

Fujichem Sonneborn Limited Employee Benefits Plan

Statement of Investment Principles

1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by the Trustee of the Fujichem Sonneborn Limited Employee Benefits Plan (the "Plan"). This statement sets down the principles governing decisions about investments for the Plan to meet the requirements of:
- the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2 In preparing this statement the Trustee has consulted Fujichem Sonneborn Ltd (the "Employer") and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.
- 1.5 The investment powers of the Trustee are set out in the Trust Deed and Rules dated 29 September 2000. This statement is consistent with those powers. In particular, generally speaking the Trustee is not restricted in the kind of investment they can make.

2 Choosing Investments

- 2.1 The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2 The day-to-day management of the Plan's assets is delegated to one or more fund managers. The Plan's fund managers are detailed in the Statement of Investment Strategy. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3 The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will also consult the Employer before amending the investment strategy.

3 Investment Objectives

- 3.1 The Trustee's main investment objectives are:
- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
 - to achieve a long term positive real return;

- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Employer the cost of past benefits which the Plan provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Plan can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including with profits policies, private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 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.

4.3 The Trustee monitors the employer-related investment content of their portfolio from time-to-time as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio.

5 The balance between different kinds of investments

5.1 The Plan invests in assets that are expected to achieve the Plan's objectives. The Plan has a strategic asset allocation which has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification. The allocation between different asset classes is contained within the Statement of Investment Strategy.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Statement of Investment Strategy.

5.3 From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflows requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

6 Risks

- 6.1 The Trustee has considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities, and considered ways of managing/monitoring these risks:
- 6.2 **Risk versus the liabilities** The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Plan's Statement of Funding Principles.
- 6.3 **Asset Allocation risk** The asset allocation is detailed in the Plan's Statement of Investment Strategy and is monitored on a regular basis by the Trustee.
- 6.4 **Fund manager risk** The Trustee monitors each of the Plan's fund managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
- 6.5 **Concentration risk** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
- 6.6 **Loss of investment** The risk of loss of investment by each fund manager and custodian is assessed by the Trustee. Each fund manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.
- 6.7 **Liquidity risk** The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cash flow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- 6.8 **Covenant risk** The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
- 6.9 **Solvency and mismatching** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Plan's funding basis.
- 6.10 **Currency risk** The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
- 6.11 **Governance risk** Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
- 6.12 **ESG/Climate Risk** The Trustee has considered long-term financial risks to the Plan and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments in order to avoid unexpected losses.

7 Expected return on investments

- 7.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.
- 7.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4 Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustee meets the Plan's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8 Realisation of investments

- 8.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2 Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is 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 Plan accounts.

9 Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

- 9.1. The Trustee has set policies in relation to these matters. These policies are set out in the Appendix to this statement.

10. Policy on arrangements with assets managers

Incentivising alignment with the Trustee's investment policies

- 10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Plan's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

- 10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.
- 10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

Incentivising assessments based on medium to long term, financial and non-financial considerations

- 10.5. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.
- 10.6. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.7. The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

- 10.8. The Trustee monitors the performance of their investment managers over medium to long-term periods that are consistent with the Trustee's investment aims, beliefs and constraints.
- 10.9. The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied.
- 10.10. The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 10.11. The Trustee asks the Plan's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

- 10.12. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.13. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledge that for some asset classes, such as LDI, a higher turnover of

contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

- 10.14. For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.
- 10.15. The suitability of the Plan's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

- 11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Plan auditor upon request.

Appendix 1 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

Policy on financially material considerations

The Trustee believes that Environmental, Social and Governance (“ESG”) factors are financially material – that is, they have the potential to impact the value of the Plan’s investments over the length of time during which the benefits provided by the Plan for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of Investment Principles. The Trustee therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Plan’s investments. The Trustee will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG in making their investment decisions.

The Trustee received training from its investment advisor on ESG factors at a Trustee meeting in December 2018. The Trustee considered the research findings presented at this training, as well as a summary of the position of the investment managers currently used in the portfolio presented by its investment advisor at a Trustee meeting in June 2019, to form their views on the financial materiality of ESG factors as they apply to the Plan’s current investments.

The Trustee has elected to invest the Plan’s assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee and the managers of the underlying funds take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments as follows:

Selection of investments: Assess the investment managers’ ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustee will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;
- As part of ongoing monitoring of the Plan’s investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Plan’s investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Plan’s investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustee’s views for each asset class in which the Plan invests is outlined below.

Passive equities

The Trustee believes that ESG issues have the potential to be financially material to the risk-adjusted returns achieved by the Plan's passive equities.

The Trustee accepts that the investment managers must invest in accordance with the specified index and therefore may not be able to select, retain or realise investments based on ESG related risks and opportunities. The Trustee therefore requires that the investment managers take into account ESG considerations by engaging companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

The Plan's current passive equity manager, Legal & General ("L&G"), is a large and long-term investor, and engages with companies (including those in the indices that the Plan invests in) on matters including wider ESG factors and climate change on a regular basis.

The Trustee has elected to invest the Plan's passive equity portfolio in LGIM's Future World Global Equity Index Fund, which tracks the performance of the Solactive L&G ESG Global Markets Index.

Liability driven investment and cash funds

The Trustee does not believe there is significant scope for ESG issues to improve risk-adjusted returns within the Plan's LDI and cash holdings.

Actively managed funds

The Trustee believes that ESG factors have the potential to be financially material to the risk-adjusted returns achieved by the Plan's diversified growth fund and high yield credit fund.

These funds are actively managed and aim to achieve their outperformance targets with low volatility and the managers are expected to therefore consider all financially material considerations, including but not limited to ESG factors, when managing the funds.

The Trustee is satisfied that the managers have suitable processes to consider ESG factors and take them into account, where relevant, in the selection, retention and realisation of the underlying investments within the funds. When reviewing and selecting managers, if all other considerations are equal, then the investment manager with the better ESG credentials will be selected to manage the Plan's assets. However, an investment manager's excellence in this area will not necessarily take precedence over other factors, including (but not limited to) historical performance or fees.

Policy for taking into account non-financial matters

The Trustee does not take into account the Plan members' and beneficiaries' views on ethical considerations, social and environmental impacts, or present and future quality of life of members and beneficiaries in the selection, retention and realisation of investments.

However, the Trustee does expect its' investment managers to select investments that would have a beneficial impact on each of the above factors, all other considerations being equal.

Policy on the exercising of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. A summary of each investment manager's engagement and key votes will be summarised in their annual Implementation Statement contained within the Plan's Accounts. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

The Plan's managers are all signatories to the UK Stewardship Code or equivalent.

Policy on Stewardship and engagement activities

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.

The Plan's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee, investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.