Givaudan UK Pension Plan (“the Plan”)

Statement of Investment Principles for the Plan (“the Statement”)

Scope of Statement

This Statement, made by the Trustees of the Plan (the **"Trustees"**), has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 11 January 2021. The Trustees will review this Statement and the Plan’s investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

For the avoidance of doubt, this Statement applies only to the Defined Benefit Section of the Plan. A separate Statement of Investment Principles applies to the Defined Contribution Section.

Consultations Made

The Trustees have consulted with the principal employer, Givaudan UK Limited (“the Employer”), prior to writing this Statement and will take the Employer’s comments into account when they believe it is appropriate to do so. This Statement includes changes made to the investment strategy that were initially presented by the principal employer and have now been agreed by the Trustees.

The Trustees are responsible for the investment strategy of the Givaudan UK Pension Plan. The Trustees have obtained written advice on the investment strategy appropriate for the Plan and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Plan's assets has been delegated to Aon Investment Limited who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the appointed investment manager and is available to the members of the Plan.

Objectives and Policy for Securing Objectives

The Trustees' primary objectives are:

- “funding objective” - to ensure that the Plan is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;

- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the investment strategy; and

- “security objective” – to help protect the solvency position of the Plan. The Trustees will take into account the strength of Employer’s covenant when determining the expected improvement in the solvency position of the Plan.

Choosing Investments

The types of investments held and the balance between them is determined according to what is deemed appropriate given the liability profile of the Plan, its cashflow requirements, the funding level of the Plan and the Trustees' objectives.

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality and liquidity of the portfolio as a whole. Diversification has been considered by the Trustees as appropriate.
Assets held to cover the Plan's technical provisions (the liabilities of the Plan) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan.

The assets of the Plan are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as derivatives contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed so as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Balance Between Different Kinds of Investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. The Trustees acknowledge that they are ultimately responsible for investment strategy and asset allocation. They therefore retain responsibility for setting investment objectives given to investment managers[1] and take expert advice as required from their professional advisers.

The Trustees will review their investment strategy following each formal actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Plan.

The investment objectives set out in the Appendix to this Statement were implemented after considering written advice from the Trustees' advisers.

The Trustees have decided to invest the Plan's assets in fixed interest gilts, index-linked gilts and cash so as to match as accurately as possible the liabilities of the Plan.

[1] When used in this Statement, the term "investment managers" is to include Aon Investment Limited, the underlying managers appointed by AIL, and any AVC providers.

Investment Risk Measurement and Management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way), following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the Employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustees also have an agreement with the Employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employer. In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. The Trustees will re-consider the continued appropriateness of the Plan's existing investment strategy in the event of any changes in the Employer covenant.

There is no longer a reason for performance monitoring on an ongoing basis as the Trustees' intention is to purchase annuities to secure members' benefits with insurance policies. The Trustees have appointed Aon to alert them on any matters of material significance that might affect the ability of the investment manager to achieve their objectives.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive or negative) may be an indication that an investment manager is taking a higher level of risk than indicated.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The investment manager is responsible for the appointment and monitoring of the custodian(s). The custodian(s) are independent of the Employer.

Expected Returns on Assets

The Trustees' expectations are for the "matching" assets to be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan.

The neutral estimate of projected investment returns for the certain asset classes taken from the Aon's Capital Market Assumptions as at 30 June 2020 were: 0.3% pa for 15 year UK fixed income gilts, -0.5% pa for 15-year UK index-linked gilts and 2.0% pa for price inflation (CPI 10 year forecast).

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise. All of the assets held are realisable at short notice.

Arrangements with Asset Managers

The Trustees have appointed AIL as their fiduciary manager, who they consider to be their asset manager. References in this policy to ‘underlying asset managers’ refers to those asset managers which AIL in turn appoints to manage investments on behalf of the Trustees.

The Trustees recognise that the arrangements with AIL, and the underlying asset managers, are important to ensure that interests are aligned. The Trustees seek to ensure that AIL is incentivised to operate in a manner that generates the best long-term results for the Plan and its beneficiaries.

The Trustees receive monthly valuation reports and verbal updates from AIL on various items including the investment strategy, performance, and longer-term positioning of the portfolio.

The Trustees receive stewardship reports each calendar year on the monitoring and engagement activities carried out by AIL, which supports the Trustees in determining the extent to which the Plan's engagement policy has been followed.

The Trustees share the policies, as set out in this SIP, with the fiduciary manager and ask the fiduciary manager to review and confirm whether their approach is in alignment with the Trustees’ policies.

The Trustees delegate the ongoing monitoring of underlying asset managers to AIL, who are responsible for monitoring the Plan’s investments and considering the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Plan.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointment of a new fiduciary manager, the Trustees will review the governing documentation associated with the investment and will consider the extent to which this aligns with the Trustees’ policies. Where possible, the Trustees will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at trustee meetings) to improve alignment. Where it is not possible to make changes to the governing documentation, such as investments in pooled funds, then the Trustees will make their expectations clear to the investment manager.

The Trustees believe that having appropriate governing documentation, setting out clear expectations to AIL and carrying out regular monitoring of the performance of the investment strategy will be sufficient to incentivise AIL to make decisions that align with the Trustees’ policies and which will be based on assessments of medium and long-term financial and non-financial performance. The Trustees also consider that the fees paid to investment managers and, in exceptional circumstances, the possibility of their mandate being terminated, is sufficient to incentivise managers to provide a service which meets the Trustees' stated objectives.

Where AIL is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically engage with the fiduciary manager to understand the circumstances and materiality of the decisions made. If AIL does not make decisions which are consistent with the Trustees' policies and AIL is unable to provide a satisfactory explanation, the Trustees ultimately retain the right to terminate the agreement and appoint a new manager.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

Costs and Performance

The Trustees are aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustees recognise that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustees receive annual cost transparency reports from their fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Plan;
- The fees paid to the fiduciary manager;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager;
  - The Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Plan.

The Trustees acknowledge that portfolio turnover costs are a necessary cost in order to generate investment returns and that the level of these costs varies across asset classes and managers. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustees.

The Trustees benefit from the economies of scale provided by the fiduciary manager in two key cost areas:

- The ability of the fiduciary manager to negotiate reduced annual management charges with the appointed investment managers;
- The ability of the fiduciary manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible;

The Trustees assess the net performance of their fiduciary manager on a rolling three-year basis against the Plan's specific liability benchmark and investment objective. The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustees. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustees monitor these costs and performance trends over time.

Environmental, Social and Governance considerations

The Trustees' primary concern when setting the investment strategy is to act in the best financial interests of the beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustees believe that, in order to fulfil this commitment and to protect and enhance the value of the Plan's investments, they must act as responsible stewards of the investments.

The Trustees acknowledge that financially material considerations include environmental, social and corporate governance (ESG) factors, such as climate change. Understanding these factors can help identify investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustees expect the investment managers to include ESG considerations in the selection, retention and realisation of investments. Such decisions should consider, amongst other things, the sustainability of business models and not be influenced by personal, ethical or moral judgments.

The Trustees are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustees will undertake periodic training on Responsible Investment to understand how ESG factors, including climate change, may impact on the Plan's assets and liabilities.
- As part of ongoing monitoring, the Trustees will use information, where available, provided by Aon of their assessment of the investment managers against ESG factors which are set by AIL and against which AIL assesses and rates underlying managers.
- On an annual basis, the Trustees (acting through AIL where appropriate) will ask the investment managers to provide their policy on Responsible Investment to include details of how they integrate ESG in their investment decision making process. Should the Trustees look to appoint a new manager, they will request this information and assess the extent to which it aligns with the Trustees' policies as part of the selection process. All responses will be reviewed and monitored, and prospective new managers' ESG credentials will be a relevant factor in the Trustees' decisions about new appointments.

Stewardship - voting and engagement

The Trustees recognise the importance of their role as a steward of capital, promoting corporate responsibility and ensuring the highest standards of governance. The Trustees recognise that ultimately this will help to protect the financial interests of the beneficiaries of the Plan.

The Trustees review the stewardship activity of the investment managers on an annual basis to ensure the Plan's stewardship policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by their managers and these reports include detailed voting and engagement information from underlying asset managers, e.g. compliance with the UK Stewardship Code issued by the Financial Reporting Council.

The Trustees expect the investment managers to use their influence as institutional investors to ensure that underlying asset managers exercise the Trustees' voting rights in relation to the Plan's assets and report to the Trustees on stewardship by underlying asset managers as required.

The Trustees will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of reporting which will be made available to Plan members on request.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Plan, highlighting in particular those votes by the asset managers against management that were significant, where votes were abstained, or where voting differed from the policies of the Trustees. Where voting is concerned we would expect our underlying asset managers, to recall stock lending, as necessary, in order to carry out voting actions.

The Trustees may engage with their investment managers, who in turn are able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Plan.

Members' views and non-financial factors

The Trustees do not explicitly take the views of members and beneficiaries of the Plan into account in relation to ESG factors or the present and future quality of life of the members and beneficiaries of the Plan (defined as 'non-financial factors' in the 2018 Regulations). The Trustees will review this policy on a regular basis.

Additional Voluntary Contributions ("AVC") Arrangements

Some members obtain further benefits by paying AVC to the Plan. The liabilities in respect of these AVC are equal to the value of the investments bought by the contributions. Details of AVC providers and fund options are included in the Appendix to this Statement.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

For and on behalf of the Trustees of the Givaudan UK Pension Plan

Givaudan UK Pension Plan (the "Plan")
Appendix to Statement of Investment Principles

This Appendix sets out the Trustees' current investment strategy and is supplementary to the Trustees' Statement of Investment Principles (the "attached Statement").

The Trustees' investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:

1. Investment Strategy and Investment Manager Arrangement

The Trustees have appointed Aon Investment Limited (AIL). The Plan's assets are invested in a portfolio of gilts, cash and cash funds in order to match the liabilities of the Plan.

2. Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance and this is carefully monitored by the Plan's administrator.

3. Fee structure for advisers and investment manager

3.1 Advisers

The Trustees' investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustees will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment manager

The investment manager is remunerated as a set percentage of the assets under management. This is in keeping with standard market practice.

4. Additional Voluntary Contributions ("AVCs")

A number of members have existing AVC arrangements with Legal & General, Legal & General Investment Management, Clerical Medical Investment Group Limited and Utmost Life and Pensions. These arrangements are closed to both new members and contributions.