

# **Leggett & Platt UK Pension and Assurance Scheme**

## **Statement of Investment Principles – July 2023**

### **1. Background**

The Trustees of the Leggett & Platt UK Pension and Assurance Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (and subsequent legislation). As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Ltd. The Statement sets out the principles that govern decisions about the investment of the Scheme’s assets. The Trustees, in preparing this Statement, have also consulted Pullmaflex UK Limited (the “sponsoring Company”).

The Trustees’ investment responsibilities are governed by the Scheme’s trust deed and rules dated 19 September 1996: a copy of clause 5, of which this Statement takes full regard, is attached. If necessary, the Trustees will take legal advice regarding the interpretation of these. According to the law, the Trustees have ultimate power and responsibility for the Scheme’s investment arrangements.

The Trustees will review this Statement at least every three years, and without delay if there are significant changes to the legislative framework or if there are relevant, material changes to the Scheme and/or the Company. These include changes in the Scheme’s liabilities and finances and in the attitude to risk of the Trustees or the Company.

### **2. Investment Objectives, Risk and Strategy**

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees (acting on advice as it deems appropriate) and is driven by their investment objectives as set out in Section 2.1 below. The remaining elements of policy are part of the day-to-day management of the assets which is delegated to professional investment managers, described in Section 3.

#### **2.1 Investment Objectives**

To assist it in its strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have considered their objectives and adopted the following:

- To meet the obligations to the beneficiaries of the Scheme.
  - To pay due regard to the interests of the sponsoring Company in the size and incidence of the sponsoring Company’s contribution payments.
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- To provide benefits in full as they fall due and reduce the dependency of the Scheme on excess investment return.

The Trustees are aiming to restore and then maintain a funding level of, or in excess of, 100% on an ongoing basis through the adoption of a prudent funding and investment strategy. The aim will be to take on an investment risk in a controlled way. In addition to this, as the funding position improves, the aim is to gradually reduce the level of investment risk taken such that over the longer term the majority of the investment risk should be removed and the funding position restored.

## **2.2 Investment Risk**

There are various risks to which the Scheme is exposed. The Trustees' policy on risk management regarding investments is as follows:

- The Trustees' pay regard to the primary risk which may arise through a mismatch between the Scheme's assets and 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 Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position.
- 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.

The following risks are also recognised by the Trustees and have been considered:

- The Trustees accept that there is a risk in holding assets which cannot easily be sold should the need arise, although such assets should be fairly insignificant in size.
- The risk of deterioration of the Scheme's ongoing funding level.
- The risk of volatility in the Company contribution rate and the implications of this to the sponsoring Company and the security of member's benefits.

In order to help manage these risks the following controls have been put in place:

- The documents governing the manager appointments include a number of guidelines which, among other things, ensure that only suitable investments are held by the Scheme.
  - Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments.
  - The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).
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Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

## **2.3 Investment Strategy**

A review of the Scheme's investment arrangements was undertaken in 2014 and various amendments were made resulting in the current asset mix. These were subsequently reviewed in 2016 and remained unchanged. The strategy was then reviewed again in 2019 and 2023 and the decision was taken to de-risk by increasing the allocation to matching assets.

The Trustees have decided that the portfolio should be managed under a passive arrangement. With reference to the benchmark asset allocation for the Scheme, the Trustees have determined that the benchmark be a target weighting of 5% equities / 5% diversified growth fund / 90% bonds. As the funding position improves, the aim is to gradually reduce the allocation to growth assets further, and commensurately increase the allocation to bonds in order to reduce the investment risk taken by the Scheme. The Trustees believe that the overall asset allocation benchmark is currently appropriate for controlling the risks identified in 2.2 and also appropriate for the Scheme's current liability profile.

The Trustees monitor the appropriateness of the strategy currently followed. In addition, where appropriate, the Trustees can obtain advice from the investment consultants, Mercer.

In the longer term the Trustees expect to continue to reduce the Scheme's exposure to growth assets in recognition of the fact that the Scheme has a maturing liability profile.

## **2.4 Investment Returns**

The expected return on investments will be in line with the target investment strategy, as set out in 3.1.

## **3. Day to Day Management of the Assets**

### **3.1 Main Assets**

The Trustees invest the main assets of the Scheme in a portfolio of institutional pooled funds managed passively by Legal & General Assurance (Pensions Management) Ltd ("L&G") with the exception of the Diversified Growth Fund which has assets that may be managed on an active basis. The Trustees believe passively managed pooled funds for their bond and equity holdings are the most appropriate option for the Scheme whilst allowing the manager to take active positions to add value within the Diversified Growth Fund.

L&G are appointed to manage the entire portfolio of the Scheme. The underlying Funds in which L&G invest, the benchmark index each Fund aims to replicate and the target allocation for each Fund are as follows:

<b>Investment Vehicle</b>	<b>Index</b>	<b>Central B'mark %</b>	<b>Control Ranges +/- %</b>
Diversified Growth Fund	FTSE Developed World Index – 50% GBP Hedged	5.0%	2.5
FTSE RAFI All World 3000 Equity Index Fund	FTSE RAFI All World 3000	5.0%	2.5
Over 15 Year Gilts Index Fund	FTSE-A Gilt (Over 15 Year)	7.5%	2.5
Investment Grade Corporate Bond – Over 15 year Index Fund	iBoxx £ Non-Gilt 15 Year +	40.0%	2.5
Over 5 Year Index-Linked Gilts Index Fund	FTSE-A Govt. Index-Linked (Over 5 Year)	25.0%	2.5
0 to 5 Year Gilts Index Fund	FTSE Actuaries UK Conventional Gilts up to 5 Years Index	17.5%	2.5

The performance objective for the passive equity and bonds funds is to achieve a return closely in line with its respective benchmark index.

For the diversified growth fund, the performance objective is to perform broadly in line with the benchmark index over the long-term, with around two thirds of the volatility of equities. In the short-term, the performance of the diversified growth fund will deviate from the performance of its benchmark index.

### **3.2 Rebalancing**

Investment and disinvestment of monies is managed by L&G to maintain the Scheme's asset distribution as close as possible to the central benchmark (see 3.1). Should the Scheme's allocation breach the specified ranges, L&G will be required to rebalance back to its central benchmark weighting, or as close as is practicable.

### **3.3 Suitability**

The Trustees have taken advice under Section 36(3) of the Pensions Act 1995 from the Investment Consultant Mercer to ensure that the investments are suitable for the Scheme.

### **3.4 Custodial Arrangements**

The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).

### **3.5 Realisation of Investments**

In general, the Scheme's investment manager has discretion in the timing of realisations of investments and in considerations relating to the liquidity of those

investments. The investment manager has responsibility for generating cash required for benefit outgo.

#### **4. Additional Voluntary Contributions (AVC's)**

The Trustees previously had arrangements for members to invest AVCs with Standard Life Assurance Company and the Prudential Assurance Company Ltd. Due to the Scheme closing on 31 December 2007, these are no longer available to new contributions.

#### **5. Responsible Investment and Corporate Governance**

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 issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising 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 Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis.

Member views are not taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions on the investment managers in relation to particular products or activities.

#### **6. Engagement with the Investment Manager**

The policy in relation to the Trustees' arrangements with their investment managers are set out below.

##### **A. Incentivising the asset manager to align its investment strategy and decisions with the Trustee policies:**

In line with Section 2.3 of the SIP, the investment manager is appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustees look to its investment consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction,

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implementation and business management, in relation to the particular investment fund that the scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective of a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

The Scheme's investment mandates with L&G are reviewed following periods of sustained tracking error from their respective benchmarks. The Trustees will review the appropriateness of using active and passive managed funds (on an asset class basis) on an ad-hoc basis.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

- B. Incentivising the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of a holding company, and to engage with holding companies in order to improve their performance in the medium to long-term:

The Trustees will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement.

The Trustees meet with the investment manager at Trustee meetings as required and may challenge decisions made including voting history and engagement activity.

The Trustees delegate all voting and engagement activities to the investment manager. When required the Trustees will question managers' voting decisions if they deem them out of line with the investment fund's objectives or the objectives / policies of the scheme.

The Investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

- C. Aligning the evaluation of the asset manager's performance and the remuneration for asset management services with the Trustees' policies:

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years, 5 years and since inception. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated tracking error (over the relevant time period).

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If the manager is not meeting their investment objectives or their requirements for the mandate have changed, the Trustees may review the mandate and review the annual management charge levied by the manager. The Trustees may also review the mandate should the manager breach any investment guidelines.

D. Monitoring portfolio turnover costs incurred by the asset manager:

The Trustees receive MiFID II reporting from their investment manager but do not analyse the information.

The Trustees do not currently monitor portfolio turnover costs but may look to do so in the future.

E. The duration of the arrangement with the asset manager:

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

The funds invested in are open-ended funds and therefore there is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the trustees have decided to terminate.

## 7. Fee Structures

The investment manager is paid management fees which are detailed in Appendix B.

The Scheme Actuary and Investment Consultant typically work on a time-cost basis or on pre-agreed budgets.

## 8. General Restrictions

No direct investment in segregated arrangements is permitted in securities issued by the Company, or property owned by or leased to the Company. The agreement with each investment manager may contain more detailed restrictions that have been agreed and can only be changed with the consent of the Trustee.

## 9. Compliance with this Statement

The Trustees will monitor compliance with this Statement regularly on the advice of their consultant Mercer, on a project by project basis, and will record compliance with it at that time. In particular, it will obtain written confirmation from the investment manager that they have complied with this Statement as supplied to them and the Trustees undertake to advise the investment manager promptly and in writing of any material change to this Statement.

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**10. Review of this Statement**

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the sponsoring Company, which they judge to have a bearing on the stated Investment Policy. Mercer, the Scheme's consultants, employed on a project basis, will provide the advice needed to allow the Trustees to review and update this Statement no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be in consultation with the Company.

**Approved by the Trustees on .....**

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**Signed on behalf of the Trustees of the Leggett & Platt UK Pension and Assurance Scheme**

**Appendix A:**

**Extract from Definitive Deed dated 19 September 1996**

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## 5. Investment, Borrowing And Underwriting Powers

### (c) Power to invest

Subject to any regulations made under section 57A of the Pensions Act relating to restrictions on investment of the Fund in employer-related investments and despite anything contained elsewhere in this Clause 5(c), the Trustees shall have power to retain in an account (or place on deposit) with any local authority, bank, building society or insurance company of good repute such monies as they may consider proper and shall have power to invest and apply in any way (whether or not it produces any income or gain) the Fund (and any monies coming into their hands on account of the Scheme) and to transpose and vary any such investments in any form of investment which they could make if they were absolutely and beneficially entitled to them. In particular, the Trustees may invest all (or any part) of the Fund

- (i) in deferred or immediate annuity policies, retirement endowment contracts, or policies and any other contracts or policies and in unit trusts as the Trustees think fit on terms that all sums payable under such contracts, policies or unit trusts shall as and when received by the Trustees be held by them upon trust for the purpose of the Scheme;
- (ii) in any interest in land;
- (iii) by participating in any scheme of deposit administration or managed fund;
- (iv) in any article or commodity which, in the Trustees' opinion, will provide a capital profit, or
- (v) in any pooled or common investment fund, investment in which shall, for so long as the Scheme is being treated as an Exempt Approved Scheme, be subject to the express approval of the Board of Inland Revenue, or
- (vi) in the acquisition, sale, exchange or cancellation of financial futures, options of any kind (including traded options whether call or put) and contracts or rights of any nature relating to assets or property of any kind and whether or not receipt or delivery is to be at some future date

Any policies referred to in this Clause 5 (c) shall be issued by an Approved Underwriter.

## Appendix B:

### Investment Manager Fees – L&G

Funds	Charging Structure
Diversified Growth Fund	For the first £25 million - 0.30% p.a. For the remaining balance – 0.25% p.a.

<b>Funds</b>	<b>Charging Structure</b>
<b>FTSE RAFI AW 3000 Equity Index Fund</b>	For the first £5 million – 0.33% p.a. For the next £10 million – 0.30% p.a.
<b>Over 15Y Gilts Index Fund</b>	For the first £5 million – 0.10% p.a. For the next £5 million – 0.075% p.a.
<b>Investment Grade Corporate Bond &gt;15Y Index Fund</b>	For the first £5 million – 0.15% p.a. For the next £5 million – 0.125% p.a.
<b>Over 5Y Index-Linked Gilts Index Fund</b>	For the first £5 million – 0.10% p.a. For the next £5 million – 0.075% p.a.
<b>0 to 5 Year Gilts Index Fund</b>	For the first £5 million – 0.10% p.a. For the next £5 million – 0.075% p.a.