

DC Chair's Statement regarding DC governance - 31 December 2019

Innovia British Pension Scheme

In previous years, the Trustee has agreed to accept transfers into the Scheme from all types of pension arrangements (including personal pensions but excluding Free Standing AVCs) subject to a minimum level of £3,000. The basis used for transfers into the Scheme was a defined contribution (DC) basis and the funds were placed in a Trustee Investment Plan (TIP) provided by Standard Life Assurance Limited. In October 2008, following advice from the Actuary, the Trustee decided to no longer accept transfers into the Scheme.

Relative to the overall size of the Innovia British Pension Scheme, the TIP provides a small number of members with a relatively small benefit when compared with their defined benefit.

This statement also covers DC AVC arrangements held with Equitable Life (transferred to Utmost Life & Pensions during 2020), the Prudential Assurance Company Limited (the Prudential) and Standard Life Assurance Limited (Standard Life). As above, for members with AVCs, this makes up a small proportion of their overall benefit and represent legacy arrangements.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the Innovia British Pension Scheme (the Scheme) is required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- Trustee knowledge and understanding
- Administration standards and communications
- The requirements for processing financial transactions
- The charges and transaction costs borne by members
- A 'value for members' assessment; and an illustration of the cumulative effect of these costs and charges

This Statement has been prepared in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended). It sets out how the Trustee has met the statutory DC governance standards during the Scheme year ended 31 December 2019. This statement should be read in conjunction with the Scheme's Statement of Investment Principles (SIP) which is subject to regular review by the Trustee. The most recent SIP is dated 2 March 2020 and is appended to this statement (Appendix A).

The Trustee continually reviews and assesses systems, processes and controls across key governance functions to determine whether these are consistent with those set out in the following guidance published by the Pensions Regulator:

- Code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits
- Regulatory guidance for defined contribution schemes.

Trustee Knowledge and Understanding

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally.
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.

The Scheme's Trustee is a professional independent trustee firm, currently Align Pensions Limited. Align Pensions Limited is represented by Bhavna Kumar, who in turn is supported by her colleagues.¹ They all have a number of years of experience in the pension industry. They complete regular training to keep up-to-date and are subject to Continuing Professional Development requirements from the Institute and Faculty of Actuaries. In addition, there is a Pensions Consultative Committee (PCC) made up of three members of the Scheme.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

- Over 2019, the Trustee refreshed their completion of the online Trustee Toolkit
- In June 2019, the Trustee passed the PMI Level 3 Award in Pension Trusteeship (Defined Contribution and Defined Benefit Schemes) exam.
- The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. During the period covered by this statement, the Trustee completed over 35 hours of CPD including sessions on professional skills, trusteeship and governance, investing in the context of climate change, the drivers for and innovative options for integrating investments with ESG (environmental, social and governance) principles, how to measure and consider investment risk, assessing value of different DC arrangements and the implications of the closure of Equitable Life.
- The Trustee is familiar with and has access to copies of the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases.
- The SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments. The SIP was reviewed in September 2019 and also in early 2020.
- The Trustee receives regular investment advice from their Investment Consultant on matters relating to the Scheme investments
- The Trustee keeps up to date with developments in the DC landscape and new guidance issued by the Pensions Regulator.
- The Trustee also carries out a periodic evaluation of the performance and effectiveness of the Board and PCC and the next evaluation is due to be carried out in December 2020.

During the Scheme year, the Trustee held four regular Trustee meetings with the PCC, with two including items in relation to monitoring the Scheme's governance and ensuring it is run in accordance with the Scheme rules and in line with the Pensions Regulator's guidance .

The Trustee, together with advice from its professional advisers, uses knowledge and understanding of Pension Law, specific Scheme documentation, and the Pensions Regulator's guidance to ensure that the Scheme is run effectively and members' benefits are paid in accordance with the Scheme rules. This combined knowledge helps the Trustee to ensure that good Scheme governance is a priority and to identify where any improvements can be made to existing procedures and processes.

The Trustee's knowledge of the Scheme rules ensures that they can consider non-standard benefit request options and whether this is permissible under the current rules and whether legal opinion is required and / or a rule change needed.

Ensuring good governance, together with an assessment of the charges paid by members, helps the Trustee determine whether the Scheme provides good value for money and whether members and beneficiaries are being treated fairly and seeks to safeguard the interests of all members and beneficiaries.

¹ During 2019, the professional trustee changed from 20-20 Trustees Limited to Align Pensions Limited. Bhavna Kumar previously represented 20-20 Trustees along with colleagues during 2019.

Administration Standards

- The Trustee has appointed professional advisers and managers and has delegated the day to day running of the Scheme to the Pensions Team at Innovia Films Ltd
- The Trustee is aware that the responsibility of the running of the Scheme remains with them and they have implemented adequate internal controls, which are reviewed at least twice a year
- The Trustee has appropriate service agreements in place with advisers and is aware of their key contacts
- Service agreements set out the scope of work covered by professional appointments. Standard Life, the Prudential and Utmost Life work (and previously Equitable Life worked) to industry standards providing timely turnaround times for both non-financial and financial matters. In the last Scheme year there have been no service issues that required reporting to the Trustee. Most tasks carried out by the providers are completed within 5-10 working days.
- Each of the administration providers provide annual governance reports which allow the Trustee to monitor membership movements and any upcoming retirement or leavers, financial transactions and fund performance
- The Trustee considers all areas of risk and specifically risks of significant impact such as, fraud (including pension liberation), investment, management of costs, administration, regulatory requirements, operational procedures, communications and member understanding, corporate activity relevant to the Scheme (including employer covenant) and options at retirement
- The Trustee identifies, evaluates, manages and monitors risk. By incorporating risks identified into a risk register they are categorised in accordance to its likelihood of occurring and the potential impact it would have if it did occur
- The Trustee has reviewed all data management procedures and those of their service providers and have a post 25 May 2018 data protection policy in place
- In line with Anti-Money Laundering regulations the Trustee holds an up to date register of beneficial owners
- The Trustee uses dual authorisation internet banking process for all investment and benefit payments
- Any errors are resolved and rectified and procedures reviewed as soon as possible after detection
- The Trustee requires the administrators to provide details on potential forthcoming retirements
- All data is backed up on a nightly basis and copies are stored off site and can be fully restored in any eventuality
- All financial transactions are subject to annual audit requirements as part of the Trustee's Annual Report and Accounts

Communicating with members

- The Trustee endeavours to provide Scheme communication that is accurate, clear, understandable and engaging
- The Trustee, with their advisers, carefully consider all member communications and review common communications periodically (such as retirement quotation packs and benefit statements). The Trustee works closely with the PCC and Scheme advisers to try to ensure member interests are understood and represented in all decision making
- Members are periodically informed about the importance of reviewing their benefits
- In addition to annual benefit statements, annual Newsletters are sent to all members providing details of current issues in pensions
- The Trustee issues general communications, for example in relation to General Data Protection Regulation requirements, to all members

Processing Core Financial Transactions

The Trustee has received assurance from the Scheme's administrators, the Pensions Team at Innovia Films Ltd, Standard Life, Prudential and Equitable Life that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme Year. For the period to 5 April 2019 (while the Scheme was still open to future accrual), this includes the investment of AVC contributions. Thereafter, the financial transactions have related to the processing of transfers out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The AVC and TIP providers have standard timescales for processing core financial transactions. For example:

Standard Life: The standard timescale for processes is within 10 working days – fund switches are processed the same day and there is a T+2 for settlement.

The Prudential have advised that they are in the process of revising their measurement of service level agreements from a standard 5-8 working days on a transactional basis to an end-to-end performance management system; this is in the early days of integration into their working practices but they believe it will not have a significant impact on the actual service level times experienced.

Equitable Life / Utmost Life: Investment switches are processed within 5 working days.

The Scheme is also in the process of agreeing service level agreements with the Pensions Team at Innovia Films Ltd and expects to finalise this by October 2020. This team have oversight of all transactions and the agreement will cover the accuracy and timeliness of all core financial transactions.

The administrators monitor the bank accounts on at least a weekly basis, procedures are in place for any outbound payments such as the pensioner payroll and retirement benefit payments, that at least two people must check and authorise the payment. These procedures are checked annually by both internal and external auditors. The team have on-line access to the scheme bank accounts to enable easy tracking and monitoring of both incoming and outgoing monies, as well as on-going transaction charges. Payments out are made via a fully automated and controlled BACSTelIP system which is operated via smartcards issued by the scheme's bank Barclays Bank PLC; these provide the necessary audit trails and transparency in all financial transactions processing.

The Trustee receives quarterly reports about the administrators' performance. Using information provided by the administrators, which has been reviewed by the auditors, the Trustee is satisfied that over the period covered by this statement:

- the administrators were operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

Default Investment Arrangements

Within the TIP, the only fund available for members is the Standard Life Managed Fund, a passively managed unit-linked fund predominantly invested in equities. As the Scheme is closed to new members and no further contributions are invested, there is no requirement for the Trustee to set a default investment fund.

The following funds are used within the AVC arrangements:

- Prudential Cash Fund
- Prudential With Profits Fund
- Standard Life Deposit & Treasury Fund
- Standard Life Pension Money Market Pension Fund
- Standard Life Managed Pension Fund
- Standard Life Balanced Pension Fund Investment Strategy
- Standard Life Investments Global Absolute Return Strategies Fund
- Standard Life UK Equity Pension Fund

- Standard Life International Equity Pension Fund
- Utmost Life & Pensions Managed Pension Fund

In the context of the assets under management, a proportionate approach has been taken in setting and reviewing the investment strategy. The next review is due during 2020.

Costs and Charges borne by members

The Trustee is required to disclose the charges (including annual fund management charges and additional fund expenses such as custody costs) and transaction costs paid by members and assess the extent to which these charges paid by members represent good value for money.

Standard Life TIP

Standard Life currently applies an annual fee of £200 to the funds held in the Standard Life Managed Fund (where all TIP funds are currently invested). This is taken from the Scheme assets each year and is not borne directly by the members.

The Annual Fund Management Charge is currently 0.5% per annum annual management charges and 0.025% per annum additional fund expenses. The total charge of 0.525% per annum is deducted from the underlying fund value. This amount is clearly communicated to members in an annual statement issued at the beginning of each calendar year.

Members are not charged additional fees on entry or exit from any of the investment funds available to them and there are no dilution levies payable.

All investment funds have “transaction costs” which are not charged directly to the investor (member). However, these charges are taken from the fund and therefore reflected in the performance of the fund and in the overall return received by the investor (member).

Transaction costs are those incurred as a result of routine fund management activities such as buying and selling investments. The Managed Fund uses a “single swinging price” pricing methodology which means one price exists on any day, but this can either be the bid price or the offer price. The “bid” price is the lower price at which units are typically sold and the “offer” price is the higher price at which units are typically bought. The difference between these two prices is known as the “bid/offer spread”. In a pooled fund such as the Managed Fund, the manager looks at trades of all investors in the fund rather than the individual trades of a member or those of the Scheme. The price used is determined by whether the manager needs to buy assets into the fund or sell assets out of the fund.

- When the fund needs to sell assets (i.e. the net transactions are negative), then the fund uses the bid price.
- When the fund needs to buy assets (i.e. the net transactions are positive), then the fund uses the offer price.

Depending on the above, the transaction costs can in some cases be negative which results in a small “gain” as a result of trading.

For 2019, the transaction costs for the Standard Life Managed Fund were 0.31%.

A full list of charges including the transaction charges, where available, during the period from 1 January 2019 to 31 December 2019 for the AVC funds is included in Appendix B.

The investment providers’ annual Fund Management Charges were assessed as part of the last formal DC review in 2012 and considered against other providers in the market.

Appendix C provides an illustrative example of the cumulative effects over time of charges and costs borne by members. Three separate periods of accumulation have been considered for the illustrations covering 10, 20 and 30 year periods.

Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of “good value”, but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the membership of this Section when compared to other options available. The Trustee reviews all member-borne charges (including transaction costs where

available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the DC arrangements and in particular, noting that they are legacy arrangements which do not provide material benefits relative to their defined benefit from the Scheme to the affected members. The date of the last formal review was 2012 and the next formal review will be during 2020. The Trustee has also conducted an informal review of the charges borne and the returns versus benchmark from each fund. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment along with the specifics of this set-up.

As detailed in the earlier sections, the Trustee is comfortable with the quality and efficiency of the administration processes. Where these have been provided, the Trustee believes the transaction costs provide reasonable value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Scheme are receiving reasonable value for money for the charges and cost that they incur. The Trustee believes this because the fund related charges are not unreasonable when considered against other options and the arrangements to which they relate as well as the fact that no further administration costs are borne by the members.

In relation to the TIP, the Trustee has been reviewing whether this continues to be a practical way of providing the benefits agreed when members transferred in and is considering alternative options with its advisers. Any changes to be made to the TIP will be communicated and discussed separately with the effected members.

Signed: 

Date: 24 July 2020

Chair

Trustee of the Innovia British Pension Scheme

For and on behalf of Align Pensions Limited

Appendix A

Statement of Investment Principles

Statement of Investment Principles – February 2020

The Innovia British Pension Scheme Statement of Investment Principles February 2020

1. INTRODUCTION

- 1.1. The Trustee ("the Trustee") of the Innovia British Pension Scheme (the "Scheme") has prepared this Statement of Investment Principles ("SIP") to govern the investment decisions of the Scheme in order to meet its investment objective.
- 1.2. In preparing the SIP the Trustee has obtained and considered appropriate written advice from BlackRock (the "Manager"), and the Trustee will obtain and consider such advice before revising the SIP in the future.
- 1.3. In preparing the SIP the Trustee has consulted Innovia Films (Holding) Limited, Innovia Films Limited and Innovia Group (Holding 3) Ltd, the Scheme's employers, and the Trustee will consult the employers before revising the SIP in the future.
- 1.4. It is the Trustee's policy to review the SIP every three years and without delay after any significant change in investment policy. As a minimum, the Trustee will review the SIP every three years. The Trustee will notify the Manager of any material changes to the Scheme's circumstances. Furthermore, any material changes to the employer covenant or Scheme will trigger a strategy review, at which point the Trustee will notify the Manager.
- 1.5. The SIP 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.
- 1.6. The SIP will be made available to members of the Scheme upon request.

2. SCHEME DETAILS

- 2.1. The Scheme operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 2.2. It is a defined benefit pension scheme which is closed to new members and future accrual and has a very small element of defined contribution benefits.
- 2.3. AVC arrangements are now closed to further payments, following the Scheme's closure to future accrual in April 2019. The Scheme had facilities with Standard Life and Prudential for members who wished to contribute to enhance their retirement benefits and there were also AVC funds held with Equitable Life.

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Defined Benefit Assets

1. GOVERNANCE

- 1.1. The Trustee is responsible for setting the general investment policy and ensuring that it is consistent with the Scheme's funding objectives and its assessment of the employer covenant.
- 1.2. The Trustee has appointed the Manager to provide regulated investment advice in line with the Investment Advisory Agreement and to manage the Scheme's assets in line with the Investment Management Agreement between the Trustee and the Manager (the "IMA").
- 1.3. The Trustee delegates the day-to-day investment decisions and management of the fund to the Manager. In particular, the selection of particular investments is left to the Manager.
- 1.4. The Manager will be responsible for having regard to the need for diversification of investments so far as appropriate and to the suitability of investments, and for giving effect to the principles contained in the SIP as far as reasonably practicable.
- 1.5. The Manager will also be responsible for participating with the Trustee in reviews of this SIP in consultation with the Scheme's employers.

2. OBJECTIVES

- 2.1. The objective of the Scheme is to invest the assets prudently with the intention that the benefits promised to members are provided.

3. INVESTMENT STRATEGY

- 3.1. The Trustee has reflected its investment strategy and investment objective in the IMA with the Manager whereby, within certain permitted ranges, the Manager determines an appropriate asset allocation which seeks to achieve such investment objective. In doing so the Manager takes into account the restrictions contained within the IMA, which outlines the parameters the Manager must operate within. The IMA is subject to change over time as the strategy evolves.
- 3.2. Further details of the investment strategy are set out in the Appendix to the SIP.
- 3.3. The Trustee seeks to achieve the Scheme's investment objective through investing in a diversified mix of assets that balances investment return against volatility, and to balance the investments held against the current and future needs of the Scheme.

4. RISK MANAGEMENT

- 4.1. The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:
 - The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
 - The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The asset allocation has taken into account the Scheme's liability cashflow profile from the most recent Actuarial Valuation. This should offer sufficient liquidity to meet liquidity needs. Should liquidity requirements change then the Trustee will notify the Manager and update the IMA accordingly.
 - The failure by the Manager to achieve the rate of return required to meet the investment objective ("manager risk"). This risk is considered by the Trustee upon the initial appointment of the Manager and on an ongoing basis thereafter (for example by regular monitoring).

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- The failure to spread investment risk (“**risk of lack of diversification**”). The Scheme’s assets are invested across a range of pooled fund investments representing different assets classes in order to target the Scheme’s objective, as set out in the IMA.
 - The possibility of failure of the Scheme’s sponsoring employers (“**covenant risk**”). The Trustee considered this risk by taking external advice when setting investment strategy and consulted with the sponsoring employers as to the suitability of the proposed strategy.
 - The risk that exposure to overseas currencies has an adverse influence on investment values (“**currency risk**”). The Trustee considered this risk when setting the Scheme’s investment strategy and this is managed risk by hedging a proportion of the overseas currency exposure.
 - The risk that environmental, social and governance factors have an adverse effect on the long-term performance of the Scheme assets (“**ESG Risks**”). The Trustee will ensure that the Fiduciary Manager explicitly incorporates ESG information into investment decisions when considering the appointment and de-selection of investment managers.
 - The risk that a custodian defaults (“**custodian risk**”). Assets are managed primarily within pooled funds and custody-related risks in relation to underlying pooled fund investments are managed by management companies or operators of such pooled funds. Outside of the pooled fund investments, the Trustee has appointed a Scheme custodian (BNY Mellon) to manage cashflows and settle trades on time.
 - The risk that events outside the control of the Scheme have an adverse influence on investment values (“**event risk**”). The Trustee periodically reviews stress tests on the portfolio to understand the effect that extreme events could have on the Scheme’s funding level so that they are able to Scheme accordingly. In addition, the Scheme invests in a diversified portfolio of assets to help manage volatility.
 - The risk that a counterparty fails to fulfil its side of the agreement it makes in connection with derivative transactions (“**counterparty risk**”). The Trustee has appointed the Manager to mitigate this risk by assessing the credit quality of the counterparties it transacts with, ensures appropriate counterparty diversification and that collateral payments are made where required.
 - The risk of fraud, poor advice or acts of negligence (“**operational risk**”). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- 4.2. The Trustee considers risk holistically across the Scheme’s portfolio and hence the Scheme’s assets are invested across a diverse range of investments. Asset classes and instruments that may be used as part of the investment strategy include, but are not limited to, the following:
- Equities – both active and passive strategies invested across different regions;
 - Credit – both active and passive across the spectrum of risk including Investment Grade, High Yield, Emerging Market;
 - Alternatives – these are often less liquid than other risky assets where an illiquidity premium is rewarded. These are designed to offer a diverse return stream to traditional risky assets such as equity. The Manager will seek approval from the Trustee prior to investing in this asset class;
 - Liability Driven Investments – using derivatives and physical assets; and
 - Derivatives – the Manager may transact forwards and futures instruments.
- 4.3. The Trustee, with the aid of the Manager, monitors risk on both a qualitative and quantitative basis.
- 4.4. Implementing portfolio investments has been delegated to the Manager under the IMA.

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5. RESPONSIBLE INVESTING

- 5.1. The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives and therefore the Trustee has considered how to evaluate and manage these risks when setting its investment strategy as set out in the following paragraphs (along with other matters).
- 5.2. The Trustee will ensure that the Scheme's Fiduciary Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes,
- 5.3. The Trustee will request that:
- the Fiduciary Manager, as part of its due diligence, assesses the approach of all the Scheme's investment managers in integrating ESG risks considerations into the selection, retention and realisation of investments, before appointing them;
 - the Fiduciary Manager, as part of its ongoing monitoring, will review the adherence of the Scheme's investment managers to their ESG principles and, on at least a quarterly basis, will report on key ESG metrics for the Scheme's investment managers and aggregate these to portfolio level where appropriate;
 - the Fiduciary Manager, as part of its ongoing monitoring, reviews the execution of voting and engagement responsibilities and periodically reports back its findings to the Trustee (for example where the Scheme invests in pooled funds, the Scheme's investment managers are responsible for exercising voting rights and reporting on how they have exercised those rights); and
 - where UK-domiciled investment managers are not signatories to the FRC's UK Stewardship Code, the Fiduciary Manager shall consider the investment manager's rationale for this position and, where appropriate, report back its findings to the Trustee.
- 5.4. The Trustee does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life.

6. REALISATION OF ASSETS

- 6.1. Assets can be held in pooled funds across a range of liquid and illiquid strategies which can be liquidated in accordance with the dealing cycle of the pooled funds that are invested in by the Scheme. Any allocation of Scheme assets to illiquid strategies will be considered with the Scheme's overall cashflow position in mind and requires prior Trustee approval.

7. MONITORING

- 7.1. The Trustee monitors the performance and risk exposures of the portfolio on a regular basis. The Trustee receives periodic reports showing:
- Commentary over the period covering performance, macroeconomic factors and portfolio positioning;
 - Risk decomposition across the portfolio, including scenario stress tests;
 - Return attribution across the portfolio, including underlying pooled fund monitoring;
 - Estimated funding ratio change, including a summary of contributors/detractors;
 - Review of the funding level including any de-risking triggers;
 - Asset allocation summary versus the permitted ranges; and
 - Interest rate hedge ratios versus target.
- 7.2. Monitoring of the underlying investment managers' suitability is delegated to the Manager. The Manager has been delegated the responsibility for ensuring the underlying pooled fund investments are satisfactory and appropriate for the investment strategy.

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Defined Contribution Assets

1. Introduction

In previous years, the Trustee had agreed to accept transfers into the Scheme from all types of pension arrangements (including personal pensions but excluding Free Standing AVC's), subject to a minimum level of £3,000. The basis used for transfers into the Scheme was a money purchase basis and the funds were placed in a Trustee Investment Plan (TIP) provided by Standard Life. In October 2008, following advice from the Actuary, the Trustee decided to no longer accept transfers into the Scheme. This section relates to the TIP only. No other money purchase arrangements (e.g. AVCs) are covered within this section. The Scheme is closed to new members, no further contributions are invested and there are few members remaining in the TIP.

2. Investment objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee regards it as its duty to make available a fund which:

- is likely to be suitable for most members;
- is dynamically managed; and
- has a risk and reward profile that reflects the period until its participating members reach retirement age.

3. Governance

The Trustee reviews and assess the systems, processes and controls against key governance functions to help members achieve a good outcome from their defined contribution pension savings on an annual basis. The governance standards are monitored in connection with the Scheme's investments and are consistent with those set out in the Pensions Regulator's Code of Practice 13 and regulatory guidance for defined contribution schemes.

4. Kind of investments to be held

The only fund available for members is the Standard Life Managed Fund. In October 2008, the Scheme closed to new members and no further contributions are expected. Therefore, there is no default investment fund for the DC section.

The Standard Life Managed Fund aims to provide long term growth whilst investing in a diversified portfolio of assets (including equities, bonds, property, cash deposits and money-market instruments) in order to reduce the risk associated with being solely invested in any one asset class. These assets can be from both the UK and overseas. The fund is predominantly equity based and is actively managed by Standard Life, who vary the proportions held in each asset class to exploit growth opportunities.

5. Balance between different kinds of investment

As the assets of the Trustee Investment Plan ("TIP") are invested in pooled fund vehicles the investment restrictions applying to these funds are determined by the Investment Manager, Standard Life. The Trustee is satisfied that the Investment Manager's policy on investing in individual securities held in each vehicle provides adequate diversification of investments.

6. Risk

The Trustee has considered risk from a number of perspectives. The risks considered are:

- Inflation risk: The risk that the investment returns over members' working lives will not keep pace with inflation and will not, therefore, secure an adequate pension.
- Market risk: The risk that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of pension or cash lump sum benefit.
- Active risk: The risk that the investment vehicle, in which monies are invested, underperforms the expectation of the Trustee. In particular, the Trustee has considered that the actively-managed fund will underperform. The Trustee believes that generally the risks of active management lead to greater returns and monitors the performance of the manager on a regular basis.

A proportionate approach has been taken in setting the investment strategy and this is monitored and reviewed on an ad-hoc basis, with the next review scheduled during 2020.

7. Fees

Standard Life applies an annual fee to the funds held in the Standard Life Managed Fund. This is taken from the Scheme assets each year.

The Annual Management Charge (AMC) (31 December 2018: 0.6% p.a.) is deducted from the underlying fund value. This amount is clearly communicated to members in the annual statement issued at the beginning of each year.

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Signed for and on behalf of the Trustee of the Innovia British Pension Scheme

B. Kumar
Signature of Trustee/Director
BHAVNA KUMAR
Print Name
2/03/2020
Date

Darren Howarth
Signature of Trustee/Director
DARREN HOWARTH
Print Name
2/3/2020.
Date

For and on behalf of
Align Pensions Limited

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Appendix

Defined Benefit Scheme - Investment strategy

The investment strategy for the Scheme is to:

- Invest the assets in such a way so that the Scheme achieves full funding with liabilities valued on gilts basis during 2031.
- Invest in a portfolio of assets which aims to immunise a proportion of the interest rate risk inherent within the Scheme's liabilities (the "matching portfolio");
- Invest in a diversified portfolio of assets to achieve an efficient risk / reward trade off with the objective of generating sufficient returns to close the Scheme's funding deficit (the "growth portfolio"); and
- When the funding level has achieved a predetermined level (as set out in the journey Scheme table in this appendix), the Scheme will seek to achieve a target level of interest rate hedging, subject to it being with pre-defined tolerances.

As at the date of the SIP, the Trustee has instructed the Manager under the IMA to manage the asset allocation in such a way to aim to achieve the Investment Objective taking into account the restrictions set out in the Asset Allocation Table and Growth Strategy Permitted Ranges Table below:

Asset Allocation Table

Portfolio Strategy	Permitted Ranges	
	Minimum (%) ¹	Maximum (%) ¹
Growth Strategy	0%	80%
<i>Liquid Assets</i>	0%	80%
<i>Illiquid Assets</i>	0%	20%
Matching Strategy	20%	100%

¹As a percentage of Total Portfolio assets by market value

The Journey Management Strategy defines how the strategy will evolve over time to aim to achieve the investment objective. As part of this process the Manager will rely on certain assumptions to determine the expected return across the portfolio of assets relative to the Scheme's liabilities. The Trustee recognises that this is not an exact science and will constantly evolve, hence assumptions will be reviewed from time to time and updates will be factored in where appropriate.

The journey management funding ratio triggers and associated levels of hedging are set out in the table below.

Asset Class	Initial	Threshold 1	Threshold 2	Threshold 3	Threshold 4
Funding Ratio Trigger Level	70%	75%	80%	85%	88%
Minimum Interest Rate Hedge Ratio	60%	65%	72%	79%	82%
Minimum Inflation Rate Hedge Ratio	60%	65%	72%	79%	82%
Maximum Interest Rate Hedge Ratio	100%	100%	100%	100%	100%
Maximum Inflation Rate Hedge Ratio	100%	100%	100%	100%	100%

The Manager has discretion to adjust the hedge ratio above the minimum amount specified at each Threshold.

The Funding Ratio Trigger Level calculates the value of liabilities using a gilts flat discount rate which uses the Manager's pricing source.

The Manager will cease to monitor a Trigger once it has been reached and will take no further action should the Funding Level subsequently move back below the expired Trigger.

Appendix B

Fund charges

Fund charges for the AVC funds are shown below:

Fund	Investment Management Charge	Additional Expenses	Fund Management Charge (%)	Actual After Rebate (%) ²	Transaction costs (%) ³
Standard Life Deposit & Treasury Fund	1.00	0.01	1.01	0.61	Not provided
Standard Life Pension Money Market Pension Fund	1.00	0.01	1.01	0.61	Not provided
Standard Life Managed Pension Fund	1.00	0.02	1.02	0.62	0.31%
Standard Life Balanced Pension Fund Investment Strategy	1.65	0.47	2.12	1.72	Not provided
Standard Life Investments Global Absolute Return Strategies Fund	1.42	0.09	1.510	n/a	Not provided
Standard Life UK Equity Pension Fund	1.00	0.01	1.01	0.61	Not provided
Standard Life International Equity Pension Fund	1.00	0.03	1.03	0.63	Not provided
Prudential Cash Fund	0.55	0.00	0.55	n/a	0.00
Prudential With Profits Fund	Please see note below			n/a	0.09

With-Profits Funds aims to smooth investment performance to provide a more stable return. This is done by holding back some of the investment returns in good years with the aim of using this to support bonus rates in the years where the investment returns are lower.

For the Prudential, the costs of running the fund are implicit within their returns and not disclosed separately. They note that they aim to keep the costs of running the business as low as possible and also to allocate the costs fairly across all policy holders.

During 2019, Equitable Life's charges were implicit in the value of investments in the With Profits fund and expenses were set at 1% p.a. During 2019, Equitable Life have disclosed that total charges (including AMCs and transaction costs) amounted to 2.04% p.a

² Standard Life applies a rebate of 0.4% to their fees for a number of funds to the benefit of members.

³ Standard Life have been unable to provide transaction costs for funds other than for the Managed Fund, as used by the TIP. As at the date of signing, the Trustee is continuing to request this information.

Appendix C

Illustration of Charges

Illustration of total charges (including transaction costs) on fund values over time

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has set out below illustrations of the impact of charges and transaction costs. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be.

The assumptions are explained below: The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs. The allowance for costs in the illustrations are based on those noted above for the TIP and for an example AVC investment.

The following illustration projects the cumulative value of starting fund values of £10,000, £20,000, £30,000 and £40,000 over 10, 20 and 30 years. The assumed returns after inflation (of 2.5%) shown are 2% p.a., 2.5% p.a. and 4% p.a. The illustrations show the cumulative fund values offset by the charges of either 0.85%, representative of the charges applied in the TIP, or 1% each year which is representative of the average charges applied to the AVC funds.

It should be noted that these are only illustrations and actual fund values will depend on actual investment returns achieved on investments, the time under investment and the amounts invested.

Appendix C

Illustration of Charges

Fees of 0.85% per year

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000
10	£12,190	£11,211	£12,801	£11,778	£14,802	£13,636
20	£14,859	£12,569	£16,386	£13,872	£21,911	£18,595
30	£18,114	£14,092	£20,976	£16,339	£32,434	£25,356

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000
10	£24,380	£22,423	£25,602	£23,556	£29,605	£27,272
20	£29,719	£25,139	£32,772	£27,745	£43,822	£37,189
30	£36,227	£28,184	£41,951	£32,678	£64,868	£50,712

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£30,000	£30,000	£30,000	£30,000	£30,000	£30,000
10	£36,570	£33,634	£38,403	£35,334	£44,407	£40,909
20	£44,578	£37,708	£49,158	£41,617	£65,734	£55,784
30	£54,341	£42,276	£62,927	£49,017	£97,302	£76,067

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
10	£48,760	£44,845	£51,203	£47,112	£59,210	£54,545
20	£59,438	£50,278	£65,545	£55,489	£87,645	£74,378
30	£72,454	£56,369	£83,903	£65,355	£129,736	£101,423

Appendix C

Illustration of Charges

Fees of 1% per year

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000
10	£12,190	£11,046	£12,801	£11,605	£14,802	£13,439
20	£14,859	£12,202	£16,386	£13,469	£21,911	£18,061
30	£18,114	£13,478	£20,976	£15,631	£32,434	£24,273

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000
10	£24,380	£22,092	£25,602	£23,211	£29,605	£26,878
20	£29,719	£24,404	£32,772	£26,937	£43,822	£36,122
30	£36,227	£26,957	£41,951	£31,262	£64,868	£48,545

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£30,000	£30,000	£30,000	£30,000	£30,000	£30,000
10	£36,570	£33,139	£38,403	£34,816	£44,407	£40,317
20	£44,578	£36,606	£49,158	£40,406	£65,734	£54,183
30	£54,341	£40,435	£62,927	£46,892	£97,302	£72,818

Annual return	2% return		2.5% return		4% return	
Year	Without fees	With fees	Without fees	With fees	Without fees	With fees
0	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
10	£48,760	£44,185	£51,203	£46,422	£59,210	£53,757
20	£59,438	£48,808	£65,545	£53,874	£87,645	£72,244
30	£72,454	£53,914	£83,903	£62,523	£129,736	£97,090