Statement of Investment Principles

Sappi UK Pension Scheme

September 2020

1. INTRODUCTION

This document constitutes the Statement of Investment Principles (the 'SIP') required under Section 35 of the Pensions Act 1995 (the 'Act') for the Sappi UK Pension Scheme (the `Scheme'). It describes the investment policy, guidelines and procedures being pursued by the Trustee of the Scheme which the Trustee believes are in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK. This SIP has also been prepared to reflect the requirements of The Occupational Pension Schemes (Investment) Regulations 2005.

In accordance with the Act, the Trustee confirms that, before preparing the SIP, it has obtained and considered written advice from its appointed Investment Adviser, PricewaterhouseCoopers LLP (“PwC”) and has consulted with Sappi (UK) Sales Office Limited (the statutory sponsor of the Scheme) and the wider sponsor group (including Sappi Europe SA and the Scheme’s guarantor, Sappi Papier Holding) (“the Company”). The Scheme Actuary has also been consulted to ensure that the potential returns available from the investment strategy remain consistent with the assumptions the Trustee has adopted for determination of the Scheme's Statutory Funding Objective and the associated Recovery Plan to repair the funding shortfall.

The Trustee believes PwC to be qualified by its ability and practical experience of financial matters and to have appropriate knowledge and experience of the investment arrangements that the Scheme requires.

The Trustee is responsible for the investment of the Scheme's assets and arranging the administration of the Scheme. Where the Trustee is required to make an investment decision, the Trustee first receives and considers advice from PwC, to ensure that it has fully considered the implications of the decision(s) being taken.

In accordance with the Financial Services and Markets Act 2000 (`FSMA'), the Trustee is responsible for setting a general investment policy, but has delegated the day-to-day investment of the Scheme's assets to the Investment Managers.

The Investment Managers listed in Appendix C are authorised and regulated by the Financial Conduct Authority (`FCA') and provide the expertise necessary to manage the investments of the Scheme.

Declaration

The Trustee confirms that this SIP reflects the investment strategy it has implemented for the Scheme. The Trustee acknowledges that it is its responsibility, with guidance from its Investment Adviser, to ensure the assets of the Scheme are invested in accordance with these principles.

2. SCHEME GOVERNANCE

The Trustee is responsible for the governance and investment of the Scheme's assets. In addition, the Joint Governance Group ("JGG") will assist with the Governance of the Scheme.

The JGG's remit and terms of reference are set out in a Journey Plan which covers:

- The long term funding objective;
- The timing to reach the objective; and
- The approach to achieving the objective.

The remit of the JGG covers:

- Understanding and quantifying the main investment risks;
- Producing a plan for implementing agreed ideas;
- Establishing monitoring, reporting and intervention as the strategy is realised;
- Establishing future working arrangements for the identification, assessment and implementation of new opportunities;
- Documenting the vision and strategy; and
- Establishing a governance control framework that protects members' benefits.

The JGG will meet quarterly with monthly calls between meetings. Membership of the JGG will comprise:

- The Trustee;
- A dedicated representation from the Company;
- The Trustee's appointed investment adviser;
- The Company's appointed investment adviser.

The Trustee considers the governance structure set out in this SIP to be appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, whilst delegating the day-to-day aspects of investment management to the Investment Managers as and where appropriate.

The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

3. INVESTMENT OBJECTIVES

The overall objective of the Scheme is to meet the benefit payments promised to members as they fall due.

The Trustee and Company have agreed a number of key long-term objectives which are set out in more detail in the Journey Plan but include:

1. Ensuring that all benefits due to members under the rules of the Scheme can be paid and that there is clear communication on the level of security provided by the Company;
2. Managing risk by achieving self-sufficiency with the aim of reaching 100% funding on an agreed self-sufficiency (gilts flat) basis within 7 years of signing off the April 2017 valuation;
3. Eliminating risk by reaching full buy-out, with the target of being fully funded on a buy-out basis by 2031;
4. Ensuring the investment strategy remains appropriate to achieve the agreed funding objectives within the agreed timescales, with a level of risk that is acceptable to both the Trustee and Company;
5. Maintaining accurate Scheme records and good governance.

The Trustee aims to meet the long term objectives via the following measures:

- Ensuring the strategic allocation for the Scheme takes into account the liability profile and the Statutory Funding Objective;
- Monitoring the Investment Managers to ensure that they comply with the investment guidelines set for them and that there is a reasonable expectation that they can meet their performance objectives going forward; and
- Working with the JGG to consider opportunities to either reduce risk or enhance the return through the implementation of medium term tactical asset allocation decisions.

4. INVESTMENT STRATEGY

4.1 General Policies

The Trustee's approach to investment strategy is to allocate the Scheme's assets into a combination of return seeking assets and liability matching assets:

- Liability Matching Assets - These involve the assets such as fixed interest gilts, index-linked gilts, corporate bonds, interest rate swaps and inflation swaps, together forming the Scheme's liability driven investment ("LDI") strategy which aims to align the movement of the Scheme's assets with the Scheme's liabilities to reduce volatility in the Scheme's funding level.
- Return seeking assets - These investments exist in the portfolio to generate excess return relative to the liabilities. Assets include, but are not limited to, equities, property, absolute return funds, a variety of credit investments including emerging market debt, high yield bonds and credit default swaps, and other alternative investments.

The Trustee's investment objective determines the asset allocation between and within each component.

4.2 Asset Allocation

The Trustee recognises the importance of asset allocation to the overall investment returns achieved. However, given the approach to managing the investments set out in the previous section, the Trustee also recognises that the asset allocation will change as a result of a range of factors, which include changes in market conditions which could result in a decision to alter the allocation to different asset types.

The Scheme's assets are allocated to a Liability Driven Investment (LDI) portfolio (30% of assets) and a Growth portfolio (70%).

The LDI portfolio is targeting a hedge ratio of 95% of the Scheme's interest rate and inflation risk, as defined on a self-sufficiency basis, designed by Legal & General Investment Management (using cashflows provided by the Scheme Actuary). The Growth portfolio invests across a range of asset classes, with the objective of achieving a return in excess of cash + 3.0% pa.

4.3 Return Objective

A return on investments is required which, over the long term, is expected to be consistent with the Trustee's goal of meeting the Statutory Funding Objective.

Based on best estimate assumptions as at 31 March 2017, it is expected that the Scheme's investment strategy will deliver a return in the region of cash +2.7% pa over the long term.

5. STRATEGY IMPLEMENTATION

The investments of the investment strategy (implemented in 2018) are managed across a range of external investment managers. The investment managers are Legal & General Investment Management ("Legal & General"), Western Asset Management ("Western"), Invesco Perpetual ("Invesco"), and Partners Group ("Partners"). More details of each investment manager's mandate are set out in Appendix B.

The Legal & General, Invesco and Western investments will be held via the Legal & General Investment Only platform.

The investment strategy involves a combination of passive and active investment management at both the portfolio and asset class level:

- Tactical asset allocation at the portfolio level: the JGG combining the Trustee, representatives from the sponsor and their respective advisors may decide to make certain tactical active allocations from time to time, depending on its mid-term views for the outlook of an asset class;
- The Trustee uses a combination of active and passive management to invest, investing in actively managed funds in asset classes such as multi-asset credit and absolute return funds where it perceives it is beneficial to gain exposure through the skill of a specialist investment manager.

The external managers are all remunerated through ad valorem fees except Partners Group who charge a combination of ad valorem and performance-related fees.

5.1 Mandates and Performance Targets

The Trustee has received advice on the appropriateness of the investment managers' targets, benchmarks and risk tolerances from the Investment Adviser and believes them to be suitable to meet the Scheme's investment objectives.

5.2 Diversification

The overall investment risk to the Scheme is diversified across a range of different investment types, which are expected to provide excess return over time, commensurate with risk.

The Scheme invests in, among other assets, bonds, equities, property, absolute return and alternative assets. It also maintains a watching brief over the potential contribution of other forms of assets.

The Trustee also monitors, analyses and responds to other risks such as regulatory risk, administrative risk, concentration, liquidity, counterparty risk, credit risk, political risk and country risk.

The investment portfolio has been constructed to be consistent with the investment return requirements of the Scheme's Statutory Funding Objective.

The range of and any limitation to the proportion of the Scheme's assets held in any asset class will be agreed between the Investment Adviser and the Trustee. These ranges and limitations may be revised from time to time where considered appropriate as circumstances change (details of the asset allocation and restrictions as at the date of this SIP are set out at Appendix B). The Trustee also has regard to the investment powers of the Trustee as defined in the Trust Deed.

5.3 Suitability

The Trustee has taken advice from the Scheme's Investment Adviser to ensure that the assets held by the Scheme and the proposed strategy is suitable given its liability profile, the Trustee's objectives, regulatory guidance and specifications in the Trust Deed.

5.4 De-Risking Framework

The Trustee has agreed a Journey Plan for the purpose of de-risking the investment strategy as the Scheme's funding level changes. The Trustee, with support from its Investment Advisor, will monitor the funding level and will advise if any strategy changes should be implemented.

6. MONITORING

6.1 Investment Management

Trustee:

The Trustee will monitor the performance of the Investment Managers against the agreed performance objectives.

The Trustee, in conjunction with advice from PwC, will regularly review the activities of the Investment Managers to ensure they continue to perform in a competent manner and have the appropriate knowledge and experience to manage the assets of the Scheme.

Investment Adviser:

The Trustee has appointed PwC to provide periodic monitoring reporting on the performance of the Scheme's assets, any developments with any of the underlying investment managers which could have an adverse impact on future returns and other ongoing strategy and implementation advice as is required.

Investment Managers:

Legal & General's online platform will help provide the Trustee with regular valuation and performance reporting on the Scheme's assets.

The Investment Managers will provide commentary on their performance and, within reason, any additional information requested by the Trustee and its Investment Adviser to assist with the governance and oversight of the investments.*Relationship with Investment Managers*

The Trustee has investment management agreements in place with its Investment Managers, which set out the contractual relationship between the parties and govern key aspects, such as: how the Trustee remunerate the Investment Managers; how the Trustee reviews and monitors the performance of the Investment Managers; and the inception of the arrangements with the Investment Managers.

Incentivising Investment Managers

The Trustee will monitor the Investment Manager's performance against the investment strategies and objectives of the Scheme. Where an Investment Manager consistently fails to meet benchmark performances and / or shows a lack of alignment with the Trustee's policies, the Trustee may consider the termination of their mandate.

The fees paid to the Investment Manager, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions agreed with the Trustee.

Assessing medium-to-long term performance of investments

The Trustee monitors how the Investment Managers make decisions based on the medium-to-long term financial and non-financial performance of the investee companies. Where the Trustee has concerns, they will raise this with the Investment Managers.

Monitoring performance and remuneration

The Trustee monitors the performance of their Investment Managers on a quarterly basis.

When assessing the performance of an Investment Manager, the Trustee considers (amongst other factors):

- The Investment Manager's financial performance against stated benchmarks and the rest of the market, both in terms of individual performance and their wider role in helping the Scheme meet its long term objectives.
- How well the Investment Manager is aligned with the SIP and the Trustee's investment policies.
- The service provided by the Investment Manager, including the quality of reporting.

Where an Investment Manager has performed poorly against these metrics, the Trustee may perform a formal review of the manager, including potentially replacing the Investment Manager if necessary.

Monitoring portfolio turnover and costs

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the Investment Managers.

The Trustee monitors the costs incurred by the Investment Managers in the buying, selling, lending or borrowing of investments. The Investment Managers incorporate portfolio turnover and resulting transaction costs as appropriate in their reports on the Scheme's investment mandates.

The Trustee does not believe in setting a portfolio turnover target – being the frequency with which assets are expected to be bought and sold – because they believe that the investment managers have sufficient expertise to make judgement on the appropriate portfolio turnover.

Duration of arrangements with Investment Managers

The duration of the Trustee's arrangements with its Investment Managers vary depending on the investment strategy and asset allocation of the relevant portfolio.

Details of the duration of each of agreements with the current Investment Managers can be found in Appendix B.

6.2 Statement of Investment Principles (SIP)

The Trustee will review this SIP on a regular basis or following any changes to the investment strategy, and modify it after consultation with the Investment Adviser and the Principal Employer. There will be no obligation to change this SIP or any adviser relationship as part of such a regular review. Following any changes to the investment strategy this SIP will require updating to reflect the revised investment strategy.

6.3 Trustee

The Trustee maintains a record of all decisions taken, together with the rationale in each case.

7. RISKS

In order to meet the long-term funding objective to pay the Scheme benefits as they fall due whilst managing the level of contributions, the Trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than would be achieved simply by matching liabilities and assets whilst maintaining a prudent approach to meeting the Scheme's liabilities.

The Trustee recognises that there are a number of risks involved with the current investment strategy.

The Trustee will monitor and review the Investment Managers' performance on a regular basis. The responsibilities of the Trustee, Investment Adviser and Scheme Actuary are set out in Appendix A.

The Trustee recognises that the following are some of the risks involved in the investment of assets of the Scheme:

Cashflow risk

The risk of a shortfall of liquid assets relative to the immediate liabilities. The Trustee and its adviser will manage the Scheme's cash flows, taking into account the timing of future payments, and may borrow over the short-term in order to minimise the probability that this occurs.

Financial mismatching risk

The risk of a significant difference in the sensitivity of asset and liability values to changes in financial factors, in particular inflation and interest rates. The Trustee will control these risks by monitoring the key characteristics and setting appropriate tolerances. The Trustee will also review how these risks might change should pension schemes in assessment transfer into the Scheme.

Demographic risk

Demographic factors include the uncertainty surrounding mortality projections such as future improvements in mortality experience. The Trustee recognises that there is currently no readily-tradable instrument to hedge this type of risk and that this risk may not be fully mitigated. The Trustee will measure liabilities using mortality assumptions recommended by the Scheme Actuary.

Manager risk

The failure by the Investment Managers to achieve the rate of investment return assumed by the Trustee. This issue has been considered by the Trustee on the initial appointment of each of the Investment Managers and thereafter will be considered as part of the investment review procedures the Trustee has put in place.

Concentration risk

The risk that the performance of any single asset class or single investment that constituted a significant proportion of the assets would disproportionately influence the Trustee's ability to meet the objectives. The Trustee has decided on a diversified strategy with no excessive allocation to any one asset class to mitigate this risk.

Credit risk

The possibility of default of a counterparty in meeting its obligations. The Trustee has considered this risk when determining the appropriate allocation to credit and how the allocation should be managed by the appointed investment manager.

Systemic risk

The possibility of an interlinked failure by a number of companies or organisations that sponsor pension schemes in particular sectors or industries. This also includes consideration of the overlap of risk between the investment held and the exposure to scheme deficits, as the failure of investments may also coincide with increasing scheme liabilities to the Scheme. The Trustee will seek to mitigate this risk by limiting its exposure to investments with high credit risk. In addition, the asset allocation is set so as to ensure a low level of correlation between the Scheme's assets relative to its liabilities and that of a typical UK defined benefit pension scheme.

Transition risk

The risk of incurring inappropriate costs in relation to the transition of assets of pension schemes in assessment to the Scheme. The Trustee will mitigate this risk by using its Investment Advisor to help it implement transitions of assets effectively and efficiently.

Custody risk

The Scheme’s assets are invested in pooled funds and, as such, has limited control or oversight of the custody arrangements for the underlying investments. The Trustee expects the investment managers to monitor the custody arrangements for the pooled funds it invests in. From time to time, the Trustee will seek confirmation from the investment managers that they are undertaking an appropriate level of monitoring of the custodial arrangements.

Derivative risk

Where derivatives are used by the Scheme’s investment managers, the Scheme will have additional risk associated with the counterparty to the derivative contract(s). The Trustee will look to the investment managers to confirm that appropriate measures are being taken to manage the associated risks.

The Trustee will keep these risks under regular review.

8. OTHER MATTERS

8.1 Statutory Funding Objective

The Trustee will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirements to meet the Statutory Funding Objective. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustee will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

8.2 Corporate Governance

The Scheme's investments are achieved via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes, social, ethical or environmental factors, is delegated to the investment manager of each pooled investment fund. As such, the Trustee does not have a formal corporate governance policy. However, the extent to which these factors are taken into account in the selection, retention and realisation of investments is considered by the Trustee and its Investment Adviser as part of the process of selecting investment managers and specific funds in which to invest.

8.3 Social, Environmental and Ethical Issues

The Trustee is seeking to maximise overall investment returns subject to an acceptable level of risk. Social, environmental or ethical considerations are not directly taken into account by the Trustee in the selection, retention and realisation of investments or the appointed Investment Managers. The Investment Managers are expected to take account of such factors if there will be a positive effect on the expected financial return on an investment.

8.4 Realisation of Assets

The assets are held in pooled funds, most of which can be realised easily if the Trustee so requires. There are some liquidity restrictions for some of the Scheme’s investments such as the allocation to the Partners Fund. The liquidity restrictions were taken into account as part of the review of the investment strategy and the Trustee and its Investment Adviser were comfortable with the allocation. The allocation to illiquid investments will be reviewed at least every three years at the time of the actuarial valuation.

Where it is necessary to make payments out from the Scheme, in the first instance payments will be taken from any residual cash holding within the portfolio. Where there is no or insufficient residual cash, cash will be raised by the sale of the most overweight liquid growth fund excluding Equity. This is because Equity holding is now part of the Equity Protection CSUF mandate, it would not be practical to in/disinvest from the Equity holding for the ongoing cashflow management purposes. The equity holding is excluded from cashflow management actions until the end of the Equity Protection CSUF programme in June 2021.

The policy for meeting cash realisations will be reviewed on a regular basis by the Trustee.

8.5 Rebalancing

The JGG will review the asset allocation regularly and decide whether the asset mix needs to be rebalanced.

8.6 Custody

Details of the custodians used by the Investment Managers who provide services to the Scheme are set out in the agreement between that party and the Trustee.

8.7 Use of Derivatives

Derivatives or other financial instruments may directly be used in the Scheme's matching (LDI) portfolio to hedge the Scheme's liability risks (principally interest rate, inflation and longevity risks) or other risks (e.g. equity or currency risks). Derivatives may also be utilised within the Scheme's return seeking funds such as the Synthetic Leveraged Credit Fund to capture the credit opportunities presented in the market, and indirectly through its absolute return mandate with Invesco and the Multi Asset Credit mandate with Western.

8.8 Borrowing

The Trustee does not intend to borrow or allow borrowing on behalf of the Scheme.

8.9 Conflicts of Interest

The Trustee will ensure that any conflicts of interest are managed at all times in the best interests of the Scheme. The Trustee employs an independent investment adviser to provide impartial advice on investment strategy and implementation.

8.10 Voting

The Trustee has delegated responsibility for voting in a pragmatic and consistent manner to the investment managers.

9. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

The Trustee takes into account financially material considerations, including those arising from Environmental, Social and Governance ('ESG') factors, through the selection and ongoing monitoring of investment managers employed to manage Scheme assets.

The Trustee has delegated overall stewardship of the Scheme's underlying investments to the investment managers, including the exercise of the rights (including voting rights) attaching to the Scheme's investments and engagement with investee companies on their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Investment managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis. Each Investment Manager has their own conflicts of interest policy, which sets out their internal procedure on such matters.

These arrangements are periodically reviewed and the ESG activities of the managers are considered where the Trustee sees fit. The Trustee, with help from their investment adviser, will seek to engage with managers relating to their ESG policies and approach.

Where the Trustee do not believe a managers' approach to ESG matters is consistent with their goals to deliver an appropriate level of long-term returns for the Scheme and the managers have failed to respond to efforts to engage them, the Trustee may seek to switch the manager(s) with a suitable replacement(s).

Currently the Trustee does not take into account non-financial matters such as member views. However, the Trustee may take such matters into account where they believe it would be prudent to do so. Where the Trustee does take into account non-financial matters, they will inform the Scheme's employer of their decision to do so, the nature of the non-financial matters taken into account and provide any other information which they feel is appropriate in respect of such a decision.

Appendix A – Responsibilities of each Party involved in the Scheme

Investment Advisor

The Investment Advisor will be responsible for, amongst other things:

- Monitoring the performance of the Investment Managers relative to their respective benchmarks and targets as well as the asset mix versus the agreed asset allocation;
- Reporting to the Trustee on the performance of the Investment Managers and the Scheme as a whole, highlighting any developments within each organization that could impact future performance;
- Assisting the Trustee with the annual review and update of this Statement;
- Periodically reviewing the overall investment strategy to ensure that it remains appropriate to meet the Scheme's long term funding objective;
- Keeping the Trustee notified of any developments within investment markets or legislation that may be of interest/relevance to the Scheme.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels;
- Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuation;
- Advising the Trustee and the Investment Advisor of any changes to contribution levels and funding level;
- Proper accounting, preparation of the annual report, administration of the annual audit and other financial reporting as required.

Appendix B – Investment Strategy Asset Allocation

The current strategic asset allocation of the Scheme is set out below.

The investment objective for the portfolio can be found at section 3 of this Statement and can be summarised as to achieve a return on investments consistent with the Statutory Funding Objective, taking into account the liability profile and with due regard to risk.

The benchmark for the Scheme is given in the table below:

Asset Class	Investment Manager	Inception date	Fund	Target Allocation (%)	Benchmark
Equities	Legal & General Investment Management	October 2018	World Equity Index Fund World Emerging Markets Equity Index Fund	23.0	FTSE World Index FTSE Emerging Index
Property* **	SEI	May 2013	UK Property Fund	6.0	IPD Property Index
Alternatives	Partners Group	September 2018	The Partners Fund	18.5	See below**
	Invesco	March 2018	Global Target Return Fund	-*	LIBOR
Credit	Western Asset Management	March 2018	Multi Asset Credit Fund	22.5	See below**
	Legal & General Investment Management	May 2020	Synthetic Leveraged Credit Fund	-	Markit 10 Year CDX & iTraxx Index - GBP Hedged
LDI	Legal & General Investment Management	February 2018	Matching Plus and Single Stock funds	30.0	Legal & General internal comparators
Total				**100.0**	

** It was agreed that Invesco's Global Targeted Return Fund would fulfil a "swing" role, providing the flexibility to alter the asset allocation if the decision is taken to underweight equities and credit.*

***The Partners Fund and Legg Mason Western Multi Asset Credit Fund do not have formal benchmarks. The Partners Fund have provided an average objective return for the fund of 8 – 12% p.a. net of fees over 5-year market cycle. Legg Mason Western Asset have provided a Morningstar proxy peer group for comparison.*

**** The Scheme made a full redemption from the SEI UK Property Fund on 31 March 2020. A new strategic asset allocation is being devised in due course.*

Appendix C – Details of Scheme Advisors

Scheme Actuary:

Deloitte

Investment Adviser:

PricewaterhouseCoopers LLP ("PwC")

Investment Managers:

- Legal & General Investment Management (LGIM)
- Partners Group
- Invesco
- Western Asset Management (Western)