KPSS (UK) Limited Pension Scheme

Statement of

Investment Principles

Fifth Edition

May 2022

1.0 Introduction

This Statement of Investment Principles (the "Statement") has been prepared by the Trustee of the KPSS (UK) Limited Pension Scheme (the "Trustee") in respect of the KPSS (UK) Limited Pension Scheme (the "Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Scheme (Investment) Regulations 2005.

This is the fifth edition of the Statement and, taken with the document "Investment Managers and Advisers", replaces all other versions and addenda.

In preparing this Statement the Sponsoring Employer (the "Sponsor") has been consulted.

2.0 Investment Governance Structure

The Trustee's primary role is to act in the best interests of the Scheme members.

The Trustee takes strategic investment decisions, with advice from its investment adviser, and does not feel it necessary to set up an Investment Sub-Committee. Strategic investment decisions include, but are not limited to:

- Asset allocation and journey planning (setting a "Journey Plan");
- De-risking and hedging programmes;
- Selection and removal of fund managers, custodians and investment platform providers;
- The use of derivatives for risk management purposes.

The Trustee uses its investment adviser for the day-to-day implementation of the investment strategy, once an investment decision has been made. The adviser's role includes, but is not limited to:

- Recommending changes or deviations from the Journey Plan;
- Recommending changes to fund managers and custodians;
- Operational due diligence on investment opportunities as appropriate;
- Completion of documentation on the Trustee's behalf in respect of appointment and removal of fund managers and custodians;
- Performance reporting;
- Recommendations to ensure sufficient liquidity to meet cash flow requirements;
- Attendance at Trustee meetings.

The Trustee has set clear objectives for the adviser, which are monitored each year. Details of the investment adviser's remuneration can be found in a separate document entitled, "Investment Managers and Advisers".

3.0 Investment Beliefs

The Trustee has formulated a set of investment beliefs which are set out below:

- It is preferable to take a long-term approach to investing; trying to time the markets in the short term can be highly risky.
- Managing investment risk in absolute terms and against liabilities is more appropriate than not, provided it is cost-effective to do so.
- Diversification across different drivers of return is key to delivering strong risk-adjusted returns.
- In very efficient markets, passive investment provides a cost-effective way of gaining market exposure. However, investing actively can be financially beneficial in less efficient markets.
- Provided liquidity is well managed against Scheme circumstances and stress tested at a portfolio level, it can be financially beneficial to invest in illiquid assets such as real estate and private equity.
- Reliance on assumptions within complex investment models provides false comfort and should provide guidance to investment decision-making, not become the key determinant.
- Investments that have a positive Environmental, Social or Governance (ESG) impact, including in respect to climate change, are more likely to perform better than those that do not, and are likely to be less risky.
- Well governed businesses are more likely to outperform poorly governed businesses.
- Fund managers who take an active approach to company engagement, are transparent in their reporting and are considered good stewards of assets will generally perform better than those that are not.

However, the Trustee recognises that the size of the Scheme means that investments are generally constrained to pooled funds. Where possible, the Trustee will apply these beliefs in selecting and monitoring the funds in which it invests. In addition, separate ESG and Stewardship policies are included within this SIP.

4.0 Investment Objectives

Investment objectives are set with reference to the liability profile of the Scheme and the Sponsor covenant.

The Trustee has set out three main objectives for the investment strategy:

1. To ensure sufficiently realisable investments to meet member payments when they fall due;
2. A primary objective of the value of the assets to be in excess of the value of the liabilities on a Technical Provisions basis, within the timeframe of the Recovery Plan, with a secondary objective of achieving buyout over the next 12 years (i.e. by 2033);
3. To substantially reduce funding level volatility by moving to a lower risk portfolio as set out in the Journey Plan.

These objectives are the drivers of all Trustee decision-making.

5.0 Environmental, Social and Governance (ESG) Policy

The Trustee considers ESG, including climate change, to be an important long-term factor when making investment decisions. The following policy has therefore been set with reference to the Trustee's investment beliefs (Section 3.0) and overarching objectives (Section 4.0).

The Trustee:

- will engage with the Sponsoring Employer on its ESG policy and consider any views it may have;
- believes that climate change is a financially material consideration when investing and will engage with fund managers to help understand the impact of climate change on portfolios;
- may consider non-financially material ESG factors where the financial impact is unlikely to be detrimental to returns;
- will, where there is choice, invest in fund managers with a superior ESG approach, as rated by their investment adviser, all else being equal;
- prefer fund managers to invest in assets that have a positive ESG impact;
- expect fund managers to report on ESG issues and developments;
- will, where possible, try to align investments with the UN Sustainability Goals;
- will review this ESG policy at least annually.

Investments will not be excluded based purely on ESG factors or this policy but they will be part of the investment decision-making process.

6.0 Stewardship

The Trustee does not have the necessary skills to vote or engage individually with the companies in which it invests through its fund managers. It also recognises that by investing via pooled funds it is unable to directly influence the underlying securities in which their fund managers invest.

Portfolio managers are expected to engage and influence the companies in which they invest as well as exercise their right to vote.

The Trustee receives an annual report on the voting of our managers, which is reviewed and forms port of the Engagement Policy Implementation Statement produced for the Scheme.

7.0 Risk Management

7.1 Integrated Risk Management

The Trustee fully understands the need to align the interests of all stakeholders in the Scheme. Specifically, the Trustee ensures that the Actuarial assumptions, investment strategy and risk appetite of the Sponsor are balanced as far as possible.

7.2 Risk Appetite

The Trustee provides value at risk information to the Sponsor and monitors risk on a quarterly basis. Its investment adviser also monitors portfolio and liquidity risk monthly.

Given the size of the pension fund and the spurious accuracy of risk metrics, the Trustee has not set an absolute risk level for the Scheme, nor has the Sponsor expressed one. However, risk is a key factor in determining the investment strategy.

7.3 Risk Reduction Strategies

The Trustee embraces diversification as a means to reduce portfolio risk and will seeks to invest in assets with different drivers of return to achieve this.

In addition, risk mitigation strategies may be implemented, such as adding to pooled funds that have exposure to bonds and/or interest rate and inflation swaps, hedging currency risk or adding tail risk protection, as a means to address specific portfolio or liability valuation driven risks, where it is appropriate and cost-effective to do so.

The Trustee delegates day-to-day management of the Scheme investments to appropriately qualified fund managers and is involved in all key decisions around investment strategy, de-risking and planning.

Passive investment will be considered in certain asset classes where the risk of manager underperformance is not expected to be compensated by superior returns.

It is recognised that full matching of liabilities can only be achieved through the purchase of member specific insurance policies / annuities and this will be considered by the Trustee when appropriate.

7.4 Cashflow Management

One of the key elements when setting investment strategy is the liquidity requirements of the Scheme. The Trustee monitors ongoing liquidity needs quarterly and assesses whether there are sufficiently liquid assets available in the short term by stressing capital calls, for example from private equity, member payments and hedging strategies.

Its investment adviser also monitors liquidity monthly and will recommend adjusting the portfolio to ensure sufficiently liquid assets are available.

8.0 Long Term Journey Plan

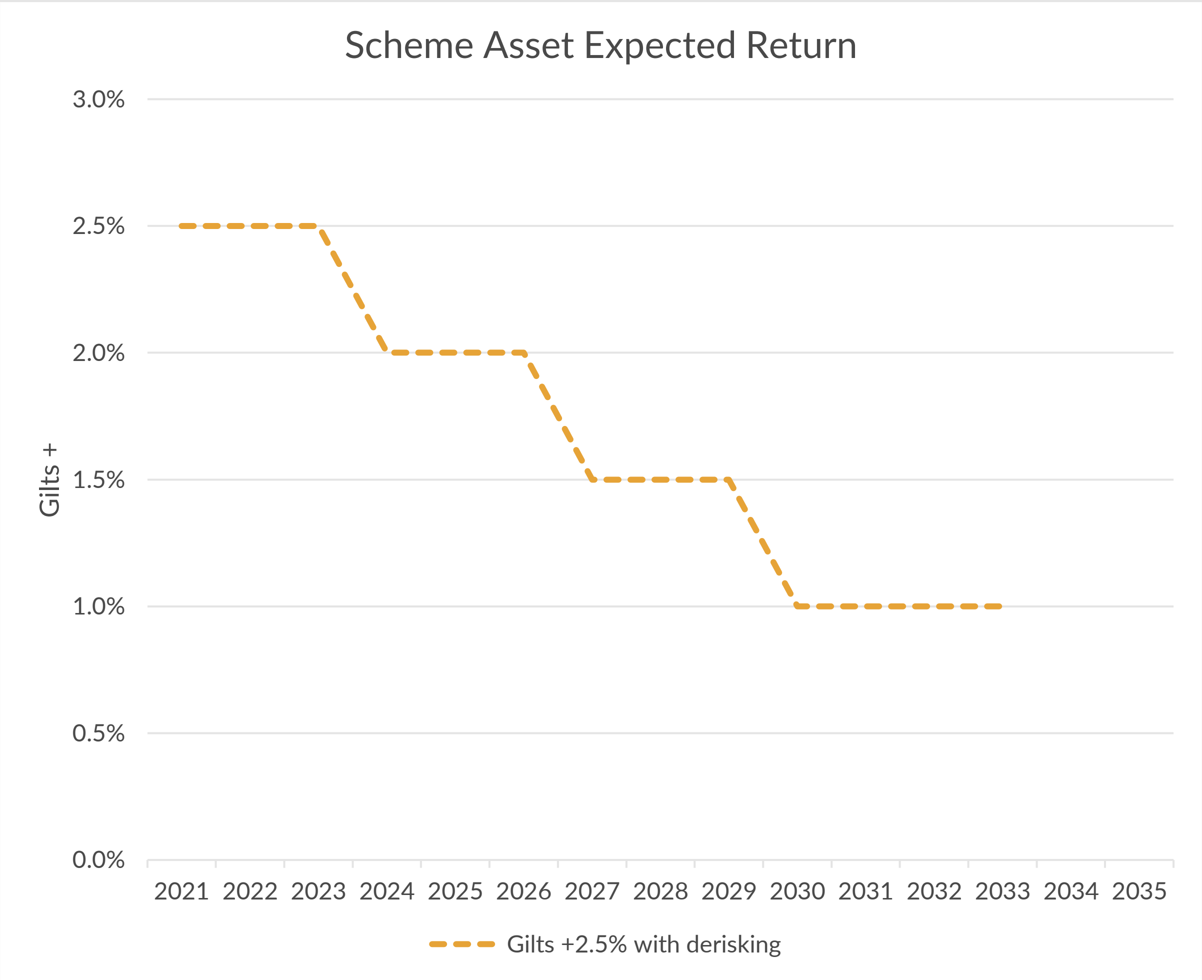
The Trustee has an investment objective of seeking to reach buyout funding within approximately 11 years, without further contributions above those already agreed form the sponsor.

On this basis, within the constraints of the actuarial assumptions and liquidity needs, a strategy has been set whereby the assets would initially be expected to return in line with Gilt yields plus 2.5% p.a. but then de-risk over time, as shown in the chart below (referred to as a Journey Plan).

This would be achieved through a combination of a leveraged liability driven investment solution and a diversified portfolio of growth assets. Whilst the longer-term target is to achieve buyout it is recognised that the initial asset allocation does result in relatively higher risk, which is supported by the Sponsor.

The Trustee will monitor the expected return of the portfolio against plan once the new portfolio is implemented. The Trustee will also monitor funding progress against a proxy buyout liability level to assess progress against its secondary funding goal.

The Journey Plan is highlighted in the chart below:



The Journey Plan is monitored by the investment adviser and by the Trustee every quarter.

The Journey Plan is updated as part of the triennial valuation, or sooner should there be material change to the liability profile or status of the Scheme.

In addition, should the actual estimated funding level exceed the expected funding level, as calculated by the Scheme Actuary, by more than 3% those "gains" may be "banked" to accelerate the de-risking process. This will involve moving from growth to liability driven or cashflow based assets. This is monitored informally on a monthly basis and the decision to bank gains will be made based on market conditions and outlook, which, for the avoidance of doubt, may mean that the move may not be made.

9.0 Asset Allocation

9.1 Growth Assets

The Trustee has not restricted itself by asset class and is willing to consider illiquid investments, provided they fit within a framework of diversification across different drivers of return. This will include allocations to hedge funds, listed equity, private equity, commodities, property and credit. Cash equivalent instruments and bonds will be held to meet short term capital calls within the growth portfolio.

Given the size of the Scheme, only pooled funds are likely be considered.

9.2 Liability Driven / Cashflow Based Assets

The Trustee has set a medium-term strategy that aims to increase the coverage of interest rate and inflation risks that reflects the actuarial valuation methodology, whilst retaining sufficient liquidity to meet capital calls. It recognises that an exact hedge is not possible, given the assumptions used and the size of the Scheme.

A combination of physical bonds (both corporate and government) and derivatives (swaps) will be used to achieve a broad hedge based on the duration of the liabilities (PV01 and IE01). Instruments will be both inflation linked and fixed in nature.

Over time, it is expected that more cashflow based assets will be added to the portfolio to further reduce risk.

It is recognised that the size of the Scheme restricts investment to pooled funds only and that market conditions and liquidity requirements will result in the mix of assets deviating from the target.

The Trustee will consider both leveraged LDI solutions and equity-linked LDI solutions in order to achieve the risk and return targets.

9.3 Asset Allocation

Asset allocation will be determined with reference to the return requirements set out in 8.0. This will broadly require a higher allocation to growth assets, which may be part of an equity-linked LDI fund, in the early years. This higher risk strategy will reduce as the return target reduces.

10.0 Fund Manager Selection and Engagement

Fund manager selection is made by the Trustee on advice from its investment adviser. As part of the fund research process the investment adviser will provide advice and diligence on fund recommendations.

Implementation of any investment/redemption is made by the investment adviser once a decision has been made by the Trustee.

The Trustee engages with fund managers in the following way:

- Managers are appointed for the long-term, although performance will generally be monitored over a 3-5 year period. It is recognised that short term volatility is possible.
- The impact of ESG and climate change will be assessed annually, to ensure that they continue to meet the beliefs set out in Section 3.0.
- Managers are expected to report on voting and engagement activities.
- Incentivisation of fund managers to align ESG and liability interests will be considered but the use of pooled funds may restrict the ability to achieve this.
- Managers are expected to provide transparency on the costs of running pooled funds, including transaction costs.

Where possible fund managers will be benchmarked against industry standards for ESG and cost, based on the strategy being run.

A full list of the fund managers and their mandates can be found in the document entitled, “Investment Managers and Advisers”.

11.0 Performance Monitoring

The Trustee reviews the performance of the Scheme on a quarterly basis. Consolidated reporting is provided by its investment adviser, which covers market commentary, macro-economic themes, asset allocation and Scheme performance, including performance against the actuarial liabilities.

In addition, the Trustee delegates monthly monitoring to its investment adviser, who is charged with bringing any significant issues to their attention outside the regular Trustee meetings.

The key measure of success of the Trustee’s decisions and the advice given is through the improvement in the funding level, and this is monitored quarterly.

12.0 Transparency

Information is available to members, including this Statement. It is the Trustee’s aim to be transparent and free from conflicts as fiduciaries to the Scheme.

13.0 Compliance

This Statement has been drawn up with reference to current legislation and best practice. In particular, the Trustee has considered the Myners' Principles and The Pensions Regulator's Investment Guidance for Defined Benefit Pension Schemes, as appropriate to the Scheme.

The Statement will be reviewed annually and following any significant changes to the sponsoring employer's ability, or willingness, to support the Scheme or significant changes to the liability profile.

Date 4 May 2022

Name Andrew Firbank
Member, PAN Trustees UK LLP

Appendix A – Authorised Advice

The Statement has been written after obtaining and considering advice from Premier Investment Consulting Limited, the Trustee's investment adviser. The investment adviser is regulated as a Designated Professional Body by the Institute and Faculty of Actuaries.

In my professional opinion, the strategy as set out in this Statement is broadly appropriate, taking into account the suitability of investments, the need for diversification and the nature and profile of the Scheme liabilities.

Date 4 May 2022

Name Mark Hodgson