

Statement of Investment Principles

Coats UK Pension Scheme

October 2024

Introduction

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 (the "Act"), for the Coats UK Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustee of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee is responsible for the investment of the Scheme's assets and arranges administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives advice from the relevant advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

Declaration

The Trustee confirms that this SIP reflects the principles governing how decisions about investments are made for the Scheme. The Trustee acknowledges that it is responsible, with guidance from the advisers, for ensuring the assets of the Scheme are invested in accordance with these principles.

Signed *Chris Martin*

Date 12 November 2024

For and on behalf of the Trustee of the Coats UK Pension Scheme

Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Asset Managers as appropriate.

The Trustee no longer delegates investment-related matters to a separate Investment Funding Committee ("IFC"). All previous delegated authorities and responsibilities of the IFC have been assumed by the Trustee.

The Company is consulted on investment strategy decisions and a representative of the Company regularly attends parts of the Trustee meetings when required.

Investment Objectives and Strategy

- The Scheme holds investments as permitted by its Trust Deed and Rules.
- The principal objective of the Trustee is to invest the assets of the Scheme to meet its liabilities when they fall due.
- The Scheme has entered into two separate bulk annuity insurance contracts with Pension Insurance Corporation ("PIC") and Aviva PLC ("Aviva").
- The bulk annuity contracts are expected to match the accrued liabilities and are intended to provide an income to the Scheme matching the pension payments due to the Scheme's members.
- The bulk annuity contract with PIC contains a deferred premium, allowing time for the Scheme to realise the value of the illiquid investments (c.£90m across three funds, as at 30 September 2024). The intention is therefore, to use the proceeds of the investments to pay the deferred premium.
- Any residual cash has been retained across a liquidity fund and the Trustee bank account to meet potential balancing premiums due in the future and ongoing expenses.
- As the DC section is closed to future contributions, the Trustee's main investment objective is to ensure the investment option(s) remain suitable for the relevant members.

Monitoring

Asset Manager Policy

The Trustee delegates the day-to-day management of the assets to multiple Asset Managers. The following considerations apply only to the Scheme's invested assets excluding the bulk annuity contracts held with Aviva and PIC.

Asset Managers are carefully selected by the Trustee to manage each of the underlying mandates, following guidance and written advice from its Investment Consultant. Details of the investment objectives and mandates for each Asset Manager are set out in the Investment Implementation Policy document.

Managers are paid a fee for a defined set of services based on the size of assets managed on behalf of the Scheme (as well as additional performance fees, where these have been previously agreed with a manager in repayment for performance above a specified benchmark). The Trustee reviews the fees periodically to confirm they are in line with market practices.

The Asset Managers should provide a written performance report each quarter to the Trustee through the Investment Consultant. The Investment Consultant will produce a manager report for the Trustee

based on this information. The Trustee will meet the managers on an ad hoc basis to review the managers' actions and investment performance. The Investment Consultant will assist the Trustee in fulfilling their responsibility for monitoring the Asset Managers. The Trustee's policy towards monitoring non-financial performance is set out in the Social, Environmental and Ethical Issues Policy.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers periodically where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations, with assistance from the Investment Consultant.

SIP

The Trustee aims to review this SIP annually, or, without delay, following any changes to the investment strategy, and modify it with consultation from their advisers and the Sponsor. There will be no obligation to change this SIP, any Asset Manager or its Investment Consultant as part of such a review.

Risks

The Trustee recognises there are numerous risks involved in investing the assets of the Scheme. These include (but are not limited to) deficit risk, manager risk, liquidity risk, currency risk, interest rate and inflation risk, political risk, sponsor risk and counterparty risk. The Trustee monitors and manages these risks through measures specific to each risk.

Following the purchase of the bulk annuity insurance contracts, the Trustee recognises that the main risks retained in the Scheme are as follows:

- The risk that the Scheme's illiquid assets fall in value during the deferred premium period. The Trustee closely monitors these mandates through regular reporting from the Investment Consultant.
- Given the maturity of the Scheme's illiquid investments, the Trustee believes that financial considerations, including those arising from environmental (including but not limited to climate change), social and governance factors are not likely to be material to the investment strategy. The Trustee does not consider non-financial matters (e.g. the views of members) in the selection, retention and realisation of investments.
- The default risk of the chosen insurer(s), PIC and Aviva. As part of the insurer due diligence that was carried out prior to the bulk annuity contract purchase, the Scheme's buy-in advisers also provided advice to the Trustee on the financial strength of PIC and Aviva at the time of the respective transactions and the Trustee proceeded in both instances based on that advice.
- The Trustee recognises there are various risks the insurer faces that could lead to an increased risk of default, such as; the life expectancy of their policy holders increasing, the risk of material adverse market movements, poor liquidity management, the impact of subsequent insurance book transfers into PIC or Aviva, and the risk that the insurer does not generate sufficient cashflows net of dividends to run its businesses effectively.
 - The Trustee relies on the regulatory framework that each insurer operates under to mitigate the risks they face, e.g. the regulatory capital requirements, as well as each insurers' risk management policies and controls which are expected to comply with these regulations.
 - PIC and Aviva are authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA, which monitors their financial strength and solvency as part of its mandate.
 - In addition, in the event of default by the insurer, it is expected that attempts to transfer the responsibility to an alternative insurer will be made by the PRA. If such attempts fail,

the Scheme is expected to be eligible for compensation from the Financial Services Compensation Scheme ("FSCS"), up to the full value of the benefits insured, based on the current FSCS rules.

- The risk of Sponsor failure. Given the Scheme will no longer have any deficit repair contributions due from the Sponsor, and following the purchase of the bulk annuity contracts covering all benefits, the reliance on the Sponsor has meaningfully reduced. Any residual risk that remains relates to some small outstanding balancing payments due to the insurers. Although the Scheme is expected to have sufficient assets to cover these payments in most circumstances, it is possible that the Scheme may still require a small amount of support from the Sponsor to meet some of the balancing payments. In such scenarios, the Trustee also has other options at its disposal to reduce any balancing payments. The reliance on the Sponsor and the Scheme's risk exposure under a Sponsor failure scenario is therefore expected to be small.

In respect of the Defined Contribution section, the Trustee recognises there is the risk that past contributions and ongoing investment returns fail to provide an adequate level of benefits for the members of this section. The Trustee acknowledges the difficulties in directly addressing some of these risks as the DC section is closed to future contributions and members are only invested in with profits policies.

The Trustee maintains a risk register as a way of managing existing risks as well as new and emerging risks. This is reviewed at least annually to identify new risks and determine whether the existing risks the Scheme is exposed to are within a reasonable level of tolerance.

Other Issues

Social, Environmental and Governance Issues

The Trustee has considered the extent to which financially material considerations such as ESG issues and climate change risks may impact the selection, retention and realisation of the Scheme's investments over the likely time horizon that they will be held by the Scheme.

Whilst the Trustee considers that financially material considerations such as ESG issues and climate change factors are likely to have financial impacts on pension investments, in the context of the Scheme's investment in bulk annuity contracts, the Trustee expects that these considerations and factors will be included in the insurers' investment processes, supported by current and future regulations and by improving industry standards.

The Trustee is required, under Regulation 2(3)(d) of The Occupational Pension Schemes (Investment) Regulations 2005, to include details of their manager alignment policies in this SIP or explain why they have not done so. The Trustee has not included details of its manager alignment policies in this SIP given the Scheme's investments only in bulk annuity contracts, the nature of the illiquid assets and the limited cash holdings. Further, the Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term. However, due to the nature of the Scheme's investments, the Scheme's ability to ensure good stewardship is practiced by engaging with its managers is limited.

The Trustee's policy is generally to delegate responsibility for the stewardship activities (including voting rights and engagement activities) attaching to all investments to its investment managers, where appropriate. However, the Scheme no longer holds any investments with public equity voting rights. Therefore, no public equity votes are exercised on the Trustees' behalf and thus the Scheme has no significant votes which need to be commented on.

The regulatory environment regarding stewardship is also expected to continue developing and the Scheme's insurers will need to comply with current and future relevant regulations regarding stewardship. The Trustee considers this an appropriate policy given the Scheme's assets and in the context of the Scheme's bulk annuity contracts.

The Trustee does not take account of any non-financial factors (such as members' ethical views), and these are not currently taken into account in the selection, retention and realisation of the Scheme's investments.

Additional Voluntary Contributions (AVCs)

Under the Scheme's Trust Deed and Rules, members are unable to invest Additional Voluntary Contributions ('AVCs'), however, they are able to move existing AVCs.

The Trustee has selected a range of investment funds for the AVCs to be invested in, which are reviewed regularly having regard to their performance, the objectives and the views of the advisers.

Corah Defined Contribution Section

The Scheme also has a legacy Defined Contribution (DC) Section for some members of Corah (a company acquired by the Sponsor group in the past). The members of the DC section within the Corah benefits structure are all invested in with profits policies provided by Prudential. Members have access to the With-Profits Cash Accumulation Fund managed by Prudential. The fund is typically invested in a broad conventional mix of assets (equity, fixed interest and property).

The Trustee regularly reviews the fund with regard to its performance, fees and objectives.