Firmenich Wellingborough Employee Benefits Plan

Statement of Investment Principles – September 2020

Introduction

The Trustees of the Firmenich Wellingborough Employee Benefits Plan (the "Plan") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. In preparing this Statement the Trustees have consulted Firmenich UK Ltd (the "Sponsoring Employer") on the Trustees' investment principles.

Governance

The Trustees of the Plan make all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment consultants, Capita Employee Benefits (Consulting) Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Plan's assets in the best interest of the members, and their main objectives with regard to investment policy is to ensure that they hold suitable assets of appropriate liquidity which will target the following objectives:

1. To hold assets that closely match the Plan benefits with a view to buying-out the benefits of the Plan with an insurance company over the medium to long term;

2. To consider the interests of the Sponsoring Employer in relation to the size and volatility of the Sponsoring Employer's contribution requirements;

3. To ensure that sufficient liquid assets are available to meet benefit payments as they fall due.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Plan. The Trustees believe that the current investment strategy is appropriate given the Plan's liability profile. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. This is, therefore, the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Plan's liabilities.

- 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 liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustees will take advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- 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 via pooled vehicles.

- The documents governing the manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.

- The Trustees recognise that the use of active management involves a risk that the assets do not achieve the expected return. The Plan's assets are managed through a mixture of active and passive management.

- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Plan's circumstances, the Trustees will review whether the current risk profile remains appropriate.

In this advice we have not taken account of climate-related risks separately from the other risks that exist.

Investment Strategy

The Trustees of the Plan are considering the option of "buying-out" all the liabilities with an insurance company, in the medium term. The Trustees previously "bought-in" pensioner liabilities with Prudential in 2000 and subsequent retirees were "bought-in" with Pension Insurance Corporation in 2013. However, until further investment strategy work has been carried out and clarity on the viability of a buy-out is achieved, the Trustees believe that the investment risk arising from the current investment strategy is consistent with the overall level of risk being targeted. The Trustees have consulted with the Employer on this.

The Trustees have agreed to implement an on-going programme to reduce investment risk relative to the liabilities of the Scheme ('de-risk') over time and at a pace dictated by a combination of investment market conditions and the self-sufficiency funding level.

De-risking involves changes to the balance between return seeking assets and liability matching assets. However, the timing and implementation of changes to the target allocation will not be fixed but will be designed to be dynamic and able to adapt to future market opportunities to accommodate de-risking by the Trustees.

The Trustees believe that the investment strategy and consideration of future de-risking programmes are appropriate for controlling the risks identified and meeting the required level of return to meet the funding objectives.

The trustee body forms an investment sub-committee of which a minimum of two members agree to the implementation of a specific trigger in conjunction with their advisers. The Governance Document sets out the specifications of the dynamic de-risking process and the actions that have been agreed in advance to effect the implementation of these triggers if and when they occur.

In the normal course of events, the Trustees will monitor the Scheme's actual asset allocation at least quarterly and will decide how to proceed. This may involve redirecting cash flows, a switch of assets, or taking no action. In view of the above dynamic de-risking process the Trustees also monitor the self-sufficiency funding level of the Scheme on a quarterly basis. The Trustees will take into account advice from the investment consultant prior to making any decision.

Further details on investment funds can be found in the Appendix.

Investments, disinvestments, collateral calls, and capital distributions

Any cash flows (including collateral calls or capital distributions on the LDI funds) will be directed towards and taken from the Global Equity Fund. The Trustees may decide to change this cash flow policy from time to time, subject to receiving the necessary advice from their investment consultant.

Expected Return

The Trustees expect the Plan's assets to generate a long-term investment return of circa 2.8% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Plan's liability value. This return is a "best estimate" of future returns that has been arrived at given the Plan's initial asset allocation and in the light of advice from the investment consultant.

The Trustees recognise that over the short term performance may deviate significantly from this long term expectation. This "best estimate" will also generally be higher than the prudent assumption used for the actuarial valuation of the Plan's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustees have appointed LGIM ("the Platform Provider") to manage the assets of the Plan. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected Legal & General Investment Management (the "Investment Manager") to manage all the Plan's assets.

The Investment Manager is regulated under the Financial Services and Markets Act 2000. The details of the Plan's Investment Manager Mandates are set out in Appendix 1.

The Trustees have rolling contracts with their investment managers.

The Trustees monitor the performance of their investment managers on a quarterly basis. This monitoring is contained in a report provided by their advisor.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration, including incentives, that is paid to their investment managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they should ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees monitor the investment managers' processes for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustees consider if the investment managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustees are conscious of whether the investment managers are incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the investment managers provides these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their investment manager monitors the frequency of transactions and portfolio turnover. If there are any targets, then they will monitor compliance with these targets.

Environmental, Social and Governance ("ESG") Considerations

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Plan's members. The Trustees believe that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Plan. The Trustees recognise that this is a DB scheme closed to new entrants with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Plan could still be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which they invest (especially where assets are managed passively). However, the Trustees will consider the manager policies in all future selections and will deepen their understanding of their existing manager policies by reviewing these at least annually. The Trustees will also seek to understand what other options might be available at their managers and in the wider market. In cases where they are dissatisfied with a managers' approach they will take this into account when reviewing them. They are also keen that all their managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustees are keen that their managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. They will be liaising with their managers (including their passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustees' behalf). The Trustees are also keen that their managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment managers. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required. Consequently, the Trustees expect the Plan's Investment Managers to have effective ESG policies (including the application of voting rights) in place and look to discuss the investment managers' ESG policies with them when the managers attend Trustee meetings.

The Trustees will monitor the voting being carried out by investment managers and custodians on their behalf. They will do this by receiving reports from their investment managers which should include details of any significant votes cast and proxy services that have been used.

Non-financial matters, including members' views are currently not taken into account.

Additional Voluntary Contributions ("AVCs")

The Plan provides a facility for members of the Plan to pay AVCs held in insurance policies with Prudential and MGM, in order to enhance their benefits at retirement. The AVC arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and that the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.

Compliance with Myners Principles

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustees believe this to be justified.

Employer-Related Investments

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Plans (Investment) Regulations 2005.

Fee Structures

The Platform Provider is paid a management fee on the basis of assets under management. The Investment Consultant is paid on a project basis, which may be a fixed fee or based on time cost for additional services as negotiated by the Trustees in the interests of obtaining best value for the Plan.

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 believe 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.

C. Bristow

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Trustee

25 September 2020
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Date

The Trustees of the Firmenich Wellingborough Employee Benefits Plan

Appendix I – Asset Allocation

The Trustees have appointed an Investment Manager to manage the assets of the Plan, **via a single policy with the Platform Provider. The Investment Managers and Platform Provider are regulated under the Financial Services and Markets Act 2000.** The Plan's current target asset allocation is set out below (note that this excludes annuities):

Asset Class	Investment Manager	Fund Name	Active / Passive Management	Target Allocation %
Return-Seeking Assets				**80.0**
Equities	LGIM	Global Equity Fixed Weights (60:40) Index Fund – GBP Hedged Fund	Passive	50.0
Property	LGIM	Property Fund	Active	10.0
Diversified Growth Funds	LGIM	Diversified Fund	Active	20.0
Matching Assets				**20.0**
Liability Driven Investments (LDI)	LGIM	LGIM Matching Core Real Long Fund	Passive with a yield maximisation overlay	9.0
	LGIM	LGIM Matching Core Fixed Long Fund		11.0
Total				**100.0**

Appendix II – Self-Sufficiency Trigger Levels and Strategic Asset Allocations

The table below illustrates the self-sufficiency trigger levels and their corresponding strategic asset allocations.

Strategic allocations for each funding level trigger	**Current**	**Trigger 1**	**Trigger 2**	**Trigger 3**	**Trigger 4**	**Trigger 5**
Self-Sufficiency basis trigger level	**54.6%**	**62.5%**	**67.5%**	**72.5%**	**77.5%**	**82.5%**
Global equities	50.0%	42.5%	32.0%	25.0%	20.0%	12.0%
Diversified Growth Fund	20.0%	20.0%	18.0%	15.0%	11.0%	7.0%
Property	10.0%	10.0%	10.0%	8.0%	5.0%	5.0%
Real LDI	9.0%	13.0%	18.0%	18.0%	18.0%	18.0%
Nominal LDI	11.0%	14.5%	22.0%	22.0%	22.0%	22.0%
Gilts > 15 years	0.0%	0.0%	0.0%	6.0%	12.0%	20.0%
Index-linked gilts	0.0%	0.0%	0.0%	6.0%	12.0%	16.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expected return in excess of gilts per annum:	2.6%	2.3%	1.8%	1.4%	1.0%	0.6%
Estimated liability hedge ratios / interest rates and inflation	26%	42%	67%	77%	89%	100%