Smurfit Kappa UK Pension Fund

Statement of Investment Principles

October 2024

1. Introduction

The Trustee of the Smurfit Kappa UK Pension Fund ("the Fund") has prepared this Statement of Investment Principles for the Defined Benefits section of the Fund with effect from November 2024. This SIP is in respect of both sections of the Fund:

- UKC Kappa SSK Section
- Smurfit Norcor88 Section

It has been prepared in accordance with applicable legislation, taking into account guidance from The Pension Regulator and written advice from an independent investment adviser as required.

The purpose of the SIP is to set out Trustee's investment strategy in high level, including the investment objectives, investment strategy and other investment policies Trustee has adopted.

The Trustee must review the SIP in consultation with the Smurfit Kappa UK Ltd ('the Sponsoring Employer') at least every three years; and without delay after any significant change in investment policy or circumstances of the Fund. The Trustee last reviewed this SIP in October 2024.

2. Scheme/Plan governance

The Trustee is responsible for the governance of the Fund's assets and the investment of these assets in the best interests of members and beneficiaries. The Trustee exercises its powers of investment in accordance with the Trust Deed and Rules of the Fund and applicable law. Where the Trustee is required to make an investment decision, the Trustee must receive advice from the relevant advisers first. The Trustee believes this ensures that they are appropriately familiar with the issues concerned.

The Trustee has delegated day-to-day investment of the Fund's assets to be undertaken through the fiduciary management service of Schroders Investment Solutions Limited ('**Schroders Solutions'**), hereafter referred to as the '**Fiduciary Manager'**. The Trustee is satisfied that the Fiduciary Manager has the appropriate knowledge and experience for managing the investments of the Fund and they carry out their role in accordance with the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations"),** the principles contained in this SIP and any applicable investment guidelines and restrictions agreed with the Trustee.

The Trustee acknowledges the potential for conflicts of interest as part of ongoing Fiduciary Management business activities. As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where third party managers the Fund invests in ("**the Underlying Managers**") are also regulated, they may be required to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager monitors these conflicts as part of its regulatory filings (where applicable), and as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available to be shared to Trustee when required.

The Trustee considers that the governance structure is appropriate for the Fund as it allows the Trustee to make the important decisions on investment policies, while delegating the day-to-day aspects to the Fiduciary Manager as appropriate.

The Trustee has also appointed an Investment Sub-Committee (the '**ISC**') to deal with investment matters (including ESG) on their behalf. The ISC acts as a coordinator between the Fiduciary Manager and the Trustee.

3. Investment objectives and strategy

The primary objective of the Trustee of the Fund with regard to investment policy is to meet the benefit payments promised to the Fund's members as they fall due. Hence, the Trustee has defined the investment strategy with due regard to the Fund's liabilities.

The Trustee has set the following investment strategy:

1) The acquisition of suitable growth and matching assets, having due regard to the risks set out in this SIP, which will generate income and capital growth to pay, together with any contributions the Sponsoring Employer, the benefits which the Fund provides as they fall due.
2) To limit the risk of the assets failing to meet the liabilities over the long-term having regard to any statutory funding requirement.
3) To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

Growth assets comprise a diversified range of investments including (but not limited to) developed and emerging market equities, corporate bonds and alternative assets, which are held with the aim of outperforming the Fund's liabilities over the medium term.

Matching assets include both liability hedging assets and cashflow driven investments. Liability hedging assets comprise of investments in (but not limited to) UK government bond and derivative exposures, which are held with the aim of matching the interest rate and inflation sensitivities of the Fund's expected liabilities. Cashflow Driven Investments comprise of assets which distribute income/capital in order to reduce cash flow risk, whilst also mitigating some of the interest rate risk inherent in the liabilities.

4. Arrangement with the Fiduciary Manager

The Trustee has appointed the Fiduciary Manager to implement the Fund's investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Managers. The Fiduciary Manager is appointed to carry out its role on an ongoing basis.

The Trustee and Fiduciary Manager have agreed a Fiduciary Management Agreement setting out the scope of the Fiduciary Manager's activities, performance objectives, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee periodically reviews the overall value-for-money of using the Fiduciary Manager, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustee is satisfied that these arrangements incentivise the Fiduciary Manager:

- to align its investment strategy and decisions with the Trustee's investment policies, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve performance.

5. Arrangement with the Underlying Managers

The Investment Regulations require the Trustee to disclose its policies in relation to its arrangements with its Underlying Managers who are appointed by the Fiduciary Manager.

The Trustee incentivises its Underlying Managers via the Fiduciary Manager to align their investment strategies with Trustee's investment policies (including stewardship priorities) as mentioned in the SIP. However, the Fund's investments are generally made via pooled investment funds, in which the Fund's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, may not be aligned with the Trustee's investment policies.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee' objectives. The Fiduciary Manager regularly reviews the Underlying Managers on behalf of the Trustee in order to incentivises the Underlying Managers. These reviews include evaluation of the investment performance, remunerations and turnover cost of the investment funds in comparison to the peers.

The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Fiduciary Manager.

6. Monitoring

The Trustee will monitor the performance of the Fiduciary Manager against the agreed performance objectives.

The Trustee, or any other suitably qualified adviser on behalf of the Trustee, regularly reviews the activities of the Fiduciary Manager to satisfy themselves that the Fiduciary Manager continues to carry out their work competently, exercises its powers of investment with a view to giving effect to the principles in this SIP and has the appropriate knowledge and experience to manage the assets of the Fund.

If the Trustee is not satisfied that the Fiduciary Manager is aligned with its policies, it will consider making changes to the Fiduciary Manager's mandate as necessary.

7. Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and have delegated responsibility to the Fiduciary Manager to implement these instruments. Derivative instruments are typically used for risk management purposes in the portfolio.

8. Realisation of investments

The majority of assets the Fund holds can be realised easily when required. The Trustee will ensure that the Fiduciary Manager is made aware of the cashflow requirements of the Fund. The Fiduciary Manager will be responsible for ensuring that, in normal market conditions, sufficient assets are readily realisable to meet any disinvestments required by the Trustee to meet these cashflows. The Fiduciary Manager is in the process of exiting any illiquid investments held within the Fund (where capable). The Trustee acknowledges this can take a number of years to realise. The Trustee has considered this risk against the possibility of needing to realise these assets and are comfortable with the current approach.

9. Risk management

The Trustee recognises a number of risks involved in the investment of the assets of the Fund. The Trustee will keep these risks and how they are measured and managed under regular review. The main risks include, but not limited to:

- **Funding and asset/liability mismatch risk –** the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - A liability benchmark 'LB' is used as a proxy for the liabilities in order to measure the approximate changes in the present value of the liabilities of each section (due to changes to the relevant gilt yields only). The Trustee monitors this change relative to the change in asset values on quarterly basis. The LB is reviewed following each actuarial review, or when significant market or Fund events (e.g. a significant change in inflation expectations) occur.
  - The Trustee recognises the risk of a negative impact on the funding level due to changes in the Fund Actuary's assumptions. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.
  - When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LB and can therefore also be assessed as part of the quarterly review process.

  - This risk is also monitored through regular actuarial and investment reviews [including monthly portfolio updates].

- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
  - Regular monitoring of the managers' performance, processes, and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.

- **Cashflow risk –** which is the risk that the Fund is unable to meet benefit payments as they fall due, addressed through the monitoring of the cashflow requirement of the Fund to control the timing of any investment/disinvestment of assets.
    - The Trustee has also put in place a dedicated cashflow matching portfolio (for each section of the Fund) that is intended to mitigate the risk caused by significantly high levels of benefit payments.

- **ESG risk including Climate risk** – the risk of adverse performance due to ESG related factors including climate change. The Trustee recognises climate change as a systemic, long-term material financial risk to the value of the Fund's investments. The Trustee is supportive of the Paris Agreement and will aim to achieve a carbon neutral portfolio (net zero) by 2050 or sooner. This risk is addressed by the following:
  - Climate change scenarios being considered as part of the Trustee's regular review of investment strategy from time to time (if applicable).
  - The Fiduciary Manager's ESG assessment at the point of investment with Underlying Managers.
  - The Trustee monitoring the overall ESG characteristics including carbon metrics of the portfolio in the quarterly governance report.

- **Sponsor risk** – the risk of the Sponsoring Employer becoming unable to support the Scheme/Plan which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Sponsoring Employer.

10.Financially material investment considerations

Financial material considerations, which include (but not limited to) environmental, social and governance (ESG) considerations (including, but not limited to, climate change), which the Trustee(s) consider to be financially material.

The Trustee believes that certain ESG factors can have an impact on financial performance and part of its fiduciary duty is to incorporate this information into its investment decisions to reduce investment risk and enhance portfolio returns over the length of time needed for the funding of future benefits of the Scheme. The Trustee considers a wide range of ESG risks, including corporate governance, human rights, labour and environmental standards and so on and it believes that climate risk presents a material financial risk to the assets invested in its portfolio.

The Trustee's policy is to delegate the monitoring and overall management of financially material ESG risks and opportunities to the Fiduciary Manager. The Trustee is comfortable with the delegation given the approach the Fiduciary Manager takes towards ESG and climate related risks and opportunities is aligned with the Trustee's beliefs which was confirmed on appointment of the Fiduciary Manager.

The Trustee receives regular training and updates on ESG-related topics such as portfolio ESG reporting, voting and engagement examples on a quarterly basis through Trustee meetings. In addition, on an annual basis, the Trustee reviews the ongoing suitability of the Fiduciary Manager's monitoring and management of ESG and climate-related issues via an ESG annual report and challenges or engages with the Fiduciary Manager as required on its approach.

The Trustee delegates the integration of climate related risks into the investment process to the Fiduciary Manager. The Fiduciary Manager provides regular updates for the Trustee to:

- Understand the exposure of its investments to climate change in the quarterly monitoring report, and
- Ensure that new and existing investments take account of climate change risks and opportunities.

The Trustee expects its Fiduciary Manager to take their policy into account as part of manager selection.

11. Non-financial material investment considerations

The Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustee has no plans to seek the views of the membership on ethical considerations.

12.Stewardship

The Trustee is responsible for developing its own stewardship policy which includes both voting (where applicable) and engagement. The Trustee believes proper stewardship will result in better management of financially material ESG and climate related risks and opportunities. This is expected to improve the long-term financial outcomes of the Fund which ultimately is in the best interests of the Fund's members and beneficiaries. The Trustee expects its Fiduciary Manager to be a signatory to the UK Stewardship Code.

The Trustee has received training on the Fiduciary Manager's approach to stewardship. The Fiduciary Manager has its own voting and engagement policies documented in its Engagement Blueprint which sets out six sustainability themes to prioritise and which guides the voting and engagement behaviours of the Fiduciary Manager. The Investment Manager set out its voting and engagement priorities which focus on six themes including climate, Natural Capital and Biodiversity, Human Rights, Human Capital Management, Diversity and Inclusion and Corporate Governance. The Trustee has aligned its engagement priorities with the Investment Manager's with particular focus on following:

- Climate
- Natural Capital and Biodiversity
- Human Rights; and
- Corporate Governance

The Trustee expects the Fiduciary Manager to take their policy and stewardship priorities into account as part of its own stewardship activities and manager selection. The Trustee reviews, monitors and challenges the Fiduciary Manager where necessary in relation to the voting and engagement activities of the Fiduciary Manager and the Underlying Investment Managers.

13. Additional Voluntary Contributions (AVCs)

Some members obtain further benefits, having paid Additional Voluntary Contributions (AVCs) to the Fund. The liabilities in respect of these AVCs are equal to the value of the investment bought by the contributions. From time to time the Trustee reviews the choice of investments available to members to ensure they remain appropriate to the members' needs.

The Trustee reviews these arrangements from time to time considering their performance, the objectives and the views of the advisers.

For and on behalf of the Trustees of the Smurfit Kappa UK Pension Fund