The CAB International Pension Scheme

IFIS Section

Statement of Investment Principles – November 2022

1. Introduction

CABI Pension Trustee Limited, the Trustee of the CAB International Pension Scheme (the "Scheme"), has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Section's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

The liabilities and assets of the Scheme were split between those attributable to CABI and IFIS section on 31 October 2016. They are now held in separate sub-sections of the Scheme called the CABI Section and IFIS Section, this statement realtes to the IFIS Section (the "Section") only.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with IFIS (the "Sponsor") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Section's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

The Trustee appointed Mercer to act as discretionary investment manager to implement the Trustee's strategy. In this capacity, and subject to agreed restrictions, the majority of the Section's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Section's assets on a day to day basis.

The Trustee also makes an allocation to a number of private market holdings to deliver additional return and increase diversification. These assets are managed by managers external to Mercer but are fully incorporated into the investment strategy advice provided by Mercer.

In considering appropriate investments for the Section, the Trustee have obtained and considered the written advice of Mercer, whom the Trustee believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Sponsor, is necessary to improve the Section's current and ongoing solvency funding positions. The Trustee recognises that equity (and other growth asset) investment will bring increased volatility to the funding level, but in the expectation of improvements in the Section's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee's primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Section can be met when they fall due. In meeting this objective, the Trustee's further objectives are to:

- Achieve, over the long term, a risk effiicient return on the Section's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Section;

- Consider the interests of the Sponsor in relation to the size and volatility of the Sponsor contribution requirements. In particular, to ensure the long terms return of the assets is sufficient to meet the requirements agreed as part of the Sponsor's deficit recovery plan for the Section, whilst also minimising risk to the extent possible; and

- Ensure that sufficient liquid assets are available to meet benefit payments as they fall due.

- Over time, and at points where the Trustee considers appropriate, to reduce the degree of risk in the Section's investment arrangements, thereby helping to protect the Section's improving funding position.

The Trustee recognises this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

The objectives set out above and the risks and other factors referenced in Section 4 of this Statement are those that the Trustee determine to be financially material considerations. Non-financial considerations are discussed in Section 9.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Section's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Section's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

- The Trustee recognises 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 Section's accruing liabilities as well as producing more volatility in the Section's funding position.

- To control the risk outlined above, the Trustee, having taken advice, set the split between the Section's Growth and Matching Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will, from time-to-time, be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.

- Whilst moving towards the target funding level, the Trustee recognises that even if the Section's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Section's assets and the Section's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the Trustee's portfolio.

- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. In general, passive management is preferred by the Trustee as is deployed to:

  - Diversify risk;

  - Invest in markets deemed efficient where the scope for active management to add value is limited; and

  - Maintain the management fees at an appropriate level.

- To help diversify manager-specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Section assets are managed by appropriate underlying asset managers.

- By investing in the Mercer Funds, the Trustee do not make investments in securities that are not traded on regulated markets. However, should the Section's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Section's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Section are predominantly invested on regulated markets.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee have carefully considered the Section's liquidity requirements and time horizon when setting the investment strategy, in particular with respect to the private market holdings. Liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Section is subject to currency risk because some of the investment vehicles in which the Section invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Trustee recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 8 sets out how these risks are managed.

- Responsibility for the safe custody of the Section's assets is delegated to MGIM who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as custodian of the assets invested in their vehicles. State Street are also employed as custodian of the Section's private market assets. MGIM is responsible for keeping the suitability of the Custodian under ongoing review.

Should there be a material change in the Section's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered.

5. Investment Strategy

The Trustee, with advice from the Section's investment consultant and Scheme Actuary, reviews the Section's investment strategy on an annual basis, with a more in-depth review being carried out trienally in-line with the Scheme's Actuarial Valuation. These reviews consider the Trustee's investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented. In addition, the strategy also gives consideration to the return expectations agreed with the Sponsor as part of the Section's deficit recovery plan.

Given the Section's investment objectives, and the agreements made with the Sponsor as part of the deficit recovery plan, the Trustee has adopted an investment strategy target allocation to higher risk, return seeking, "growth" assets (such as equities and growth fixed income assets) that is sufficient to deliver a long term return of 2.9% p.a. above the return on UK Government Bonds of an equivalent duration to the Section's liabilities. This strategy is designed to bring about funding level improvements which, combined with the deifict recovery plan, is expected to close the funding level gap over the length of the recovery plan.

The Trustee also looks to control risk through investment in a bond-based, liability hedging "matching" portfolio. This matching portfolio aims to hedge the vast majority of the Section's funding level exposure to interest rate and inflation risk.

The Trustee has implemented asset allocation ranges to ensure the actual allocations to these portfolios, and the underlying funds within them, do not drift significantly from the target allocations. Details of these ranges can be found in the Section's Statement of Investment Arrangements. MGIE will seek to rebalance any allocations as soon as reasonably practicable after completing monthly reviews of the Section's asset allocation and in accordance with Mercer's best execution policy.

6. Realisation of Investments

The Trustee on behalf of the Section hold shares in the Mercer Funds. The investment managers to the Mercer Funds, (including the underlying third party asset managers appointed by MGIE), within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Section's assets in line with the Section's strategic allocation. Mercer is responsible for raising cash flows to meet the Section's requirements.

The Trustee has delegated the responsibility for managing capital calls and distributions from the Section's private market investments to Mercer. Mercer will have discretion over where to source funds from the Section's assets managed by Mercer to meet capital calls and where to reinvest any distributions received, in line with the Trustee's asset allocation policy.

8. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change

The Trustee believes 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee have appointed Mercer to act as discretionary investment manager in respect of the majority of the Section's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and other asset classed where relvant and data is avaliable and/or climate transition analysis for diversified growth portfolios.

The Trustee have also considered the Sponsors responsible investment policy and note they are ahead of the curve with their core activities being carbon neutral. Mercer's commitment is aligned to the Paris Climate Change Agreement and is to target net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland. An allocation to Sustainable Equities is also made within the Section's growth portfolio.

Mercer's Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy targets and metrics.

A detailed standalone sustainability monitoring report is produced for the Sustainable Global Equity passive fund on a annual basis and is reviewed by the Trustee. The approach considers revenues that positively and negatively contribute to environmental and social outcomes (also mapped to the SDGs).

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

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

Investment Restrictions

The Trustee have not set any investment restrictions in relation to particular Mercer Funds.

9. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 4, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Section, in particular, long-term liabilities.

As Mercer manages the majority of the Section's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 4. The Trustee have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review. These expectations and monitoring is also applied with respect to the Section's private market managers.

Should Mercer, or the managers of the private market assets, fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets, to seek to renegotiate commercial terms or to terminate the managers appointment.

To evaluate performance, the Trustee receives**,** and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Section's funding level and the funds in which the Trustee are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer, the managers of the private market assets, and their respective funds.

With respect to the Mercer Funds, Mercer does note make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

The asset managers are incentivised as they will be aware that their continued appointment by may be based, at least in part, on their success in meeting expectations.

The Trustee are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 4. Mercer's, and MGIE's, fees are based on a percentage of the value of the Section's assets under management which covers the design and annual review of the inestment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Section. Mercer's, MGIE's and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Section's annualised, MiFID II compliant Personalised Cost & Charges statement. The Section's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The fees associated with the private market assets are charged based on net commitment over the investment period and, thereafter, by reference to the Net Asset Value of the relevant fund.

The Trustee do not have an explicit targeted portfolio turnover range but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Other that in respect of private markets investments, performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

10. Review of this Statement

The Trustee 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 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 scheme investments.

Agreed for and on behalf of CABI Pension Trustee Limited as Trustee to the CAB International Pension Scheme – IFIS Section

Signed:

Name:

Date:

Signed:

Name:

Date: