

Statement Of Investment Principles

**GRAPHIC PACKAGING UK PENSION
SCHEME**



Kempen

1. Introduction

This Statement of Investment Principles (the “SIP”) sets out the policy of the Trustee of the Graphic Packaging UK Pension Scheme (the “Scheme”) on various matters governing decisions about the investments of the Scheme. This SIP replaces the previous SIP dated 17th February 2021.

This SIP has been drawn up by the Trustee to meet the requirements of Section 35 of the Pensions Act 1995, (as amended by the Pensions Act 2004) (the “Act”) and the Occupational Pension Plans (Investment) Regulations 2005 and the Occupational Pension Plans (Investment and Disclosure)(Amendment) Regulations 2019 (“the Regulations”) and subsequent legislation.

The trustee is responsible for setting the general investment policy, but delegates the responsibility for the selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager(s) provides the skill and expertise necessary to manage the investments of the Scheme.

In December 2020 the Trustee appointed Kempen Capital Management (the “fiduciary manager”) to undertake on behalf of the Trustee certain investment advisory and management functions in relation to the Scheme as more fully specified in the fiduciary management agreement (the “FMA”).

In preparing this SIP the Trustee has consulted Graphic Packaging International Europe UK Holdings Limited (the “Employer”) to ascertain whether there are any material issues which the Trustee should consider in determining the Scheme’s investment arrangements. The Trustee seeks to maintain a good working relationship with the Employer and will discuss any proposed changes to the SIP with the Employer. Although, the Trustee’s fiduciary obligation is to the Scheme’s members and will take precedence over the Employer’s wishes.

2. Investment Governance

Effective governance of the assets of the Scheme and management of risk is achieved by the following division of responsibilities.

The Trustee

The Trustee's principal responsibilities in relation to investments include but are not limited to:

- Determining an appropriate division of responsibilities.
- Appointing, monitoring and removing third party service providers, for example an investment advisor or fiduciary manager.
- Setting an investment policy consistent with relevant legislation, which consists of:
 - A strategic investment objective.
 - A list of permissible asset classes or target asset allocations.
 - The magnitude of flexibility afforded to the fiduciary manager or any other advisor.

Investment sub-committee

If the Trustee sets up an ISC, its membership, operation, responsibilities and powers will be governed by its terms of reference which will be determined from time to time by the Trustee. The ISC's principal responsibilities will include, but will not be limited to:

- Reviewing the investment policy at least annually, and making recommendations to the Trustee as appropriate.
- Maintaining an investment plan that is consistent with the SIP and sets out in more detail the investment strategy and how it is implemented.
- When updating the investment policy and investment plan, consulting with the Employer, the fiduciary manager and the Plan actuary.
- Including in the investment plan a policy for how investments will be made in each asset class. This may include the use of segregated accounts or pooled investment vehicles, which provide exposure to the asset class in question but with the benefit of the economies of scale and appropriate diversification.
- Appointing and terminating investment managers who select individual stocks and securities on behalf of the Trustee. (Though, in practice, in the majority of asset classes the appointment and selection of investment managers is delegated to the fiduciary manager, if one is appointed). In some cases, the operational investment manager may be the fiduciary manager or a company from the fiduciary manager's group.)
- Monitoring the performance of the fiduciary manager and the investment managers selected by the fiduciary manager. In doing so, the ISC will ensure the fiduciary manager and the investment managers remain appropriately remunerated and incentivised to make decisions which are aligned with the Trustee's investment plan, policies and this SIP more generally (including in relation to ESG criteria). The ISC believes this can be achieved by:
 - including details of the investment plan in the FMA, and in doing so providing targets and objectives for the fiduciary manager against which they must manage the Plan's assets.
 - assessing the total running costs of the scheme on an annual basis.
 - appraising the performance of the fiduciary manager on an annual basis.

In the absence of an ISC, the Trustee will perform these responsibilities.

Fiduciary manager

The management of the Scheme assets is the responsibility of the Trustee, acting on expert advice. The Trustee has concluded a fiduciary management approach would be most appropriate for the Scheme. Consequently, they appointed Kempen Capital Management as the Scheme's fiduciary manager.

The Scheme's fiduciary manager is responsible for all aspects of advising on and implementing the Trustee's investment plan. The fiduciary manager is required to exercise its powers having regard to the criteria for investment as set out in the Occupational Pension Plans (Investment) Regulations 2005. They select and liaise with investment managers and other service providers on behalf of the Trustee and monitor the Scheme's assets to ensure compliance with the agreed parameters and objectives. The fiduciary manager's powers and responsibilities are specified in the FMA. The Trustee believes that using a fiduciary manager can achieve a better balance of return, risk and cost.

The fiduciary manager's principal responsibilities in an investment advisory capacity include, but are not limited to:

- Advising the Trustee and any ISC on the SIP and the investment plan, taking into account the liabilities of the Scheme and the view that the Trustee has formed regarding the covenant of the Employer.
- Advising the ISC (or in its absence, the Trustee) on all other matters for which it is responsible (other than on the monitoring of the fiduciary manager).
- Liaising with the Scheme actuary to determine suitable methods and assumptions to model the Scheme's liabilities for the purposes of the investment plan.
- Attending ISC (or in its absence, Trustee's) meetings.

The fiduciary manager's principal responsibilities in an investment implementation capacity, include but are not limited to:

- Appointing and monitoring of a custodian for the Scheme. Where pooled vehicles are used, the custodian for the pooled vehicles is generally selected by the manager of the pooled vehicle. The custodian is responsible for their own compliance with prevailing legislation.
- Implementing, monitoring and managing the Scheme's investments in accordance with the investment plan. In particular:
 - Rebalancing the assets to maintain compliance with the investment plan.
 - Appointing, monitoring and dismissing investment managers (except in cases where the ISC (or in its absence, the Trustee) retains responsibility for this either because the fiduciary manager is itself acting as investment manager, or because the ISC (or in its absence, the Trustee) decides to retain this responsibility for other reasons.
 - Entering into legal agreements on behalf of the Scheme, including for derivative transactions and for investment management, obtaining legal advice where appropriate.
- Making provision for the Scheme's cash flow requirements, based on projections provided by the Scheme's administrator and as agreed with the ISC.
- Record keeping and reporting on the performance and risk of the investments, including providing sufficient information in an agreed format and to an agreed timescale for the Scheme's administrator to prepare the Scheme's annual report and accounts for audit.

Legal advisor

When they consider it necessary, the Trustee or the ISC will seek legal advice in relation to investments including, but not limited to:

- Advice on the FMA.
- Advice on the SIP and on other legal aspects of investment governance.
- Advice on investment management agreements for managers appointed by the ISC (or in its absence, the Trustee) directly (though in most cases appointments are made by the fiduciary manager who obtain their own legal advice).

Scheme Actuary

The Scheme actuary's responsibilities in relation to investments include, but are not limited to:

- Providing liability data to the fiduciary manager on request.
- Confirming any market-derived assumptions used to value the Scheme's liabilities – to assist the fiduciary manager with interpreting its own estimates of the Scheme's funding position.
- Liaising with the fiduciary manager on the suitability of the Scheme's investment strategy given the characteristics of the liabilities.
- Performing the triennial (or more frequently as required) actuarial valuations and advising on the appropriate contribution levels and any recovery plan.

Administrator/Scheme Secretary

The administrator's principle responsibilities in relation to investments are:

- Ensuring payment of benefits of the Scheme, and receipt of contributions where applicable.
- Providing advance cash projections based on estimated requirements where this is possible.
- Preparing the annual accounts for the Scheme with input from the fiduciary manager.
- Operating and keeping records in relation to the Trustees' bank account.
- Together with the Employer, ensuring payment of expenses of the Scheme.
- Requesting cash from the fiduciary manager as required.
- Transferring any surplus cash beyond a reasonable buffer level to the Scheme's custodian for investment by the fiduciary manager.

3. Investment Policy

The investment policy is determined by the Trustee and specifies the key elements of the investment of the Scheme's assets.

It is the responsibility of the ISC (or in its absence, the Trustee) to maintain an investment plan that is consistent with this investment policy (and consistent with the SIP more generally). The investment plan sets out in more detail the investment strategy and how it is implemented from time to time.

The overall objective of the Trustee is to invest the Scheme's assets in the best interest of the members and beneficiaries and optimise the return on investments. The Trustee has agreed to a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's objectives are as follows:

- Ensure that the Scheme can meet its obligations to the beneficiaries of the Scheme as they fall due;
- The funding position of the Scheme (i.e. the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme. In particular, the Trustee has taken into account the funding requirements detailed in the Occupational Pension Plans (Plan Funding) Regulations 2005;
- Achieve a return on the total Scheme which is compatible with the Trustee's risk tolerance, in line with assumptions used to value the Scheme's liabilities by the Scheme's Actuary in the latest actuarial valuation; and
- Pay due regard to the Employer's interest in the size and incidence of contribution payments.

In light of these objectives, the Trustee agreed that the investment strategy for the Scheme's assets should be to take appropriate investment risks with the aim of achieving a return of gilts + x% per year compound net of all fees over the long term where the parameter x is determined based on the table below:

TARGET RETURN	
FUNDING LEVEL	TARGET RETURN (GILTS + X% PER YEAR)
Below 95%	2.0%
At least 95%	1.5%
At least 98%	1.0%
At least 100%	0.5%
At least 115%	0.0%

The Trustee has delegated to the fiduciary manager to determine the asset allocation and select appropriate managers and benchmarks, from time to time, subject to the constraints agreed in advance with the Trustees. The current target asset allocation is shown in the table below:

ASSET ALLOCATION ACROSS PORTFOLIOS

	MINIMUM WEIGHT (%)	MAXIMUM WEIGHT (%)
Matching Portfolio	60	100
Return Portfolio	0	25
Alternatives Portfolio	0	35

The Trustee has further agreed to minimize the volatility of the funding level with respect to the change in value of the Scheme's liabilities. The Liabilities are sensitive to changes in fixed and real interest rates, therefore the fiduciary manager has been intrusted to hedge a portion of that exposure, as shown in the table below:

INTEREST RATE HEDGING

Fixed hedge ratio bandwidth (%)	70-115%
Real hedge ratio bandwidth (%)	70-115%

How the investment strategy is implemented

The day-to-day management of the assets of the Scheme are delegated to the fiduciary manager who executes the investment strategy. The Trustee delegates responsibility for the appointment, termination and ongoing monitoring of the Scheme's investment funds and managers to the fiduciary manager. The fiduciary manager provides the Trustee with regular performance reporting.

Arrangements are in place to monitor the continuing suitability of the Scheme's investments and in order to facilitate this, the Trustee aims to meet periodically, but at least annually. The fiduciary manager will carry out an Annual Investment Review as agreed in the FMA with the Trustee.

Portfolio turnover costs

This is the costs incurred as a result of the buying, selling, lending or borrowing of investments and the Trustee monitors these costs through quarterly transaction reports and an annual costs report provided by the fiduciary manager.

The portfolios are re-balanced at least quarterly, to ensure the assets are aligned to the agreed targets. The turnover and transaction costs associated with this rebalancing activity is expected to be small. A greater degree of portfolio turnover (and therefore cost) is only expected as a result of larger changes to the target asset allocation, for example as the investment strategy is de-risked as the funding level improves.

4. Risk Management and Measurement

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy review and will be monitored by the Trustee on a regular basis.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

Investment manager risk

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, the fiduciary manager on behalf of the Trustee, undertook comprehensive investment manager selection exercises. The fiduciary manager monitors the investment managers on a regular basis.

Active manager risk

The Trustee understands that the use of active, rather than passive management introduces additional risk. Where active management is adopted, the Trustee deems the risk to be acceptable in the context of the Scheme's overall investment risk profile.

Fiduciary manager risk

There are risks associated with actions of the fiduciary manager and its selection of investment managers. The Trustee will monitor the continuing suitability of the fiduciary manager.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives.

The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 3.1 and by the guidelines agreed with the fiduciary manager where the fiduciary manager aims to ensure that the Scheme's investments are placed in an adequately diversified portfolio. To help diversify manager specific risk, the Trustee understands that the fiduciary manager may make multiple manager appointments within some asset classes.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The fiduciary

manager on behalf of the Trustee considers the overseas currency exposure in the context of the overall investment strategy and will reduce these risks as they deem appropriate via an FX hedging program.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because a portion of the Scheme's assets are held in government bonds, corporate bonds, interest rate and inflation swaps via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.

Liquidity risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believe that this risk is managed appropriately via the measures described below

The fiduciary manager, Trustee and Scheme administrators will seek to ensure that the Scheme holds sufficient cash to meet the likely benefit outflow from time to time. The fiduciary manager will ensure that there are sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements so that realisation of assets will not disrupt the Scheme's overall investment policy where possible.

Counterparty risk

Responsibility for the safe custody of the Scheme's assets is delegated to the fiduciary manager who have appointed Northern Trust Corporation ("Northern Trust") as custodian of the assets. The fiduciary manager is responsible for ensuring the suitability of Northern Trust under ongoing review.

Environmental, social and governance risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance.

Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme. Examples include:

- Longevity risk (the risk that members live, on average, longer than expected); and
- Sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).
- Decisions may be taken without appropriate advice or expertise
- Custody risks
- Derivative counterparty risks, such as the risk of insolvency.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee and their advisors believe that they have addressed and are positioned to manage this general risk.

5. The Trustees' policy on financially material considerations and non-financial matters

The Trustee has considered how ESG, climate change and other ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme. The Trustees believe that if these factors are considered and managed within the investments the Scheme holds, it is expected to produce better financial (and therefore member) outcomes.

In setting and implementing the Scheme's investment strategy, the Trustees do 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).

The Trustee believes that ESG and climate change factors within an investment context can be financially material, and that by taking these financial and non-financial factors into account within the investment plan can yield different returns and/or risks. The Trustee also recognises that ESG factors, and particularly climate change factors are more likely to influence risk adjusted returns over the long term.

Without prejudice to the Trustee's legal obligations, the Trustee delegates full discretion to the fiduciary manager around the evaluation of ESG and climate change factors within the investment process and assets. The fiduciary manager, who is responsible for the appointment and removal of the underlying investment managers, exercise discretion when evaluating ESG issues giving consideration to ESG related risks and making sure the investment strategy is aligned with the trustees investment policy and ESG beliefs.

The fiduciary manager has limited influence over investment managers' investment practices where assets are held in pooled funds, but ESG factors and associated risks are managed as a consequence of the following:

- ESG criteria is assessed based on international conventions and initiatives, such as UN Global Compact and the Principles for Responsible Investment (PRI)
- All asset managers are screened against ESG criteria before inclusion in the fiduciary managers approved manager list. For example:
 - does the fund manager have a responsible investment policy
 - is the manager open for a dialogue on ESG criteria, and
 - does the manager have exposure to companies that are on the fiduciary manager's exclusion list?
- All asset managers are reviewed against ESG criteria on an ongoing basis. For example:
 - are responsible investing considerations continue to be integrated into their investment process
 - is the fund manager making progress
 - is the fund manager well informed and up-to-speed of ESG criteria and initiatives
 - screening of all underlying equity and debt securities during quarterly monitoring cycle to check for exclusion candidates
- The fiduciary manager encourages their chosen managers to improve their practices where appropriate (as explained in the next section)
- The fiduciary manager uses a "Sector Avoidance Framework", which ensures exclusion of companies involved in the production, trade and maintenance of controversial weapons.

As a result, the Trustee is satisfied that the fiduciary manager is providing advice and implementation services that are aligned with the trustee's investment policy and beliefs, and that a responsible approach is being taken which is consistent with the long term financial interests of the Scheme.

The Trustee includes a standing item on the agenda for the Trustee meetings to annually review the Scheme's policies and progress concerning ESG and climate change factors.

6. Stewardship

The Trustee recognises its responsibility as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to their fiduciary manager and investment managers 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.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. They expect the fiduciary manager to exercise ownership rights and undertake monitoring and engagement in line with its' own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code 2018 and the UK Stewardship Code 2020.

The fiduciary manager supports and expects the underlying managers, who are regulated in the UK, to comply with the UK Stewardship Code 2020, including public disclosure of compliance via an external website. For an underlying manager to be appointed they must also abide by the fiduciary manager's Responsible Investment and Exclusions policy.

The Trustee will review annual reports on the voting undertaken by the underlying manager during the period to get assurance that it remains broadly consistent with the Trustee's view of good stewardship standards. However, the Trustee is conscious that the underlying manager may not be able to provide voting records for all investments held within certain pooled structures.

7. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's advisers, under which charges are calculated on a fixed fee or "time-cost" basis as appropriate.

The fiduciary manager levies a fee based on the value of the assets managed by the fiduciary manager which covers the design, implementation, monitoring and annual review. In addition, the underlying investment managers also levy fees based on a percentage of the value of the assets under management.

The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

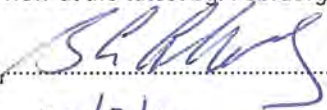
8. SIP compliance and review

The Trustee will monitor compliance with this SIP annually. In particular they will obtain confirmation from the fiduciary manager that they have complied with this SIP insofar as is reasonably practicable and that in exercising any discretion they have done so in accordance with Section 4 of the Occupational Pension Plan (Investment) Regulations 2005. The Trustee undertakes to advise the fiduciary manager and, where necessary, investment managers promptly and in writing of any change to this SIP.

The Trustee will review this SIP after consultation with their professional advisers once every three years, and immediately after any significant change in investment policy. Any material change to this SIP will only be made after having obtained and considered the advice of professional advisers who the Trustee 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 Plan investments.

Adopted by the Trustees with effect from: 15th March 2021

Next review at the latest by: February 2022

Signed  Name BG ANKERHOLZ
Date 15/3/21

for and on behalf of the Trustee of the Graphic Packaging UK Pension Scheme

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