

Mercer has drafted this Statement of Investment Principles for review by the Trustees taking into account applicable legislation. Please ensure that you carefully review the information contained in it. Mercer has not been engaged, and is unable, to provide legal advice and the Trustees may wish to ask the Plan's legal advisers to review the Statement to ensure that it complies with all legal and regulatory requirements.

The Vertellus Specialties UK Ltd Pension and Life Assurance Plan (the "Plan")

Statement of Investment Principles – May 2024

1. Introduction

The Trustees of the Vertellus Specialties UK Ltd Pension and Life Assurance Plan ("the Plan") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "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 Plan's investments. There is also a Summary of Investment Arrangements which provides more detail on the underlying investment arrangements.

The Trustees' investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Aurorium UK Limited (the "Company") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements and, in particular on the Trustees' objectives.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set;
- Construct a portfolio of investments that is expected to deliver an appropriate level of return (net of all costs) given the targeted level of risk;

The Trustees have appointed Mercer to act as discretionary investment manager to implement the Trustees' strategy. In this capacity, and subject to agreed restrictions, the Plan'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 Plan's assets on a day to day basis.

In considering appropriate investments for the Plan, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be 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 1995 (as amended).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Company, is necessary to improve the Plan's current and ongoing and solvency funding positions. The Trustees recognise that equity investment will bring increased volatility to the funding level, but in the expectation of improvements in the Plan's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Plan can be met. In meeting this objective, the Trustees' further objectives are to:

- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due;
- To consider the interests of the Company in relation to the size and volatility of the Company contribution requirements;
- By means of an agreed combination of investment return and funding budget from the Company, move the Plan to a position of being 105% to 110% funded on a funding basis which supports a low risk investment strategy being implemented (equivalent to gilts +0.50% p.a.) by 2028 - 2030;
- Opportunistically reduce the degree of risk in the Plan's investment arrangements, thereby helping to protect the Plan's improving funding position.

The Trustees understand, following discussions with the Company, that it is willing to accept some degree of volatility in the Company contribution requirements in order to reduce the expected long-term cost of the Plan's benefits.

Additionally, the Trustees understand that the Plan should move progressively towards a target of an entirely bond-based investment strategy ("Matching Portfolio") as its funding level increases.

The Trustees believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements.

The Trustees will monitor progress against this target. The Trustees recognise that this introduces investment risk and these risks are discussed below.

The objectives set out above and the risks and other factors referenced in Section 4 of this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in Section 9.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities and the Company's ability to support this mismatch risk.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.
- To control the risk outlined above, the Trustees set the split between the Plan's Growth and Matching Portfolio such that the expected return on the portfolio is expected to be sufficient to meet the objectives outlined in Section 3.
- Whilst moving towards the target funding level, the Trustees recognise that even if the Plan's assets are invested wholly in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Trustees invest in leveraged LDI funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the Matching Portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained primarily via pooled vehicles. The Trustees diversify their investment manager exposures through delegating the construction of the pooled funds to Mercer. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets the scope for achieving added value is more limited.
- To help diversify manager specific risk, the Trustees expect that the Plan's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Trustees Plan's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the

purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Plan are predominantly invested on regulated markets.

- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.
- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds invested in, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.

Should there be a material change in the Plan's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current strategy remains appropriate.

In addition, the investment strategy will be reviewed approximately triennially, in conjunction with the Actuarial Valuation.

5. Investment Strategy

The Trustees, with advice from the Plan's investment consultant and Plan Actuary, review the Plan's investment strategy triennially, most recently in January 2024. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

As part of the January 2024 investment strategy review, the Trustees decided to "de-risk" the Plan's assets relative to its liabilities initially and subsequently over time using a dynamic trigger-based de-risking framework. In order to achieve this, the Trustees decided to engage Mercer to implement this de-risking strategy.

The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target 105% to 110% funding on a gilts +0.5% basis within a reasonable timeframe;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The strategy takes account of the Plan's initial funding level on a gilts +0.5% p.a. basis and is based on a model of the progression of the Plan's funding level over the future, taking into account the expected contributions from the Company as agreed at the latest triennial actuarial valuation.

The de-risking triggers which form the basis of the Plan's dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements (SIA).

Once the funding level has moved through a band, the asset allocation will not be automatically “re-risked” should the funding level deteriorate. The investment strategy will be reviewed on a triennial basis to ensure that the triggers set remain appropriate and amended if required.

Additionally, it was also agreed that Mercer would manage the liability hedge ratio (versus a target funded liability hedging with respect to changes in interest rates and inflation expectations), as set out in the SIA.

Responsibility for monitoring the Plan’s asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustees on the management of the asset portfolio.

6. Realisation of Investments

The Trustees on behalf of the Plan 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.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Plan’s assets in line with the Plan’s strategic allocation. Mercer is responsible for raising cash flows to meet the Plan’s requirements.

8. Rebalancing

As noted, responsibility for monitoring the Plan’s asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced Growth Portfolio target weighting, under the new de-risking band, as defined in the SIA.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

9. ESG, Stewardship and Climate Change

The Trustees believe that environmental social, and corporate governance (ESG) factors may have a material 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 issue, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Plan’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, including climate change considerations, 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.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustees thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's and MGIE's investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Plan, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The results of the latest climate scenario modelling are within the TCFD compliant Climate Change Management Report. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.

An allocation to Passive Sustainable Equities is indirectly made by the Plan via the Mercer Diversified Growth Fund. A detailed standalone sustainability monitoring report is produced for the Passive Sustainable Global Equity Fund on an annual basis and is available upon request. The approach considers revenues that positively and negatively contribute to environmental and social outcomes (also mapped to the SDGs).

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustees believe that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interest of the Plan as a whole. The Trustees may seek and consider member views in the future.

Investment Restrictions

Mercer has given their appointed investment managers restrictions in relation to particular products of activities for all equities and fixed income portfolios. Mercer is also a signatory of the Principles of Responsible Investment and engages with the UN Compact.

The Trustees have not set any additional investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

10. Additional Assets

Under the terms of the Trust Deed the Trustees are responsible for the investment of any Additional Voluntary Contributions paid by members. The Trustees review the investment performance of the chosen providers as appropriate and take advice as to the providers' continued suitability.

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 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 incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 3. 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 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 time 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 Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

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 arrangements 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 it pays 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 Plan's assets under management which covers the design and triennial 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 Plan. 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 Funds' Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan'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 three years 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.