio of return-seeking assets.

8. The Trustee appointed a fiduciary manager to manage Fund assets on a discretionary basis and to provide advisory services to the Trustee (the “Fiduciary Manager”). The balance within and between these investments will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Fund’s investment objective set by the Trustee. The Fiduciary Manager’s discretion is subject to guidelines set by the Trustee within its Fiduciary Management Agreement (the Agreement) with the Trustee dated July 2018. The Fiduciary Manager considers the Agreement, the guidelines and the Trustee's policies set out within this statement when carrying out its role and responsibilities, which ensures appropriate incentivisation and alignment of decision-making with the Trustee’s overall objectives, strategy and policies.

9. The Trustee is aware that they have the flexibility to open the contracts for actuarial services and investment advice to separate competition.

10. The Fund will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

11. The Trustee will monitor the liability profile of the Fund and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.

12. The Scheme Actuary’s responsibilities include: performing the triennial (or more frequently, as required) valuations of the Fund and advising on the appropriate contribution levels for the future; liaising with the Fiduciary Manager on the suitability of the Fund’s investment strategy given the financial characteristics of the Fund.

13. The expected return of an investment will be monitored regularly and will be directly related to the Fund’s investment objective.

14. The Trustee’s policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Fund’s overall investments, where possible.

Investment managers

15. The Trustee has delegated investment manager selection, de-selection and the ongoing management of relationships with asset managers to the Fiduciary Manager within Investment Guidelines set by the Trustee. The Trustee considers the Fiduciary Manager’s performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager, and the Trustee has also commissioned a third party to provide independent oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that, the portfolio, in aggregate, is consistent with the policies set out in this statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). Where relevant to the mandate, the Trustee expects the Fiduciary Manager to:

   o ensure that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee’s policies;
use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement for segregated investments to ensure consistency with the Trustee's policies.

16. In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Fund competently.

17. The Trustee and Fiduciary Manager are not involved in the investment managers’ day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Fiduciary Manager will maintain processes to ensure that performance and risk (including ESG risks) are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Fund's long-term objectives.

18. The Trustee expects the Fiduciary Manager to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund’s assets. When assessing a manager’s performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee’s position as a long-term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate a manager’s appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee adopts the same long-term focus as part of its ongoing oversight of the Fiduciary Manager.

19. For most of the Fund’s investments, the Trustee expects the Fiduciary Manager to appoint managers with a medium to long time horizon, consistent with the Fund. In particular, areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Fund’s allocation to such mandates is determined in the context of the Fund’s overall objectives.

20. The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers. However, the Trustee and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of financially material factors including Environmental, Social and Governance (ESG) issues.

21. Consequently, the Trustee (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out in 22 and 23 below) seeks to be an active long-term investor. The Trustee's focus is explicitly on financially material factors. The Trustee's policy at this time is not to take into account non-financial matters.

22. The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. The Trustee expects the Fiduciary Manager to assess the alignment of the Fund’s underlying managers’ approach to sustainable investment (including engagement) with its own before making an investment on the Fund’s behalf. The Trustee expects the Fiduciary manager to engage with underlying managers where appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the managers’ approach to sustainable investment (including engagement) on a regular basis and engage with the manager to encourage further alignment as appropriate.
23. The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposure which the Fiduciary Manager takes into account in the assessment.

24. The Fiduciary Manager encourages and expects the Fund’s investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

25. The Trustee’s policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement and the provision of voting advice for the Fund’s equity investments.

26. The Trustee expects the Fiduciary Manager to consider the fee structures of asset managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Fund’s assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Other matters

27. The Fund is a Registered Pension Scheme for the purposes of the Finance Act 2004.

28. The Fund's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members.

29. The Trustee recognises a number of risks involved in the investment of the Fund’s assets and, where applicable, monitors these risks in conjunction with the Fiduciary Manager.

Solvency risk and mismatch risk:

- are measured through a qualitative and quantitative assessment of the expected development of the funding level.

- are managed through the development of a portfolio consistent with delivering the Fund’s investment objective.

Longevity risk:

- is partially mitigated through the use of insurance policies. As the Fund de-risks, longevity risk will become a larger proportion of the Fund’s overall risk. As this happens the Trustee will look to increase insurance activity through further buy-ins and/or other longevity hedging instruments such as longevity swaps.
Investment Manager risk:

• is measured by the expected deviation of the return relative to the benchmark set.

• is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Fund to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers’ investment process.

Liquidity risk:

• is measured by the level of cash flow required by the Fund over a specified period.

• is managed by the Fund’s administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Currency risk:

• is measured by the level of exposure to non-Sterling denominated assets.

• is managed by the implementation of a currency hedging programme (carried out within some of the pooled investment vehicles) which reduces the impact of exchange rate movements on the Fund’s asset value.

Custodial risk:

• is addressed through investment in pooled vehicles, with the investment managers being responsible for selection of suitable custodians. In addition, the Fund’s global custodian, is responsible for sweeping un-invested cash balances into pooled cash funds, which will be managed by an investment manager who, in line with other investment managers of pooled vehicles for the Fund is responsible for selecting the custodian for the cash funds.

Interest rate and inflation risk:

• are measured by comparing the likely movement in the Fund’s liabilities and assets due to movements in inflation and interest rates.

• are managed by holding a portfolio of matching assets (physical bonds and/or derivatives via pooled funds) that enable the Fund’s assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing management and consideration of risks (such as derivatives risk) of this portfolio is undertaken by the Fiduciary Manager.

Political risk:

• is measured by the level of concentration of 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 the level of country diversification within the policy.

Sponsor risk:

• is measured by receiving regular financial updates from the Company and periodic independent covenant assessments.
• is managed through an agreed contribution and funding schedule.

Signed:
Name: Kevin Leith
Date: 31 August 2020
Authorised for and on behalf of the Trustee of the Fund