

ABS Europe Ltd Pension Scheme

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the ABS Europe Ltd Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Pensions Act”), and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining documented advice from Mercer Limited (“Mercer”). In addition, the Trustees have consulted the Scheme sponsor, ABS Europe Ltd (“the Sponsor”) to ascertain whether there are any material issues of which the Trustees should be aware of when setting their objectives and agreeing the Scheme’s investment arrangements.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer’s Dynamic De-risking Solution, to implement the Trustees’ strategy whereby the level of investment risk reduces as the Scheme’s funding level improves. In this capacity, and subject to agreed restrictions, the Scheme’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA, and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme’s assets on a day to day basis.

In considering the appropriate investments for the Scheme, the Trustees have obtained and considered the written advice from a person suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act.

3. Investment Objectives

The Trustees’ primary objective is to meet their obligations to the beneficiaries of the Scheme. In meeting this objective the Trustees’ further objectives are to:

- By means of an agreed combination of investment return and funding budget from the Sponsor, maintain at least a fully funded position on a technical provisions basis, allowing for ongoing accrual.
- In doing so, to opportunistically reduce the degree of risk in the Scheme’s investment arrangements, thereby helping to protect the Scheme’s improving funding position.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' approach to managing these risks is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustees recognise that by taking such a risk in order to increase the expected return on the Scheme's assets, volatility may increase.
- To control this risk the Trustees set the split between the Scheme's Growth and Matching assets such that the expected return on the portfolio is expected to be sufficient to meet the objectives outlined in Section 3. As the funding level improves, the Trustees will switch assets from the Growth to the Matching portfolio in order to reduce the mismatch risk. The Trustees have delegated the implementation of these switches to Mercer who provide the Trustees with regular monitoring reports regarding the degree of mismatch risk and the progress of the de-risking strategy.
- The Trustees recognise that risks may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Growth and Matching portfolios to Mercer (subject to certain restrictions). Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification with the portfolio.
- The Trustees delegate responsibility for the appointment, ongoing monitoring and termination of specialist third party managers to Mercer. Mercer provides the Trustees with regular monitoring reports regarding the appointed investment managers.
- To control individual manager risk, where appropriate the Trustees expect Mercer to make multiple manager appointments within each asset class.
- There is a risk that the management of the assets will not achieve the rate of investment return expected by the Trustees for each portfolio. The Trustees recognise that the use of investment managers who actively manage the portfolios with the objective of outperforming a given benchmark involves such a risk. However, for specific asset classes the Trustees believe that this risk is outweighed by the potential gains from successful active management.
- Recognising the risks (in particular liquidity and counterparty exposure) of investing in assets not traded on regulated markets, such investments will normally only be made by the Trustees with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- Responsibility for the safe custody of the Scheme's assets is delegated to Mercer who has appointed State Street Bank and Trust Company ("State Street") as custodian of the underlying assets held by the Scheme. Mercer is responsible for keeping the suitability of State Street under ongoing review.
- Some of the Mercer Funds in which the Scheme invests participate in a securities lending programme, which is coordinated by the Securities Lending Agent ("SLA"), State Street. There are a number of potential risks associated with this, including both liquidity risk and solvency risk (of both the Borrower and the SLA). However, a comprehensive risk management framework has been agreed upon in order to mitigate these risks as far as practically possible, and the Trustees are comfortable that any potential risks are outweighed by the expected benefits of the programme (as set out in Section 6).

Should there be a material change in the Scheme's circumstances the Trustees will advise Mercer, who will review the de-risking strategy in place and advise the Trustees accordingly, who will then decide whether to amend the strategy. This Statement will be updated following any resulting change to the strategy.

5. Investment Strategy

The Trustees, in consultation with Mercer, maintain an investment strategy for the Scheme that reflects the Trustees' various investment objectives as set out in Section 3. The strategy relates the Scheme's target allocations to Growth and Matching assets to the Scheme's funding level. Mercer, on behalf of the Trustees, monitors the progress of the Scheme's funding level on a daily basis.

The de-risking strategy is intended to reflect the long-term direction and objectives of the Scheme, and therefore is expected to be reviewed on an approximately annual basis. As the Scheme matures, the rate of ongoing accrual will be adjusted to reflect the prevailing Sponsor and Scheme contribution rates. The rate of ongoing accrual could increase significantly as the Scheme de-risks.

The de-risking strategy is as follows:

Funding Level Band	Trigger to move into Band (Funding Level %)	Target Growth Allocation (% of total assets)
1	-	50.0
2	125.0	40.0
3	135.0	30.0
4	145.0	20.0

For clarity, as the Funding Level approaches an intended trigger point as per the above table, the Trustees review whether de-risking is appropriate at that point in time, reflecting the impact on the rate of ongoing accrual. In practice, the Trustees will monitor the progress of the funding level through monthly dashboard updates and quarterly investment reports discussed at Trustee meetings. For the avoidance of doubt, in the absence of the Trustees

completing the necessary additional documentation, no automatic de-risking would take place should the Scheme's funding level breach a pre-agreed trigger point.

Should the Trustees decide that they wish to de-risk when a trigger is breached, then action will be taken to transition the Scheme assets to the new Growth / Matching split, as set out in the table above.

Mercer will review the actual balance between the Growth allocation and the Matching allocation on an ongoing basis. Furthermore, if at any time the actual balance between the Growth allocation and Matching allocation is deemed by Mercer to be outside the appropriate tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations as soon as reasonably practicable. Although Mercer has the discretion to vary the tolerance range, it is the intention to not allow the Growth allocation to drift more than 5%, in absolute terms, away from the relevant target Growth allocation for the relevant Funding Level Band without taking corrective action.

Similarly, Mercer will seek to reallocate the assets within the Growth allocation and Matching allocation as soon as reasonably practicable after completing such a review and in accordance with Mercer's best execution policy.

The Trustees have delegated the allocation of assets within the Growth and Matching portfolios to Mercer, subject to the following restrictions:

- No more than 25% of the Growth Portfolio should be invested in any one Mercer sub-fund.
- No allocation may be made to Alternatives or to any leveraged liability matching funds. The Trustees have confirmed that Alternatives do not include the Mercer Absolute Return Fixed Income Fund nor Mercer Passive Global REITS Fund, and Mercer has discretion to include allocations to these Funds within the growth Portfolio.

6. Day-to-Day Management of the Assets

The Trustees have delegated day-to-day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a number of specialist third-party investment managers. Mercer is responsible for the appointment, monitoring and removal of these underlying investment managers. The investment managers have full discretion to buy and sell investments on behalf of the Scheme subject to constraints set by Mercer.

Some of the Mercer Funds in which the Scheme invests participate in a securities lending programme, which is coordinated by the Securities Lending Agent (SLA), State Street. Noting the potential risks in relation to this and set out in Section 4, the Trustees are comfortable that these are outweighed by the expected benefits of the programme (namely, the enhancement of asset returns in a risk-controlled manner). For clarity, all of the benefits (net of the SLA fee to State Street) arising from the programme as passed directly to the Scheme.

The Trustees are satisfied that Mercer has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Scheme's investments.

The Trustees regularly reviews the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is authorised and regulated by the Financial Conduct Authority.

7. Growth Portfolio

The Growth Portfolio invests in equities and other assets selected to target a long-term return of cash + 4.0% p.a. and provide adequate diversification. The Trustees have delegated the management of the Growth Portfolio to Mercer, subject to the restrictions set out in Section 5.

8. Matching Portfolio

The Matching Portfolio invests in bonds and other assets selected to offset the sensitivities of the liabilities to the effects of changes in interest rates and inflation. The Trustees have delegated the management of the Matching Portfolio to Mercer, subject to the restrictions set out in Section 5.

9. Realisation of Investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

10. ESG, Stewardship, and Climate Change

The Trustees understand that environmental, social, and corporate governance (ESG) factors may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may require consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, , and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

11. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is expected to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment strategy on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees paid for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design, implementation, monitoring and annual review of the investment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

12. Review of this Statement

The Trustees will review this Statement at least once every year and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signature

Print Name

Signature

Print Name

Date

For and on behalf of the Trustees of the ABS Europe Ltd Pension Scheme