Metso UK Ltd Pension Scheme (the “Scheme”)

Statement of Investment Principles (the “Statement”)

Scope of Statement

This Statement 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).

The effective date of this Statement is September 2023. The Trustees will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations made

The Trustees have consulted with the employer, Metso UK Ltd, prior to writing this Statement and will take the employer’s comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Metso UK Ltd Pension Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by their appointed professional investment advisers, Aon Investments Limited (“AIL”), who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets have been delegated to AIL as the Scheme’s fiduciary manager. AIL are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to AIL and is available to the members of the Scheme.

Under the fiduciary approach, the Trustees, following advice from AIL, set specific funding objectives for the Scheme. AIL manage the Scheme’s assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL conducts the necessary day to day management of the Scheme’s assets required to meet the Scheme’s objectives.

Objectives and policy for securing objectives

The Trustees’ objectives for setting the investment strategy of the Scheme have been determined with regard to the Scheme’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

- “funding objective” - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit on an ongoing basis, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy; and
- “security objective” – to ensure that the solvency position of the Scheme is expected to improve. The Trustees will take into account the strength of employer’s covenant when determining the expected improvement in the solvency position of the Scheme

The Trustees recognise that these objectives may conflict. For example a greater allocation to more defensive assets may give greater security, but may result in a level of contributions, which the Employer may find too difficult to support. The Trustees also recognise that in resolving this conflict, it may be necessary to accept some risk.

In order to meet these objectives, the Trustees have put in place a long term objective to ensure that the Scheme is fully funded, using assumptions that contain a margin for prudence commensurate with the strength of the Company covenant.

Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees' objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme's technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed so as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The balance between different kinds of Investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation.

The Trustees have put in place a long term objective to ensure that the Scheme is fully funded, using assumptions that contain a margin for prudence commensurate with the strength of the Company covenant. This requires the Scheme's assets to generate a return in excess of the liabilities which is based upon the allocation to growth assets.

The allocation of the Scheme's assets between the Growth Portfolio (consisting of investment in return seeking assets including equities and alternative asset classes) and the Matching Portfolio (consisting of investments in pooled gilt funds) is set in line with the long term objective of the Scheme to return 1.8% pa in excess of the Liability Benchmark.

A full range of available asset classes are considered. This includes consideration of so called "alternative" asset classes (namely property, private equity, and hedge funds). In order to provide exposure to alternative asset classes the Scheme invests in a pooled fund of alternatives and this provides diversified exposure to a wide range of alternative asset classes.

The Trustees delegate responsibility for managing their asset allocation to AIL. This allows the asset allocation of the Scheme to be adjusted quickly in order to best meet the investment objectives of the Scheme.

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance and the Trustees and the Scheme's administrator carefully monitor this.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

The Trustees do not directly hold any investments in derivatives. However, all of the Scheme's managers have the ability use derivatives in their pooled funds, but this is only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Scheme's pooled gilt fund managers will make extensive use of derivatives in their pooled funds in order to provide leveraged exposure to interest rates and inflation. However, and as noted above, these are only used in so far as they contribute to the reduction of investment risks and are managed so as to avoid excessive risk exposure to a single counterparty of other derivative operations.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustees also have an agreement with the employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employers in particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustees monitor the risks arising through the selection or appointment of AIL on a quarterly basis via investment monitoring reports.

For due diligence purposes, the Trustees aim to meet with the Scheme's fiduciary manager, AIL as necessary.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the employer.

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice through the sale of units in pooled funds.

Social, environmental or ethical considerations

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change can negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when reviewing their investment return objective, when selecting the fiduciary manager and when monitoring performance.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors" in the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018).

Arrangements with asset managers

The Trustees have appointed AIL as their fiduciary manager, who they consider to be their asset manager. References in this policy to 'underlying asset managers' refers to those asset managers which AIL in turn appoints to manage investment on behalf of the Trustees.

The Trustees recognise that the arrangements with their fiduciary manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustees seek to ensure that the fiduciary manager is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustees receive regular reports and verbal updates from the fiduciary manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assess the fiduciary manager over three-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their fiduciary manager, which supports the Trustees in determining the extent to which their engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the Scheme's fiduciary manager and request that they review and confirm whether their approach is in alignment with the Trustees' policies. The Trustees delegate the ongoing monitoring of underlying asset managers to the fiduciary manager. The fiduciary manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointment of a new fiduciary manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. The Trustees believe that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager to make decisions that align with the Trustees' objectives and are based on assessments of medium- and long-term financial and non-financial performance.

Where the fiduciary manager is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the fiduciary manager but could ultimately replace the fiduciary manager where this is deemed necessary.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place. If relevant, the duration of certain underlying closed ended vehicles may be defined by the nature of the underlying investments.

Cost monitoring and evaluation

Cost Monitoring:

The Trustee's fiduciary manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice.

The Trustees are aware of the importance of monitoring their fiduciary manager's total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustees receive annual cost transparency reports from their fiduciary manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- the total amount of investment costs incurred by the Scheme;
- the fees paid to the fiduciary manager;
- the fees paid to the underlying asset managers appointed by the fiduciary manager;
- the amount of portfolio turnover costs (transaction costs) incurred by the underlying asset managers appointed by the fiduciary manager;
- the Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the underlying asset managers appointed by the fiduciary manager;
- any charges incurred through the use of pooled funds (custody, admin, audit fees etc);
- the impact of costs on the investment return achieved by the Scheme.

The Trustees acknowledge that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the underlying asset managers appointed on behalf of the Trustees.

The Trustees benefit from the economies of scale provided by the fiduciary manager in two key cost areas:

- the ability of the fiduciary manager to negotiate reduced annual management charges with the appointed underlying asset managers;
- the ability of the Fiduciary Manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the underlying asset managers and achieve efficiencies where possible.

Evaluation of performance and remuneration:

The Trustees assess the (net of all costs) performance of their fiduciary manager on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective.

The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the fiduciary manager to the Trustees. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustees monitor these costs and performance trends over time.

Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustees have delegated all voting and engagement activities to the Scheme’s underlying asset managers, via AIL. The Trustee accepts responsibility for how the manager stewards assets on its behalf, including the casting of votes in line with each managers’ individual voting policies. The Trustees review manager voting and engagement activities on an annual basis from AIL to ensure they are in line with the Trustee’s expectations and in the members’ best interests.

As part of the fiduciary manager's management of the Scheme’s assets, the Trustee expects AIL to:

- take into account social, environmental or ethical considerations in the selection, retention and realisation of investments; and
- use its influence to engage with underlying asset managers to ensure the Scheme's assets are not exposed to undue risk; and
- ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Scheme’s assets; and
- report to the Trustee on stewardship activity by underlying asset managers as required.

The Trustees will engage with AIL as necessary for more information, to ensure that robust active ownership behaviours are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

Underlying asset managers are expected to vote at company meetings and engage with companies on the Trustee’s behalf in relation to ESG considerations and other relevant matters (such as the companies’ performance, strategy, risks, capital structure, and management of conflicts of interest).

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular where:

- votes were cast against management;
- votes against management generally were significant;
- votes were abstained; and
- voting differed from the voting policy of the Trustee.

Where voting is concerned, the Trustees expect the underlying managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustees may engage with AIL, which in turn is able to engage with underlying managers, investee companies or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

Should the Trustees' monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustees expectations, the Trustees will engage with AIL to discuss how alignment may be improved to bring about the best long-term outcomes for the Scheme.

Additional Voluntary Contributions ("AVCs") arrangements

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.

The Trustees have made available the following range of investment options:

- With profits funds managed by Equitable Life Assurance Society; and
- Unit linked funds managed by Standard Life Assurance Company.

The Trustees review the Scheme Additional Voluntary Contribution arrangements on an annual basis in order to comply with the Pensions Regulator's guidelines on DC Governance.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.