UPM-Kymmene UK Pension Scheme

STATEMENT OF INVESTMENT PRINCIPLES

30 September 2020

UPM-Kymmene UK Pension Scheme

Statement of Investment Principles

This document is the Statement of Investment Principles (the 'Statement') for UPM-Kymmene UK Pension Scheme (the 'Scheme').

Background information on this Statement

This Statement has been drawn up by the Trustees of the Scheme (the 'Trustees'). It sets out the principles governing investment decisions made by the Trustees in relation to the Scheme.

This Statement is a legal requirement of the Pensions Acts 1995 and 2004, the Occupational Pension Schemes (Investment) Regulations 2005 as amended and subsequent legislation (collectively referred to as the 'Pensions Acts').

In preparing this document the Trustees have taken into account the requirements of the Pensions Acts. In addition, this Statement is designed to fulfil the spirit of the pensions industry Code of Best Practice, first published in 2001. The principles set out in this Statement are also consistent with the Trustees' Statement of Funding Principles.

Contents of this Statement

The Statement covers the following principles:

Investment Arrangements document

The following further pieces of information are covered in a separate Investment Arrangements document, which does not legally comprise part of the Statement:

1. The types of investments and financial instruments that are used and the investment restrictions that apply
2. The current advisers and investment mandates

1. Governance arrangements

Overview of the arrangements

The Trustees have ultimate responsibility for the management of the investment arrangements of the Scheme and its assets. In discharging these responsibilities, the Trustees have established clear Investment Objectives setting out what it is aiming to achieve. The Investment Objectives relate to the overall solvency position of the Scheme and are explained in more detail in the next section of this Statement. The solvency position is an assessment of the amount of assets which have been put aside to meet the liabilities of the Scheme.

The Trustees have considered a number of different governance models that could be adopted in order to best achieve its Investment Objectives and has decided to delegate the day-to-day management of the solvency position to a specialist firm. This specialist firm is known as a Fiduciary Manager.

Under this governance model the Trustees focus on setting the high-level Investment Objectives and on deciding what types of investments are acceptable for the Scheme. It then delegates day-to-day responsibility for all investment decisions to the Fiduciary Manager. The Trustees consider that the Fiduciary Manager is best placed to invest the assets on their behalf. The Trustees have agreed a performance target and set of guidelines for the Fiduciary Manager.

Other parties involved

There are a number of parties involved in the Scheme's investment arrangements, namely:

- Trustee
- Scheme Actuary
- Investment managers
- Providers of direct investments

Responsibility and knowledge

The Trustees have ultimate responsibility for the management of the Scheme and its assets. The Trustees have agreed the overall investment objective, permissible investment strategies and guidelines for the assets. The Trustees have delegated the management of the Schemes' assets to the Fiduciary Manager. The Fiduciary Manager works within the framework set by the Trustees.

The Trustees confirm that all parties to whom it delegates responsibility have the appropriate knowledge and experience required to take on this role. The Trustees expect each party to carry out the duties so delegated with a view to giving effect to the principles in this Statement, so far as is reasonably practical.

2. Investment objectives

The Trustees' primary objective is to provide sufficient assets to meet the members' entitlements under the Trust Deed and Rules as they fall due. The Trustees have set an objective for the Scheme's investments in order to target this primary objective, which is called the 'Investment Objective'.

The Investment Objective is a quantifiable statement comprising a return objective and a risk statement.

- The **return objective** states the level of return on the assets relative to an economic measure of the liabilities that the Trustees are targeting
- The **risk statement** defines the level of confidence the Trustees have in the funding ratio (i.e. the ratio of assets to liabilities) being above a certain level over a certain defined time period

Return Objective The Trustees aim to achieve a return on the Scheme's assets of 2.4% p.a., net of fees, in excess of the return on the gilt-based liability benchmark over rolling five-year periods.

Risk Statement The Trustees expect that the active risk within the Scheme's portfolio will generally be around 8% per annum, with the Fiduciary Manager required to formally notify the Trustees if the active risk reaches 12% per annum. However, the Trustees recognise that this will fluctuate over time as the composition of the portfolio changes and the levels of risk in markets change.

The liability benchmark is defined as the liabilities scaled by the funding ratio.

The liabilities are calculated as the net present value of the Scheme's projected pension cashflows, using rates implied by the gilt markets.

Where projected pension cashflows are unavailable, the liability benchmark is defined as the return of the liability hedging assets held by the Scheme.

Process for setting the Investment Objectives

The Return Objective and Risk Statement has been set by the Trustees on the basis of an assessment of the Scheme's current position and consideration of future uncertain events. This involved looking at the Trustees' overall objectives for the Scheme, the Statement of Funding Principles and the Scheme's financial position (including the strength of the sponsoring employer's covenant). As part of this exercise a number of assumptions were made in relation to the level and timing of future contributions.

3. Risk management policies

The Trustees recognise that a number of risks are involved in the investment of the Scheme's assets. It is the Trustees' policy to monitor regularly the risks affecting these investments, and to manage them where possible so as to avoid the accumulation of excessive risk exposure. In managing these risks, the Trustees have regard to the Investment Objectives. The Trustees will work with the Fiduciary Manager to promptly identify any material risks, to consider how best they should be managed, to implement a solution for managing these risks and then to decide how they should be monitored in the future. The Trustees will review its risk management policy on a regular basis.

Key risk affecting the Scheme

The key risk to the Scheme is that the value of assets is inadequate relative to the value of the liabilities. Ultimately, this could lead to there being insufficient assets to secure all benefits. This is called solvency risk.

The Trustees acknowledge that there are a number of individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner. The Fiduciary Manager helps manage these risks and also assists by providing risk analysis using quantitative modelling techniques.

Other risk factors

There are a number of other risks affecting the Scheme. Further information on the main risk factors are described in Appendix A, along with a summary of the Trustees' policy on how each risk should be managed and measured.

4. General investment policies

The Trustees have set a number of investment policies in relation to their investments, in conjunction with the Fiduciary Manager. These cover:

- Types of investments considered
- Balance between investment types
- Expected return on investments
- Realisation of investments
- Use of derivatives
- Responsible investment & corporate governance
- Arrangements with the Fiduciary Manager
- Arrangements with all investment managers
- Ensuring compliance with the Pensions Acts
- Fee basis for service providers

Types of investments considered

The Trustees seek to achieve the Scheme's Investment Objective by investing in a suitably diversified mix of assets including (but not limited to) the following investment strategies and investment types:

- Equity
- Credit
- Property
- Multi-strategy
- Macro-orientated
- Sub-funds
- Illiquid investments, such as Infrastructure
- Cash

- High quality bonds
- Derivatives

Discretion has been provided to the Fiduciary Manager to manage the investments within Sub-funds.

In deciding the suitability of each investment strategy or type, the Trustees have considered the role of each in targeting the overall investment objective, taking into account the associated risks and potential rewards, and will continue to do so on a regular basis. This assessment has been made by the Trustees following training and advice from the Fiduciary Manager. It is the Trustees' policy to review the suitability of different investment strategies/types from time to time.

The Trustees monitor from time-to-time the Employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

Balance between investment types

It is the Trustees' policy to set appropriate guidelines for the Fiduciary Manager which control the balance between the investment types and reflects its investment objectives.

In setting these guidelines the Trustees have considered the characteristics of each of the investment types and has received training and advice from the Fiduciary Manager. The Trustees have also considered the need for flexibility and the overall control of risk. The Fiduciary Manager has been given discretion to manage the balance between the investment types of the Scheme within the guidelines set by the Trustees. The Fiduciary Manager considers the risk and return characteristics of each of the investment types when allocating the assets between them. The Trustees will review the balance between the investment types and guidelines from time to time.

The current guidelines are set out in the Investment Arrangements document.

Expected return on investments

The Trustees' policy in relation to expected return on investments is to invest in the assets which it believes will, over an appropriate time horizon and having a regard to the need to manage risk appropriately, achieve the Return Objective. When setting the investment guidelines, the Trustees have considered the expected return, and associated risk for each investment type.

The Trustees monitor the return on the different investment types on a regular basis using reporting provided by the Fiduciary Manager. In the case of severe underperformance, the Trustees expect the Fiduciary Manager to review the investments in light of the prevailing economic conditions.

Realisation of investments

As part of the ongoing management of the Scheme, it is necessary for the Trustees to realise investments from time to time. It is the Trustees' policy to ensure that the Fiduciary Manager considers a number of core factors when considering the realisation of investments. These include:

- The potential future returns and risks of the investment

- The liquidity of the investment
- The ongoing appropriateness of the investment

The balance between the benefit payments and future contributions into the Scheme was considered when reviewing the need to realise investments. These considerations will be kept under review.

The Trustees have delegated decisions relating to the realisation of investments to the Fiduciary Manager within the agreed guidelines.

All realisations made by the Fiduciary Manager will be done in accordance with the terms and conditions contained in the agreement between the Fiduciary Manager and the Trustees. It is the Trustees' policy to review the approach taken by the Fiduciary Manager to realise investments from time to time.

Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

Use of derivatives

As part of the overall consideration of investments the Trustees have agreed to use derivatives such as forwards, futures, swaps and options for risk management and for the efficient implementation of the investment strategy. The Trustees have delegated responsibility for the design and implementation of derivatives strategies to the Fiduciary Manager. The design and execution of derivative strategies will be subject to the guidelines contained in the agreement between the Fiduciary Manager and the Trustees. The Fiduciary Manager will use derivatives within the portfolio when it deems appropriate to do so in order to support the achievement of the Trustees' Investment Objective within the agreed guidelines.

For the avoidance of doubt, leverage limits are included within the Fiduciary Manager's contractual terms and any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

Responsible investment & corporate governance

Financially material considerations over the appropriate time horizon of the investments

The Trustees have a long-term time horizon for their portfolio and therefore acknowledges the importance of being a responsible investor. The Trustees consider responsible investment to be the integration of environmental, social and governance factors into investment decisions in respect of their portfolio where financial risk and / or return is or could be materially affected ("Responsible Investment").

The Trustees have delegated responsibility to take account of environmental, social and governance factors (ESG) in investment decision making to the Fiduciary Manager. This includes investments made directly by the Fiduciary Manager as well as those in pooled funds managed by third parties. In the latter case, where new investments are made with external investment managers, the Trustees expect the Fiduciary Manager to take into account ESG (including but not limited to climate change), consistent with its approach to Responsible Investment. The Fiduciary Manager is responsible for monitoring how external investment managers take into account ESG within their investment process. Monitoring by the Trustees of the Fiduciary Manager is undertaken on a regular basis.

The Trustees do not take the views of individual members and beneficiaries, including (but not limited to) their views in relation to governance, social and environmental impact, into account when making investment decisions. The Scheme's assets are largely held in pooled arrangements therefore, it is not possible to reflect individual member views. However, the Trustees believe that by being a responsible investor, they are managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

The exercise of the rights (including voting rights) attaching to the investments

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustees believe that by being a responsible investor, they are managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme. Beyond these requirements of responsible investing, the Trustees do not explicitly target any non-financial matters in their investment decision making.

Undertaking engagement activities in respect of the investments

Where relevant, the Trustees prefer its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with relevant persons (an issuer of debt or equity, an investment manager, another stakeholder or holder of debt or equity) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

In practice, the Trustees would not typically expect to engage directly, but rather via their investment managers or Fiduciary Manager. The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact..

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustees to review all of the above aspects in sufficient detail each year. The Trustees will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Arrangements with the Fiduciary Manager

The Trustees delegate various activities in relation to the Scheme's investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustees' policies as set out below.

The Trustees keep the Fiduciary Manager's performance under review, focusing on longer-term outcomes. The Trustees receive regular reports from the Fiduciary Manager, including on portfolio turnover costs incurred by the underlying investment managers. The Trustees' review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

Although the Trustees' arrangement with the Fiduciary Manager is expected by the Trustees to be a long-term partnership, the Fiduciary Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustees' policies.

The Fiduciary Managers is paid a mix of a fixed and ad valorem fee in line with normal market practice, for a given scope of services which includes consideration of long-term factors, responsible investment and engagement. The Trustees review the costs incurred in managing the Scheme's assets periodically.

Arrangements with all investment managers

The Trustees believe that an understanding of, and engagement with, Investment Managers' arrangements (including the Fiduciary Manager) is required to ensure they are aligned with Trustees' policy, including the Responsible Investment policy. In accordance with latest regulation, the Trustees' policy covers the following areas:

Incentivising investment managers

The responsibility for monitoring investment managers' performance against the investment strategies and objectives of the Scheme has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustees' policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustees on any areas of potential divergence between the Trustees' policy and investment manager practice on an ongoing basis, including their own.

The fees paid to the investment managers and the possibility of their mandates being terminated ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions agreed with the Trustees.

Assessing medium to long-term performance of investments

Investment managers are 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. The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. Investment managers are appointed on an ongoing basis which helps to incentivise them to focus on medium to long term performance.

The Fiduciary Manager meets the investment managers from time to time to discuss their investment performance, strategy, their performance as responsible investors and to discuss any issues of concern. Where needed the Fiduciary Manager will challenge managers on their policies and instances where managers may not be aligned with best practices within the industry. This action is taken try to ensure continuing improvement over the medium to long term in the performance of assets from both a financial and non-financial perspective.

Monitoring performance and remuneration

The Trustees receive performance reports from their Fiduciary Manager on a quarterly basis, which present performance information over three months, one year, and since inception. The Trustees review absolute and relative performance against suitable indices or targets, on a net of fees basis. Whilst the Trustees focus is on long-term performance, it also takes shorter-term performance into account.

If an underlying manager is not meeting performance objectives, or their investment objectives have changed, the Fiduciary Manager will review the suitability of the manager, and change managers where required. As managers are remunerated based on the level of assets managed and in some cases with an additional performance related fee, there is a direct interest for investment managers to perform in line or ahead of targets in order to retain mandates and continue to receive compensation on an ongoing basis.

Monitoring portfolio turnover and costs

The Trustees do not currently define target portfolio turnover ranges for investment managers. However, the Fiduciary Manager will engage with an investment manager if portfolio turnover is higher or lower than expected. The Trustees consider portfolio turnover costs indirectly through consideration of overall costs incurred throughout the year (including all manager fees and expenses), provided within data the Trustees receive annually under the MIFID II framework.

Duration of arrangements with investment managers

The majority of investment vehicles are open-ended, with no set end date for the arrangements. An investment manager's appointment may be terminated due to a change in the overall investment strategy or changes in expectations of their ability to deliver against the agreed mandate or in line with the investment policies of the Trustees.

The Trustees have made investments in three closed-ended funds, with the arrangements due to terminate in 2022, 24 and 27 respectively. However, these may be extended for a further 1-3 years if deemed optimal by the respective investment managers.

Compliance with the Pensions Acts

The Pensions Acts distinguish between investments which are purchased directly by the Trustees ('direct investments') and investments where management is delegated to an investment manager under a written contract. An example of the former would be the purchase of an insurance policy by the Trustees (e.g. additional voluntary contributions policies), where there is no investment management agreement.

When deciding whether to make any new direct investments, the Trustees will obtain written advice from their relevant advisers. They will also consider whether future decisions about those investments should be delegated to an investment manager.

This written advice will cover the issues set out in the Pensions Acts and the principles contained in this Statement.

It is the Trustees' policy to regularly monitor and review the practices of the Fiduciary Manager (and, if applicable, any other investment manager appointed by the Trustees under the Pensions Acts) to ensure that the Trustees' powers of investment are being exercised in accordance with the Pensions Acts, and with a view to giving effect to the principles in this Statement as far as practicable. If the Trustees become aware that any manager is not carrying out its duties in accordance with the Pensions Acts or this Statement, it will promptly review this situation with the Fiduciary Manager.

Fee basis for service providers

The Trustees use a range of fee arrangements which may include performance related fees and fixed fees. The Trustees delegate the consideration of suitable fee bases for underlying mandates to the Fiduciary Manager. The Fiduciary Manager considers a range of factors, including the level of the fees offered and the alignment of interests that the fees give with the Trustees' objectives.

The Fiduciary Manager is remunerated on a fixed fee basis, as agreed with the Trustees from time to time. For the avoidance of doubt, the Trustees remain responsible for agreeing fee arrangements for any other service providers that fall outside of the Fiduciary Manager's remit.

Additional Voluntary Contributions (AVCs)

The Trustees have considered AVC options that are suitable for the Scheme's members. The trustees will monitor the performance of the AVC providers periodically. The objective is to secure a return consistent with that achieved by typical AVC contracts of the kind used for AVC investment.

Members are recommended to seek independent financial advice when considering their AVC arrangements.

5. Agreeing and reviewing this Statement

Advice received

The Trustees have obtained advice on the content of this statement from its Fiduciary Manager. It will also take advice on any future major changes to this Statement.

The Trustees are satisfied that the Fiduciary Manager has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustees have consulted the Principal Employer on the content of this Statement and will consult with them on future changes.

Compliance and review

The Trustees will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and also following any significant change in investment policy.

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustees

The Trustees have ultimate responsibility for decision-making on investment matters. The Trustees' investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of advisers and other third parties
- Setting appropriate investment objectives, following advice from the Fiduciary Manager and Scheme Actuary
- Agreeing the range of investment types to be used to achieve the investment objectives, taking account of the need to manage risks
- Agreeing the policies for governing investment manager arrangements
- Monitoring the appropriateness of the Fiduciary Manager
- Monitoring the Scheme's compliance with the pensions industry's Code of Best Practice
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this Statement, if deemed appropriate, in consultation with the Principal Employer and with written advice from the Fiduciary Manager
- Monitoring compliance with this Statement on an ongoing basis
- Identifying Trustees training needs
- Giving due consideration to Integrated Risk management and the steps necessary to implement it

Fiduciary Manager

The Fiduciary Manager's role includes providing investment advice to the Trustees and investment management of the Defined Benefit assets. A summary of the duties that fall into each category are shown below:

Fiduciary Manager – investment advice:

- Advice on setting the Investment Objective
- Risk modelling (including asset-liability analysis)
- Asset class, investment manager and risk reporting
- Advice and monitoring of any direct investments
- Trustees investment training and education
- Advice relating to investment governance and compliance
- Advice on this Statement
- Advice relating to potential conflicts of interest, including their own

Fiduciary Manager – investment management:

- Designing and implementing investment solutions appropriate to the investment objective for the Scheme, which has been set by the Trustees
- Appointing and removing investment managers
- Investment manager mandate definition and negotiation
- Designing and executing derivative strategies for and on behalf of the Trustees
- Portfolio monitoring, including checking consistency of investment manager arrangements with Trustees' policies
- Appointing transition managers for and on behalf of the Trustees
- Advice relating to potential conflicts of interest, including their own
- Ongoing management of the assets delegated to them within the terms of their agreement with the Trustees

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Fiduciary Manager on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustees' Investment Objectives and investment strategy
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities
- Advice relating to potential conflicts of interest, including their own

Investment managers

The investment managers' responsibilities include:

- Managing the assets delegated to them within the terms of their agreement
- Providing regular reports on their performance, including any agreed benchmark and performance targets
- Providing reports at least annually on portfolio turnover and costs, including their remuneration
- Instructing their custodian on corporate governance and voting issues, including issues relating to Socially Responsible Investment
- Where relevant, providing information at least annually on how they are incentivised to consider both financial and non-financial risks over the medium to long term, including but not limited to detailing their engagement activities with investee companies

- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

Providers of direct investments

Investments held directly by the Scheme are held in the form of units in pooled funds, insurance policies or other contractual arrangements. The responsibilities of the providers are set out in the legal documentation for each investment. There is then usually an agreement between the provider and an organisation which manages the assets underlying the direct investment on a day-to-day basis. This agreement sets out the responsibilities of this organisation to the provider.

APPENDIX B – Further information on the additional risk factors

The table below provides some further detail on the major individual risk factors affecting the solvency risk of the Scheme. This includes a summary of what each of the risks are as well as the Trustees' policy on how each risk is measured and managed.

For all of these risks, the Trustees receive updates and advice from the Fiduciary Manager.

Risk factor	What is the risk?	How is this measured?	How is this managed?
Interest rate risk	The interest rate used to value the Scheme's liabilities falls. This would result in an increase in the value of the liabilities.	The Trustees monitors the mismatch between the exposure of the assets and the exposure of the liabilities to interest rates as part of the regular monitoring process.	The Trustees delegate management of this risk to the Fiduciary Manager. The Fiduciary Manager manages this risk by investing in certain assets, and using hedging techniques for and on behalf of the Trustees, which helps to mitigate this risk.
Inflation risk	Inflation is higher than expected, causing the value of members' pensions to be greater than expected. This would lead to the value of the liabilities being greater than expected.	The Trustees regularly monitors the portfolio to assess the mismatch between the exposure of the assets and the exposure of the liabilities to inflation.	The Trustees delegate management of this risk to the Fiduciary Manager. The Fiduciary Manager manages this risk by investing in certain assets, and uses hedging techniques for and on behalf of the Trustees, which helps to mitigate this risk.
Demographic risk	The value of liabilities increases due to members living longer than expected.	The Trustees receive regular updates on changes in demographics from the Scheme Actuary.	The Trustees acknowledge that readily-tradable instruments to hedge this type of risk do not currently exist and therefore this risk cannot be fully mitigated. The Trustees make an allowance for this

			risk in setting the actuarial assumptions.
Economic risk	That economic and financial conditions cause the return on investments to be worse than expected. In this situation it may be hard to find investments that will achieve the investment return objective.	The Trustees regularly monitor the portfolio in the context of the changing economic climate.	The Fiduciary Manager invests the assets across a range of different types of investments to help reduce the impact of this risk.
Sponsor risk	The Principal Employer does not/cannot make sufficient contributions to support the payment of the Scheme benefits. This may lead to a greater reliance on investment returns to pay for the benefits.	The Trustees consider the ability and willingness of the sponsor to support the continuation of the Scheme and make good any current / future deficit. The Trustees also periodically review a number of key factors, including sponsor covenant, size of deficit etc relative to a number of metrics.	Sponsor risk has been taken into account when agreeing a suitable investment objective. If there is a significant change in the sponsor covenant the Trustees will review its investment objective.
Concentration risk	The failure to spread investment risk. This may be caused by investing in too narrow a range of investments, or investments that are affected by markets in a similar way.	The Trustees monitors the portfolio regularly to identify where assets are concentrated.	The Fiduciary Manager ensures assets are spread across a range of investments. The Trustees have set investment guidelines for the Fiduciary Manager to ensure assets are not concentrated.
Liquidity risk	There is a shortfall in liquid assets relative to the Scheme's immediate cashflow requirements.	The Trustees monitor the level of cashflow required on a regular basis.	The Trustees have set guidelines to limit the total value of assets invested in illiquid assets.

Investment manager risk	The investment managers fail to beat their investment benchmark.	The Fiduciary Manager monitors the actual deviation of returns relative to the manager's benchmark for and on behalf of the Trustees.	The Fiduciary Manager reviews the investment managers as part of their assessment process.
Fiduciary Manager risk	The Fiduciary Manager fails to meet its objectives.	The Trustees monitor the performance of the portfolio against the investment objective of the Trustees.	The Trustees ensures that the Fiduciary Manager is suitably qualified and experienced to perform their role.
Operational risk	The risk of loss as a result of fraud, poor advice, acts of negligence or lack of suitable processes.	The Fiduciary Manager undertakes due diligence on investment managers and the custodian for and on behalf of the Trustees.	The Trustees discuss the Fiduciary Manager's process as part of their overall review process. The Trustees ensure that all advisers and third party service providers are suitably qualified and experienced.
Political risk	The risk of loss resulting from political intervention (e.g. changes in policy) or through political instability.	The Fiduciary Manager monitors the concentration of investments by countries/regions for and on behalf of the Trustees.	The Trustees have set guidelines within which the Fiduciary Manager can invest. This ensures the Scheme's assets are spread across a range of different types of investments.
ESG (including climate change) risk	The potential for non-financial factors to adversely impact the value of the assets or overall funding position	The Fiduciary Manager measures ESG risk based on the materiality of potential impact on each investment and distinguishes between high and low focus positions.	The Fiduciary Manager monitors the portfolio regularly to ensure ESG risks are being appropriately considered in ongoing investment decisions.

Agreed on behalf of the Trustees of the UPM-Kymmene UK Pension Scheme:

Signed: [REDACTED]

Name: KEVIN WESBROOM

Title: CHAIR of TRUSTEES

Date: 23.9.20