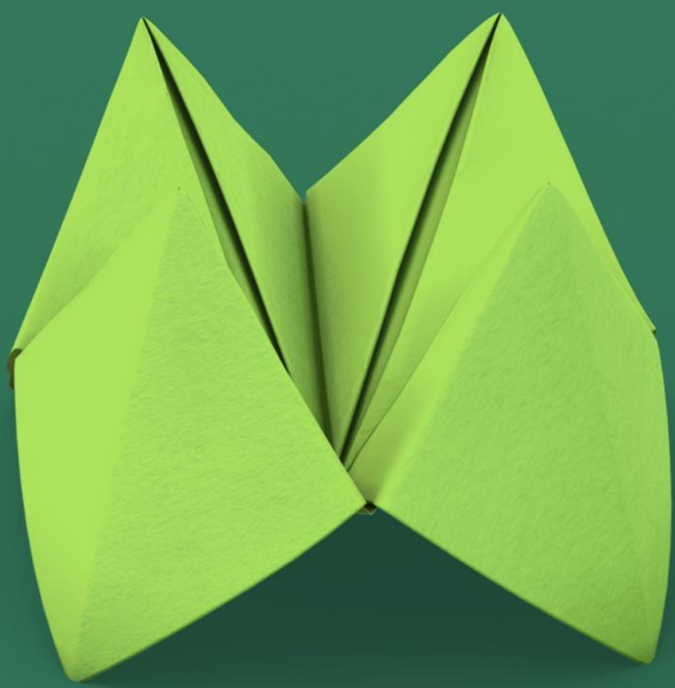
# Epson (UK) Limited Pension Scheme

## Statement of Investment Principles



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September 2023

This Statement of Investment Principles ("the Statement") has been commissioned by and addressed to the Trustee of the Epson (UK) Limited Pension Scheme ("the Scheme").

This document has been produced by the Trustee after taking advice from Lane Clark & Peacock LLP ("LCP").

It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and as amended by subsequent regulations.

For the purposes of this report, Epson (UK) Limited is referred to as the "Company".

# Contents



Signatory of:

# 01 Introduction

This Statement sets out the principles governing decisions about investments for the Scheme and supersedes any previous Statements prepared by the Trustee.

In preparing this Statement, the Trustee has:

– Consulted with the Company, although responsibility for maintaining this Statement and setting investment policy rests solely with the Trustee.

– Obtained and considered written professional advice and recommendations from LCP who is the Trustee's appointed investment consultant. LCP is authorised and regulated by the Financial Conduct Authority ("FCA"). It has confirmed to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Acts.

– The Trustee will review this Statement at least once every three years. If there are any significant changes in any of the areas covered by this Statement, the Trustee will review it without further delay. Any changes made will be based on written advice from a suitably qualified individual and will follow on from consultation with the Company.

– The Scheme is a defined benefits ("DB") scheme. The Trustee's investment powers are set out in the Trust Deed and Rules and subsequent amending deeds. This Statement is consistent with those powers.

This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates) and Scheme Funding legislation. The Myners principles are summarised in Appendix 2.

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# 02 Investment Objectives

The Trustee's overall investment policy is guided by the following objectives:

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| | The Trustee's primary investment objective for the Scheme is to ensure sufficiently liquid assets are available to meet all liabilities as and when they fall due. In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme. |
| | The Trustee has allowed for the Company's covenant. It is aware of the relationship between the investments held and the funding level of the Scheme liabilities and believes that its investment objectives and the resultant strategy are consistent with the valuation of those liabilities. |
| | To be fully funded on a "gilts flat" basis with the intention of targeting buy-out by end of 2023. |

The Scheme Actuary has confirmed during the process of revising the investment strategy that the investment objectives and resultant strategy are consistent with the actuarial valuation methodology and assumptions used in the statutory funding objective.

# 03 Investment Responsibilities

**THE TRUSTEE**

Under the legal documentation governing the Scheme, the power of investment is vested in the Trustee. Therefore, the Trustee is responsible for setting the investment objectives and determining the strategy to achieve those objectives. It sets the overall investment target and then monitors the performance of its investment managers against the target. In doing so the Trustee considers the advice of its professional advisers, who it considers to be suitably qualified and experienced for this role.

Its duties and responsibilities include but are not limited to:

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| | Regular approval of this Statement and monitoring compliance with this Statement |
| | Appointment, removal (where applicable) and review of its investment managers or investment consultant and their performance relative to relevant benchmarks |
| | Assessment of the investment risks run by the Scheme |
| | Monitoring and review of the asset allocation |

**INVESTMENT CONSULTANT'S DUTIES AND RESPONSIBILITIES**

The Trustee has appointed LCP as its investment consultant. LCP provides advice when the Trustee requires it and/or when LCP feels it suitable to do so. Areas on which it can provide advice are as follows:

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| | Setting investment objectives, where relevant |
| | Determining the strategic asset allocation |
| | Determining suitable funds and investment managers |
| | Managing cashflow, where relevant |

It should be noted that the Trustee retains responsibility for all decisions.

Any services provided by LCP will be remunerated on either a time cost or fixed fee basis.

LCP does not receive any commission or any other payments in respect of the Scheme for investment services that will affect the impartiality of its advice.

The Trustee is satisfied that this is a suitable adviser compensation structure.

# 03 Investment Responsibilities

**INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES**

The Trustee, after considering suitable advice, has appointed various managers to manage the assets of the Scheme.

The investment managers are detailed in Appendix 1 of this Statement. These investment managers are authorised and regulated by the FCA and are responsible for stock selection, asset allocation (if managing a multi-asset portfolio) and the exercise of voting rights. All the managers are compensated by fund based charges on the value of the Scheme's assets that they hold.

The Scheme's agreed asset allocation is defined in Appendix 1.

# 04 Setting the Investment Strategy

**INVESTMENT STRATEGY**

The Trustee has determined its investment strategy after considering the Scheme's liability profile, its own appetite for risk and the views, risk appetite and covenant of the Company. It has also received written advice from its investment consultant.

**TYPES OF INVESTMENT**

The Scheme's assets are invested with various investment managers. In addition, the Trustee operates a current bank account for the purpose of making and receiving payments.

The Trustee is permitted to invest across a wide range of asset classes, including but not limited to equities, bonds, cash, property and alternative asset classes. The use of derivatives is as permitted by the guidelines that apply to the pooled funds. The Trustee understands that some assets classes provide a better match to the liabilities than others.

The Trustee's policy is not to invest directly in employer-related investments but may hold employer-related investments through the pooled funds it invests in.

**BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENT**

The Scheme invests in assets that are expected to achieve the Scheme's objectives detailed previously. The allocation between the different asset classes is shown in Appendix 1 of this Statement.

The Trustee has considered the merits of both active and passive management for the different elements of the asset allocation and selected suitable types of management for each asset class. The current managers are shown in Appendix 1.

From time-to-time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected events.

The Trustee may also hold insurance policies which are for the benefit of certain members to match part or all of its liabilities.

**EXPECTED RETURN ON INVESTMENTS**

The Trustee has noted the long-run relationships that exist between the returns from different asset classes and has noted the different expected risk/return characteristics of the various different asset classes.

In particular, that equities and property can be expected to deliver a greater long-run real return (over price inflation) than that expected from corporate bonds, fixed interest gilts, index-linked gilts or cash but that typically equities are the most volatile asset class in terms of market returns on an annual basis. The returns from property are likely to be more than bonds and cash and less than equities over the long term.

The diversified growth funds are expected to achieve a return broadly in line with the equity markets over a full market cycle, with reduced levels of volatility relative to equities.  The multi asset credit funds are targeted to achieve returns over cash, as measured by the Sterling Overnight Interest Rate ("SONIA"), or its equivalent, for either the one or three month interest rates.

The Trustee's chosen policy is to get a balance between stabilising the Scheme's funding level and pursuing higher expected return to improve the Scheme's funding level.

## REALISATION OF INVESTMENTS

The Scheme's assets are invested in pooled vehicles, which in turn invest generally in securities traded on recognised exchanges. The Scheme's investments can generally be readily realised, if necessary, and the funds are daily priced.

## FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee has considered financially material factors such as environmental, social and governance ("ESG") and ethical issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes that it is investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the ESG policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its investment managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment managers' own policies on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standards.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information, to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes.

If the Trustee determines that financially material considerations have not been factored into the investment managers' processes, it will take this into account on whether to select or retain an investment.

## NON-FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

## STEWARDSHIP

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protects and enhances the long-term value of investments.

The Trustee's policy on the exercise of rights attaching to investments, including voting rights and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations, is that these rights should be exercised by the investment managers on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. The investment managers should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies on a regular basis, with the help of its investment consultant, and decide if they are appropriate.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment managers, with the help of its investment consultant, to influence the investment managers' policies. If this fails, the Trustee will review the investments made with the investment managers.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AND CLIMATE CHANGE RISKS

There is a risk that ESG issues (including climate change) are not considered as part of the investment process and so may expose the portfolio to unexpected risks over both the short and longer term. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process. The Trustee seeks to appoint investment managers who will manage these risks appropriately on its behalf and from time-to-time reviews how these risks are being managed in the selection, retention and realization of investments.

## INVESTMENT MANAGERS' ARRANGEMENTS

## INCENTIVES TO ALIGN INVESTMENT MANAGERS INVESTMENT STRATEGY AND DECISIONS WITH THE TRUSTEE'S POLICIES

The Scheme invests in pooled funds and so the Trustee acknowledges the funds' investment strategies and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as one of the investment managers' incentives.

The Trustee uses the fund objective/benchmark as a guide to whether its investment strategy is being followed and monitors this regularly.

## INCENTIVES FOR THE INVESTMENT MANAGERS TO MAKE DECISIONS BASED ON ASSESSMENTS ABOUT MEDIUM TO LONG-TERM FINANCIAL AND NON-FINANCIAL PERFORMANCE OF AN ISSUER OF DEBT OR EQUITY AND TO ENGAGE WITH ISSUERS OF DEBT OR EQUITY IN ORDER TO IMPROVE THEIR PERFORMANCE IN THE MEDIUM TO LONG-TERM

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying companies.

The Trustee also considers the managers' voting and ESG policies and how they engage with the companies as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the investment managers' engagement and voting activities on an annual basis as it believes this can improve long term performance. The Trustee expects its managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but does expect by investing in those companies with better financial and non-financial performance, over the long term this will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the investment managers incentivise them to do this.

If the Trustee feels that the investment managers are not assessing financial and non-financial performance or adequately engaging with the companies that they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

## HOW THE METHOD (AND TIME HORIZON) OF THE EVALUATION OF THE INVESTMENT MANAGERS' PERFORMANCE AND THE REMUNERATION FOR ASSET MANAGEMENT SERVICES ARE IN LINE WITH THE TRUSTEE'S POLICIES

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The investment managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.

## HOW THE TRUSTEE MONITORS PORTFOLIO TURNOVER COSTS INCURRED BY THE INVESTMENT MANAGERS, AND HOW THEY DEFINE AND MONITOR TARGETED PORTFOLIO TURNOVER OR TURNOVER RANGE

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to its investment consultant.

## THE DURATION OF THE ARRANGEMENT WITH THE INVESTMENT MANAGERS

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or change in the view of the investment manager can lead to the duration of the arrangement being shorter than expected.

## ADDITIONAL VOLUNTARY CONTRIBUTIONS ("AVCS") ARRANGEMENT

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of AVC provider are included in Appendix 1 of this Statement. From time-to-time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

# 05 Risks

The Trustee is aware and seeks to take account of a number of risks in relation to the Scheme's investments. Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. Overall, the Trustee measures and monitors its risks by receiving monitoring reports which report on the performance of its assets and its managers. The key risks and the policies are as follows:

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| Solvency and Mismatching risk |
| This is measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. The risk is managed by setting a scheme specific asset allocation with an appropriate level of risk. |
| Concentration Risk |
| This is managed through the diversification of the Scheme's assets across a range of different funds with different investment styles and underlying securities, and different investment managers. |
| Investment manager Risk |
| This is assessed as the deviation of actual risk and return relative to that specified in the investment managers' objectives. It is measured by monitoring on a regular basis the actual deviation of returns relative to investment managers' agreed objectives and an assessment of factors supporting the managers' investment process. |
| Sponsor Risk |
| This is assessed as the ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit. This is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. |
| Liquidity Risk |
| This is monitored according to the level of cashflows required by the Scheme over a specified time period. The Trustee will assess the cash requirements to limit the impact of cashflow requirements on the Scheme's investment policy.<br>The risk is managed by having a suitable amount of readily realisable investments and by holding a certain level of cash type assets. The Scheme invests in assets that are generally invested in quoted markets and are as readily realisable as the Trustee feels suitable given the Scheme's cashflow position and the expected development of the liabilities. |
| Currency Risk |
| The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in non-sterling assets or via currency investment. Some currency hedging may be used to manage this risk. |

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| Market Risk |
| Most of the underlying financial assets in the pooled funds are transacted on a regulated market. Markets provide transparency, liquidity, efficiency and regulation to ensure investors achieve a fair price for their assets.  There is a chance that investors lose confidence in one or more markets, and therefore the investor is not able to buy or sell an asset. When a market is no longer functioning the prices between the buying and selling prices tend to widen. |
| Loss and Investment Risk |
| There is a risk of loss of investment by each investment manager and potentially the custodian. This includes losses beyond those caused by market movements e.g. losses caused by fraud. The Trustee undertakes regular reviews of the internal controls and processes of the investment manager. |
| Environmental, Social and Governance (ESG) and Climate Change Risks |
| There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio. This can lead to losses that may not have been factored into any assumptions. The Trustee has considered ESG issues as part of the investment process but has made no explicit allowance for risks associated with climate change as it believes it is difficult to accurately quantify. |

# 06 Compliance

The Trustee confirms that it has received and considered written advice from LCP on the establishment and implementation of its investment strategy.

The Trustee confirms that it has consulted with the Company regarding its strategy. Copies of this Statement and any subsequent amendments will be made available to the Company, the investment managers, the Scheme actuary and the Scheme auditor upon request.

The Trustee will monitor compliance with this Statement at least every three years. This will include a review of the suitability of the investment strategy on an ongoing basis and consideration of the continued suitability of the appointed investment managers.

# Appendices

# Appendix 1

**STRATEGIC ASSET ALLOCATION**

The Scheme has a strategic asset allocation as set out in the table below:

| Asset Class | Allocation | Fund | Investment Manager |
|---|---|---|---|
| Global Buy & Maintain Credit | 23% | Buy & Maintain Credit Fund | LGIM |
| Leveraged Liability Driven Investment ("LDI") and Cash | 77% | Regular Profile Leveraged Real Gilt Fund | Columbia Threadneedle |
| | | Regular Profile Nominal Gilt Fund | |
| | | Sterling Liquidity Fund | |
| **Total** | **100%** | | |

**REBALANCING AND CASHFLOW MANAGEMENT**

The Trustee recognises that the asset allocation of investments will vary over time due to market movements.

Where possible, cash outflows will be met from any income of the Scheme's assets to minimise transaction costs. Where income is insufficient monies will be raised through the sale of assets so as to move the allocation closer to the central benchmark allocation subject to consideration of liquidity issues, transaction costs, market conditions and the speed with which monies are required. Similarly, where cashflows in are received, the money will be invested in such a way as to bring the allocation into line with the central benchmark allocation.

## INVESTMENT MANAGERS

The table below shows the investment managers appointed to carry out the day-to-day management of the assets, as well as the funds that they manage, their benchmarks and relevant objectives.

| Underlying Investment Manager | Fund | Benchmark | Objective |
|---|---|---|---|
| LGIM | Buy & Maintain Credit Fund | N/A | To capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality |
| Columbia Threadneedle | LDI Funds | Investable Index of Gilts and Swaps | Hedging |
| | Sterling Liquidity Fund | Sterling Overnight Index Average ("SONIA") | To maintain high levels of liquidity and generate a return in line with money market rates |

The Prudential Assurance Company Limited are appointed as the provider of AVC services.

## CHARGES

| Investment Manager | Fund | Annual Management Charge |
|---|---|---|
| LGIM | Buy & Maintain Credit Fund | 0.124% p.a. |
| Columbia Threadneedle | LDI Funds | 0.075% p.a. |
| | Sterling Liquidity Fund | 0.080% p.a. |

LCP is remunerated on a fixed fee or time cost basis.

# Appendix 2

The Myners principles as applicable to DB schemes are set out below:

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| Principle 1 – Effective Decision Making |
| Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest. |
| Principle 2 – Clear Objectives |
| Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers. |
| Principle 3 – Risk and Liabilities |
| In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk. |
| Principle 4 – Responsible Ownership |
| Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles (SIP). Trustees should report periodically to members on the discharge of such responsibilities. |
| Principle 5 – Transparency and Reporting |
| Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate (e.g. Statement of Investment Principles as well as Statement of Funding Principles; websites/helplines (for larger schemes); and annual report and accounts). |
| Principle 6 – Transparency and Reporting |
| Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate (e.g. Statement of Investment Principles as well as Statement of Funding Principles; websites/helplines (for larger schemes); and annual report and accounts). |

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**Belfast**
Linen Loft
27-37 Adelaide Street
Belfast
BT2 8FE

**Birmingham**
Edmund House
12-22 Newhall Street
Birmingham
B3 3AS

**Bristol**
Castlemead
Lower Castle Street
Bristol
BS1 3AG

**Glasgow**
The Culzean Building
36 Renfield Street
Glasgow
G2 1LU

**Leeds**
Princes Exchange
Princes Square
Leeds
LS1 4HY

**London**
46 New Broad Street
London
EC2M 1JH

**Manchester**
82 King Street
Manchester
M2 4WQ