

**AKZO NOBEL (CPS) PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020
PENSION SCHEME REFERENCE NUMBER: 10161703**

AKZO NOBEL (CPS) PENSION SCHEME

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YEAR ENDED 31 MARCH 2020

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AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2020

Principal Employer	Akzo Nobel UK Ltd The AkzoNobel Building Wexham Road Slough SL2 5DS
Trustee	Akzo Nobel (CPS) Pension Trustee Ltd
Trustee Directors	Ms J Shannon (pensioner member) +^ Mr J Bradley (pensioner member) *^ Mr G Marsh (pensioner member) +^ Ms J Mellor (active member) Mr I Walton (pensioner member) (appointed 17 October 2019)* Mr J Kavanagh (appointed 12 December 2019) The Law Debenture Pension Trust Corporation p.l.c *^+ *Investment committee member ^Valuation committee member +Administration committee member
Secretary to the Trustee	Mr M Trueblood The AkzoNobel Building Wexham Road Slough SL2 5DS
Administrator	Towers Watson Limited PO Box 545 Redhill Surrey RH1 1YX
Actuary	Mr G Oxtoby F.I.A Towers Watson Limited Watson House London Road Reigate Surrey RH2 9PQ
Independent auditor	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4OA
Legal advisers	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Investment consultants	Towers Watson Limited

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2020

Investment managers	BlackRock Investment Advisors (UK) Limited CB Richard Ellis Global Investors LLC Legal & General Investment Management Limited Nephila Capital Limited Bluebay Asset Management LLP (until 15 April 2019) Macquarie Group Limited Genesis Investment Management LLP Equitix Investment Management Limited Alcentra Limited Alpha Real Capital LLP Greencoat Capital LLP Dalmore Capital Limited State Street Bank and Trust Company Goldman Sachs International
Investment custodians	The Northern Trust Company
AVC providers	Utmost Life and Pensions Limited (from 31 December 2019) (formerly The Equitable Life Assurance Society) The Standard Life Assurance Company The Prudential Assurance Company Limited Scottish Friendly Assurance Aviva Life and Pensions UK Limited (formerly Friends Life Pensions Limited) Phoenix Alba Life
Longevity insurer	ReAssure Limited
Bankers	Barclays Bank Plc

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2020

Introduction

The Trustee Directors ("the Trustee") of the Akzo Nobel (CPS) Pension Scheme ("the Scheme") present their annual report together with the actuarial certification of the schedule of contributions and audited financial statements for the year ended 31 March 2020.

Management of the Scheme

The Scheme is governed by the Trustee who is required to act in accordance with the Trust Deed and the Scheme Rules dated 5 April 1997 as amended by subsequent Deeds of Amendment, within the framework of pension and trust law.

The Scheme is a Defined Benefit pension scheme, registered for tax purposes under the terms of the Finance Act 2004. To the Trustee's knowledge there is no reason why such approval should be prejudiced or withdrawn. The Scheme was contracted out of the State Second Pension under a certificate issued by the Contributions Agency up to 5 April 2016.

Trustee

The Trustee is responsible for the administration and investment policy of the Scheme. The Trustee meets regularly and during this Scheme year met on four occasions. In addition, the investment committee met on a further five occasions and the administration committee on seven occasions.

The Scheme rules contain provisions for the appointment and removal of Trustee Directors. The Trustee Board at full strength comprises the Chairman, one Trustee Directors nominated by the contributing members of the Scheme, three Trustee Directors nominated from the pensioner and deferred pensioner groups, four appointed by the Employer and one independent Trustee Director (The Law Debenture Pension Trust Corporation p.l.c.). The names of the current Trustee Directors are included at the front of this report.

Employer-appointed Trustee Directors are selected by the Employer, while member nominated Trustee Directors are selected by a panel of existing Trustee Directors from candidates nominated by members and generally serve for a 5-year term. The Employer has the power to appoint and remove the corporate trustee.

The member-nominated Trustee Directors at the effective date of this report were Geoff Marsh, Jon Bradley, Ian Walton and Jim Kavanagh.

The employer-appointed Trustee Directors were Julie Shannon and Jill Mellor.

Scheme advisers

There are written agreements in place or under review between the Trustee and each of the Scheme advisers listed on pages 1 to 2 of these financial statements and also with the Principal Employer.

Data Protection

The administrators and investment managers have registered under the Data Protection Act to hold on computer information necessary for the management of the Pension Scheme.

Changes to the Scheme

There were no significant changes to the Scheme Rules during the year.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Statement of Trustee's responsibilities

Trustee's responsibilities in respect of the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 are the responsibility of the Trustee. Pension Scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme period which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and;
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it is aware of any intention of the Company to serve notice on the Trustee to terminate the Scheme, or has no realistic alternative but to do so; and
- making available each Scheme year, commonly in the form of a Trustee's report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.
- using the going concern basis of accounting unless they either intend to wind up scheme, or have no realistic alternative but to do so.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Membership

The changes in membership during the year are as follows:

	Active members	Deferred members	Pensioners, spouses and dependants	Total
At 1 April 2019	361	6,767	17,857	24,985
Adjustments to prior period	(8)	83	19	94
Retirements	(15)	(311)	327	1
Members leaving with deferred benefits	(14)	–	–	(14)
Deaths	(1)	(23)	(907)	(931)
New spouses and dependants pensions	–	15	228	243
Commutations and entitlements ceasing	–	(121)	(82)	(203)
Transfers out	(1)	(76)	–	(77)
At 31 March 2020	<u>322</u>	<u>6,334</u>	<u>17,442</u>	<u>24,098</u>

In addition to the above there are 288 (2019: 306) contingent deferred pensioners and 3,629 (2019: 4,186) deferred pensioners due only a lump sum payment from the Scheme on retirement.

At the year end there were 4,242 (2019: 4,394) spouse and dependant beneficiaries that are included within pensioners, spouses and dependants above.

The adjustment to the opening membership has arisen due to the late notification of member movements and data cleansing.

Pension increases

Pensions on the greater (post-1999) part of members' benefits in excess of the Guaranteed Minimum Pension for the main CPS benefit section were increased in the last 3 years as follows:

6 April 2018	3.0%
6 April 2019	2.4%
6 April 2020	1.7%

For most of the annual increases made, the CPS Section uses a reference period of the twelve months ending in the September prior to the increase date, and the increase is based on CPI. The minimum and the maximum increase during the year was 1.7%.

Pensions in the other benefit sections mainly use a reference period of the January prior to the increase date for pensions in excess of GMP and are based mainly on RPI. GMPs are increased using CPI for the September prior to the increase date.

There were no discretionary pension increases.

Transfer Payments

Transfer payments paid during the year have been calculated and verified in the manner prescribed by legislation. Transfer payments do not include any allowance for discretionary benefits.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Actuarial Valuation

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

The last full actuarial valuation of the Scheme was carried out as at 31 March 2017 and revealed a deficit of £123 million which equated to a funding level of 97%.

The funding level remained at 97% in 2017 (97% in 2015). This was due to an increase in the level of prudence in the basis adopted for the funding of the Scheme offset by the payment of deficit repair contributions since 2015 and favourable investment returns.

The Trustee and the Employer have agreed a recovery plan such that:

- the Employer has paid additional contributions of £21 million in March 2018 and £26.1 million in March 2019 and March 2020, followed by £26.1 million a year for two years 2021 - 2022 inclusive, the last contribution payable by 31 March 2022. It has been agreed that the deficit contributions due from 2019 - 2022 will be paid from an escrow account set up by the Company from the proceeds arising from the sale of Specialty Chemicals.

The next full actuarial valuation of the Scheme is due as at 31 March 2020 and is currently underway.

Akzo Nobel NV has given a legal commitment to support the Scheme should any of the participating companies be unable to fulfil their obligations, subject to certain limitations and conditions.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, occupational pension schemes with defined benefit liabilities are subject to the "Statutory Funding Objective", which is to have sufficient and appropriate assets to cover their technical provisions. The technical provisions represent the present value of the benefits to which members are entitled based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Akzo Nobel (CPS) Pension Scheme was carried out as at 31 March 2017. This showed that on that date:

The value of the Technical Provisions was:	£3,531 million
The value of the assets at that date was:	£3,408 million

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to the index linked gilt curve (as derived from Bank of England data) at the valuation date plus the RPI assumption of 3.5% per annum plus a margin which reduces over 13 years, starting from 1.2% per annum in 2017 to 0.25% per annum from 2030 onwards.

Future Retail Price Index (RPI) inflation: 3.5% per annum.

Future Consumer Price Index (CPI) inflation: 2.5% per annum.

Pension increases: derived from the RPI and CPI assumptions allowing for the caps and the floors on pension increases according to the provisions in the Scheme's rules.

Pay increases: 2.5% per annum for the purpose of determining the technical provisions.

Mortality - base tables: for the period in retirement:

- standard tables S2PMA with a scaling factor of 100% for male CPS members and all widowers; 101% for male ex-UK members
- standard tables S2PFA with a scaling factor of 96% for all female members; and
- standard tables S2DFA with a scaling factor of 100% for all widows.

Mortality - future improvements: in line with the CMI 2016 core projection model from 2007 onwards with an assumed long term mortality improvement trend of 1.5% per annum.

Impact of Covid-19

In early 2020, Covid-19, an illness caused by a new coronavirus, impacted a significant number of countries globally. Covid-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets, the Trustee is monitoring the effect on the valuation of the Scheme's investments. The Trustee are working with their advisers to ensure the continued smooth running of the Scheme with minimal disruption.

The financial statements have been prepared on the going concern basis. In making this assessment, the Trustee has assessed the ability of the Scheme to meet its future obligations to pay member benefits as they fall due and the ability of the Employer to continue to meet their obligations to the Scheme. The Trustee believes that the Scheme remains well positioned to manage its risks successfully and expects that the Scheme will continue in operational existence for the foreseeable future.

Financial statements

The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Investment management

Investment managers

The Investment Managers appointed on behalf of the Trustee to manage funds under section 34(4) of the Pensions Act 1995 are appropriately authorised under the Financial Services and Markets Act 2000 to manage investments or are specifically exempted from the requirements of the Act. The investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated.

Investment Objective

The Trustee's objective is the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of current and future benefits which the Scheme provides. As described in the significant actuarial assumptions on page 7 the cost of future benefits is impacted by the calculation of both RPI and CPI. Any change to the method of calculating either of these measurements of inflation will have an effect on both the cost of future benefits within the Scheme and also the value of index linked gilts.

The Trustee has considered the results of asset liability modelling studies and set out a long-term strategic asset allocation, which is designed to achieve the above objective. Having considered advice from the Investment Consultant, Towers Watson Limited, the Trustee has delegated the day to day management of the Scheme's assets to external investment managers.

The Statement of Investment Principles as required by section 35 of the Pension Act 1995 is available on request from the contact address on page 10.

The Trustee determines the broad investment strategy to be adopted by the appointed managers and sets a benchmark for each manager relevant to that strategy. Following the 2017 actuarial valuation, the Trustee is targeting an investment return on its assets of gilts +1.5% p.a. decreasing to gilts +0.25% over a 13 year period from 2017. The asset allocation as at 31 March 2020 is provided below.

Asset Class	Proportion as at 31/03/2020 %	Value as at 31/03/2020 £m
Equities	5	169
Property	10	352
Reinsurance securities fund	0	9
LDI portfolio	85	3,019
CLO debt	2	84
Secure income assets	5	164
Cash deposits, derivatives and other pending investments	-7	-260
Total	100	3,537

The above figures include both direct holdings and the units held in pooled investment vehicles for each asset class. Figures are taken from the custodian, Northern Trust and exclude the longevity hedging insurance contract, buy-in policy and AVC investments.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

The Trustee has adopted a Scheme-specific performance benchmark based on the asset classes and ranges above. The Trustee employs the Northern Trust Company to provide an independent measure of the performance of the Scheme and of the individual managers. A summary of the Scheme's performance of the last five years is given below. The table shows the total returns achieved by the Scheme compared with its benchmark.

	Akzo Nobel (CPS) Pension Scheme	Benchmark
	%	%
2020	+4.1	+3.2
2019	+6.2	+6.1
2018	+3.3	+2.8
2017	+20.1	+18.4
2016	+1.7	+1.9
2015	+19.5	+18.4
3 year (annualised)	+4.6	+4.0
5 year (annualised)	+6.9	+6.3

Note: The numbers above have been provided by the Scheme's custodian, Northern Trust, as at 31 March 2020, excluding the longevity hedging insurance contract, buy-in policy and AVC investments.

Marketability of Investments

The Trustee considers that the majority of the assets of the Scheme, with the exception of the direct and indirect property holdings, the longevity insurance contract and certain of the alternative investments, are readily marketable. Indirect property holdings and certain of the alternatives are subject to redemption notification periods as set out in the investment managers' agreements and the realisation of direct property holdings is dependent on the level of activity in the relevant sector at the time that the properties are marketed for sale. Certain of the 'secure income' investments are held through limited partnership structures where it is likely that the assets will not be marketable during the term of the partnership, which could be as long as 30 years.

In 2012, the Scheme entered into a longevity insurance contract under which fixed premiums are exchanged for the pension benefits paid in respect of some 17,000 pensioners in the CPS benefit section and their dependants. The contract is held as an investment of the Scheme and is not marketable. If the contract was to be surrendered, a payment might be due to or from the Scheme depending on the experience of the membership covered.

Basis of Remuneration

The fees charged by both the investment and the property managers are calculated as a percentage of the assets under management. In addition, certain of the fee arrangements include a performance-related element.

Socially responsible investments

The Trustee's present policy on matters relating to socially responsible investment (or ESG investment) are:

- The Scheme's primary concern in setting its investment strategy is to act in the best financial interests of its members and the investment strategy is formulated to support its objective of paying member benefits as and when they fall due. As part of this, the Trustee takes account of all financially material risks and opportunities in the context of the Scheme's investment time horizon. Sustainable investment factors, including environmental, social and governance ("ESG") considerations, are considered in the context of the Scheme's broader risk management.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Socially responsible investments *(continued)*

- The Trustee believes that companies that effectively manage ESG risks can protect and enhance value by, for example, avoiding risk to their reputation, reducing potential financial liability and by increasing their ability to recruit and retain high-quality staff. Therefore the Scheme wishes to promote the proactive management of ESG risks amongst the companies in which the Scheme invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.
- When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment advisors, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.
- The Trustee is further exploring ESG factors with its investment managers with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, in order to understand how they exercise these duties, with a view to monitoring the Scheme's managers' internal policies and processes in relation to ESG factors, and how these are practically implemented into the investment strategy at a fund level. The consideration of climate-related risks will be covered explicitly within this review.
- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to expect the managers to exercise those rights.
- At present, the Trustee does not explicitly take account of non-financial matters in Scheme design or strategy but may consider reflecting specific non-financial considerations in future.

The Trustee's first Implementation Statement relating to these policies is appended to this report and financial statements and forms part of this report.

Custodial arrangements

Northern Trust acts as custodian for the great majority of the Scheme's investments. The Trustee receives reports each month covering the assets held by the custodian and transactions in the month. These are monitored by the Trustee and, if appropriate, followed up with the custodian on a timely basis. The custodian is independent of the fund managers, and is an additional control on the recording of asset movements.

AVC Section

Individual accounts are also held with a range of providers for those members wishing to make additional voluntary contributions.

During the year members made additional voluntary contributions to Standard Life, Prudential Assurance and Aviva to obtain additional benefits. Each member receives an annual statement at the year end confirming the amount held in their account and the movements in the year.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Employer related investments

Employer related investments are held indirectly through pooled investment vehicles (BlackRock Aquila Life World ex-UK Equity Fund and Legal & General RAFI AW 3000 Index Fund) and through a direct property tenancy. The value of these investments was less than 5% of the Scheme's Net Assets at the year end. There were no other employer related investments during the year or at the year end.

GMP equalisation

In October 2018 a Court ruling determined that defined pension schemes must equalise the guaranteed minimum pension ('GMP') element of men and women which was earned between May 1990 and April 1997. The disparity arose because of government legislation which required the GMP element of mens' and womens' pensions to be calculated differently in the past. The Trustee expects that the Scheme will therefore be liable for additional past service cost for members who did not receive equal GMPs in the past. The Trustee is working with the Scheme Actuary to determine the actual costs to the Scheme of equalising GMPs, which at 31 March 2020 had not been determined with reasonable certainty.

Contact for further information

Any queries or complaints about the Scheme generally should be sent to the Scheme Secretary, whose address appears on page 1. Queries relating to members own benefits or for a copy of Scheme documentation, should be sent to the Scheme's administrator:

Willis Towers Watson
Akzo Nobel (CPS) Pension Scheme
PO Box 545
Redhill
Surrey
RH1 1YX
(e mail: cps.pacontact@willistowerswatson.com)

Signed for and on behalf of the Akzo Nobel (CPS) Pension Scheme by:

Trustee Director

Trustee Director

Date

Date

AKZO NOBEL (CPS) PENSION SCHEME

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Actuary's certification of the Schedule of Contributions

Name of Scheme: Akzo Nobel (CPS) Pension Scheme

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2017 to be met by the end of the period specified in the recovery plan dated 28 September 2018.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 28 September 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of the adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Date **28 September 2018**

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S SUMMARY OF CONTRIBUTIONS

YEAR ENDED 31 MARCH 2020

Statement of Trustee's Responsibilities in respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule.

Trustee's Summary of Contributions payable under the Schedule in respect of the Scheme year ended 31 March 2020

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the schedule of contributions certified by the Actuary on 28 September 2018 in respect of the Scheme year ended 31 March 2020. The Scheme auditor report on contributions payable under the schedule in their auditors' statement about contributions.

	£000
Contributions required by the Schedule of Contributions	
Employers	
Normal contributions	6,470
Deficit funding contributions	26,100
Employees	
Normal contributions	26
Contributions payable under the Schedule (as reported on by the Scheme auditor)	<u>32,596</u>
Other contributions	
Employees	
Additional voluntary contributions	170
Total contributions reported in the financial statements	<u><u>32,766</u></u>

Signed for and on behalf of the Akzo Nobel (CPS) Pension Scheme by:

Trustee Director

Trustee Director

Date

Date

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 MARCH 2020

We have examined the Summary of Contributions payable under the Schedule of Contributions to the Akzo Nobel (CPS) Pension Scheme in respect of the Scheme year ended 31 March 2020 which is set out on page 13.

In our opinion contributions for the Scheme year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 28 September 2018.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 4, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Date

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2020

Opinion

We have audited the financial statements of the Akzo Nobel (CPS) Pension Scheme ("the Scheme") for the year ended 31 March 2020 which comprise the:

- Fund account
- Statement of net assets available for benefits and
- the related notes to the financial statements (including the accounting policies in note 3).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year ended 31 March 2020;
- have been properly prepared in accordance with UK accounting standards, including FRS 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustees have prepared the financial statements on the going concern basis as they do not intend to wind up the Plan, and as they have concluded that the Plan's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustees' conclusions, we considered the inherent risks to the Plan and analysed how those risks might affect the Plan's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Plan will continue in operation.

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2020

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the schedules of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 4, the Scheme's Trustee is responsible for supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2020

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee for our audit work, for this report, or for the opinions we have formed.

Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Date

AKZO NOBEL (CPS) PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 MARCH 2020

	Note	2020 £000	2019 £000
Contributions and benefits			
Employer contributions		32,570	34,294
Employee contributions		196	1,036
Total contributions	4	32,766	35,330
Other income	5	–	1
		<u>32,766</u>	<u>35,331</u>
Benefits	6	(124,393)	(124,735)
Payments to and on account of leavers	7	(23,039)	(24,070)
Administrative expenses	8	(8)	(8)
		<u>(147,440)</u>	<u>(148,813)</u>
Net withdrawals from dealings with members		(114,674)	(113,482)
Returns on investments			
Investment income	9	69,344	68,217
Change in market value of investments	10	85,678	112,541
Investment management expenses	11	(2,720)	(658)
Net return on investments		152,302	180,100
Net increase in the fund during the year		37,628	66,618
Net assets of the Scheme			
At 1 April		3,399,947	3,333,329
At 31 March		<u>3,437,575</u>	<u>3,399,947</u>

The notes on pages 20 to 67 form part of these financial statements.

AKZO NOBEL (CPS) PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2020

	Note	2020 £000	2019 £000
Investment assets	10		
Equities		103	103
Bonds		3,018,526	2,516,688
Property	13	280,870	285,435
Pooled investment vehicles	14	543,538	761,436
Derivatives	15	3,958	5,965
Insurance policies	16	1,512	1,350
AVC investments	18	4,141	5,877
Cash	19	50,252	485,905
Other investment balances	20	279,405	113,295
		<u>4,182,305</u>	<u>4,176,054</u>
Investment liabilities	10		
Derivatives	15	(29,438)	(467)
Longevity hedging insurance contract	17	(116,500)	(119,400)
Other investment balances	20	(602,183)	(657,830)
		<u>(748,121)</u>	<u>(777,697)</u>
Total investments		<u>3,434,184</u>	<u>3,398,357</u>
Current assets	25	5,257	3,757
Current liabilities	26	(1,866)	(2,167)
Net assets of the Scheme at 31 March		<u><u>3,437,575</u></u>	<u><u>3,399,947</u></u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the report on actuarial liabilities on pages 6 to 8 of the annual report and these financial statements should be read in conjunction with this report.

Signed for and on behalf of the Akzo Nobel (CPS) Pension Scheme by:

Trustee Director

Trustee Director

Date

Date

The notes on pages 20 to 67 form part of these financial statements.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

1. General information

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee's report.

2. Basis of preparation

The individual financial statements of Akzo Nobel (CPS) Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised June 2018) ("the SORP").

This is the first year of adoption for the 2018 SORP. There have been no restatements of prior year figures as a result of this adoption.

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to meet obligations as they fall due for at least the next twelve months from the approval of these financial statements.

In reaching this conclusion, the Trustee has considered severe but plausible downsides which consider the impact of the COVID-19 outbreak and have taken into account the impact on investments, future income and capital growth, portfolio liquidity, cashflow requirements and the Employer covenant. The Trustee has considered the impact of the COVID-19 outbreak on the Scheme, on the Principal Employer Akzo Nobel UK Ltd, and on the ultimate parent of the Principal Employer Akzo Nobel N.V.

Akzo Nobel NV has given a legal commitment to support the Scheme should any of the participating companies be unable to fulfil their obligations, subject to certain limitations and conditions.

The last triennial actuarial valuation as at 31 March 2017 revealed a funding level on the Scheme's Technical Provisions basis of 97%; this was assessed as 98% as at March 2019, the most recent formal measuring point. Contributions to address the deficit are payable over the period to 2022 from an escrow account which has been fully pre-funded by the Principal Employer. The next full actuarial valuation of the Scheme is due to be carried out as at 31 March 2020 and is currently underway.

The Principal Employer and Akzo Nobel NV (the Group) operate in the Chemical sector. The Trustee is continuing to monitor the likely financial and operational impact that the COVID-19 pandemic will have on the Group. However, whilst the impact of the COVID-19 outbreak cannot be accurately predicted, the Trustee considers that the Group's ability to remain profitable and produce positive free cash flows throughout the first half of 2020 demonstrates its resilience.

This assessment, gives the Trustee confidence to prepare the financial statements on a going concern basis.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Currency

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

All assets and liabilities stated in foreign currencies are converted into sterling rates at rates of exchange ruling at the Scheme year end date. Transactions in foreign currency are converted into sterling at the rate applicable on the date of the transaction.

Contributions

Employee contributions (normal and additional voluntary) and the associated employer contributions are accounted for in the period in which they are deducted from members' pay.

Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid, or on receipt if earlier, with the agreement of the Employer and the Trustee.

Transfer to and from other schemes

Individual transfers into the Scheme and group transfers received are accounted for on an accruals basis.

Transfers out of the Scheme calculated on a group basis are accounted for when completed authorities to pay have been received.

Individual transfers out are accounted for when paid or received which is normally when member liability is accepted/discharged.

Benefits

Pensions payable in respect of the Scheme are accounted for by reference to the period to which they relate. Refunds and lump sums are accounted for when the member has exercised their choice in relation to these benefits, or, where members have no choice in relation to these benefits, by reference to the date of retirement or leaving the Scheme.

Administrative expenses

Administrative expenses have been accounted for on an accruals basis.

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

3. Accounting policies *(continued)*

Investment income

Distributions from quoted shares are accounted for when the security is declared ex-dividend.

Income from bonds is accounted for on an accruals basis.

All investment income is stated inclusive of any related taxation recoverable.

Investment income arising from the underlying investments of the pooled investment vehicles which generate income is accounted for on an accruals basis. All other income from pooled investment vehicles is reflected in the unit price.

Cash receipts and payments on derivative contracts are included in investment income when they are due, with the exception of the longevity swap where cash receipts and payments are accounted for within purchases and sales.

Interest income is accounted for on an accruals basis.

Rental income is accounted for as earned, in accordance with the relevant lease.

Annuity income received by the Scheme is accounted for in the period to which it relates.

The change in market value of investments during the year comprises increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investment Management Expenses

Investment management expenses are accounted for on an accruals basis.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

3. Accounting policies *(continued)*

Investments

Investments are included at fair value.

Listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.

Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.

Unquoted securities are included at fair value estimated by the Trustee based on advice from the investment manager.

Pooled investment vehicles with published prices are stated at bid price for funds with bid / offer spreads, or single price where there are no bid / offer spreads as provided by the investment manager.

Pooled investment vehicles valued using net asset values provided by the pooled investment manager are stated at the net asset value as determined by the pooled investment manager who uses fair value principles to value the underlying investments of the pooled arrangement.

Freehold and leasehold property is stated at open market value at the year end, as estimated by the Trustee on the basis of professional advice from Cluttons LLP, Chartered Surveyors who value the portfolio every quarter, hence we valued the portfolio as at year ended 31 March 2020. No depreciation is provided on freehold or long leasehold properties.

Derivatives are stated at fair value.

For exchange traded derivative contracts which are assets, fair value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, fair value is based on quoted offer prices.

Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

Under repurchase agreements, the Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.

Under reverse repurchase agreements, the Scheme does not recognise the securities received as collateral in its financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements.

AVC investments are included in the Statement of net assets available for benefit at either the market or surrender value of the underlying investments as notified by each AVC provider.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

3. Accounting policies (continued)

The value of the bulk annuity policy issued by Aviva has been calculated by the Scheme Actuary, the valuation is on a scheme funding Technical Provisions basis, using assumptions consistent with the most recent Actuarial Valuation.

The longevity insurance contract has been valued by the Trustee based on professional advice from the Scheme Actuary. The value stated is the difference between the present values of the premiums payable under the contract and the estimated claims value, adjusted to ensure the treatment of the investment is compliant with the SORP. Premiums paid in relation to the longevity insurance contract are accounted for within purchases. The longevity insurance contract covers pensioners and dependent pensioners in payment in the CPS section as at 1 August 2011.

4. Contributions

	2020 £000	2019 £000
Employer contributions		
Normal	6,470	8,194
Deficit funding	26,100	26,100
	<u>32,570</u>	<u>34,294</u>
Employee contributions		
Normal	26	65
Additional voluntary contributions	170	971
	<u>196</u>	<u>1,036</u>
	<u>32,766</u>	<u>35,330</u>

Deficit funding contributions have been made by the Employer to assist the funding of the Scheme. Under the Recovery Plan in force, annual deficit funding contributions of £26 million a year for four years 2019 to 2022 inclusive, the last contribution payable by 2022. It has been agreed that the deficit contributions due from 2019 to 2022 are financed by an escrow account set up by the Employer.

Employees contribute 7% of pensionable salary for most benefit sections. Some employees have also made additional voluntary contributions to secure additional benefits. A salary sacrifice arrangement is in place meaning that participating employees no longer pay employee contributions to the Scheme and the employers pays additional contributions on their behalf.

5. Other income

	2020 £000	2019 £000
Other income	-	1
	<u>-</u>	<u>1</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

6. Benefits

	2020	2019
	£000	£000
Pensions	110,484	109,278
Commutations and retirement lump sums	13,339	14,862
Lump sum death benefits	503	632
Taxation (where lifetime or annual allowance exceeded)	67	(37)
	<u>124,393</u>	<u>124,735</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

During the previous year the taxation (where lifetime or annual allowance exceeded) is negative due to members requesting refunds from HMRC of lifetime allowance tax paid in previous years.

7. Payments to and on account of leavers

	2020	2019
	£000	£000
Refunds to members leaving service	(35)	–
Payments for members reinstated in State Scheme	168	–
Individual transfers to other schemes	22,906	24,070
	<u>23,039</u>	<u>24,070</u>

Refunds to members leaving service negative balance relates to historical balances which were written off during the year.

8. Administrative expenses

	2020	2019
	£000	£000
Other fees	8	8
	<u>8</u>	<u>8</u>

From 1 April 2013 all administrative expenses are being paid by the Principal Employer. Other fees relate to bank charges and search fees, which are not reimbursed by the Principal Employer.

9. Investment income

	2020	2019
	£000	£000
Net income from properties	10,777	13,057
Income from bonds	52,910	28,648
Dividends from equities	15	–
Income from pooled investment vehicles	6,721	29,147
Income from derivatives	129	(72)
Income from annuities	376	332
Income from repurchase agreement	(3,402)	(4,204)
Income on cash deposits and cash equivalents	1,818	1,309
	<u>69,344</u>	<u>68,217</u>

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

9. Investment income (continued)

The net income from properties above has been reduced by an amount of £1,719,000 (2019: £2,047,000) relating to property expenses deducted.

10. Investments

	Value as at 01/04/19 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value as at 31/03/20 £000
Equities	103	516	(1,042)	526	103
Bonds	2,516,688	1,747,198	(1,394,785)	149,425	3,018,526
Property	285,435	29,487	(19,165)	(14,887)	280,870
Pooled investment vehicles	761,436	518,685	(719,015)	(17,568)	543,538
Derivatives	5,498	28,958	(26,282)	(33,654)	(25,480)
Insurance policies	1,350	–	–	162	1,512
Longevity swaps	(119,400)	5,439	–	(2,539)	(116,500)
AVC investments	5,877	124	(1,646)	(214)	4,141
	<u>3,456,987</u>	<u>2,330,407</u>	<u>(2,161,935)</u>	81,251	<u>3,706,710</u>
Cash	485,905			4,320	50,252
Other investment balances	(544,535)			107	(322,778)
	<u>3,398,357</u>			<u>85,678</u>	<u>3,434,184</u>

Direct transaction costs are summarised below. Indirect transaction costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

Transaction costs analysed by main asset class and type of cost are as follows:

	2020			Total £000	2019 Total £000
	Fees £000	Commission £000	Taxes £000		
Equities	–	–	–	–	292
Other	1,377	–	1,642	3,019	1,705
Total 2020	<u>1,377</u>	<u>–</u>	<u>1,642</u>	<u>3,019</u>	
Total 2019	<u>1,997</u>	<u>–</u>	<u>–</u>		<u>1,997</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

11. Investment management expenses

	2020	2019
	£000	£000
Management fees	2,720	658

12. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

13. Property

	2020	2019
	£000	£000
UK Property - direct	280,870	285,435

The Scheme owns freehold and leasehold investment properties, which have been valued individually on the basis of Fair Value, in accordance with the RICS - Professional Standards, revised in April 2015, for inclusion in financial statements prepared in accordance with UK GAAP and FRS 102. The valuation has been assessed by a RICS Registered valuer for and on behalf of Cluttons LLP Commercial Valuation, with sufficient current local and national knowledge of the particular property market involved, and with the skills and understanding to undertake the valuations competently.

The principal assumptions on which the valuations were based are that there are no encumbrances, restrictions or conditions likely to have an adverse effect upon the value of the property and where both the valuations and market rent are based on arm's length transactions. There are no legal restrictions on the realisability of these properties or on remittance of income or disposal proceeds, although the Trustee recognises it could take a number of months to achieve a disposal on favourable terms.

14. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2020	2019
	£000	£000
Equity	167,049	183,168
Bond	83,770	236,556
Hedge funds	11,091	121,116
Private equity	163,732	136,324
Property	71,207	69,972
Cash	46,689	14,300
	543,538	761,436

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

15. Derivatives

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme as explained in the Trustee's report. At the year-end the Scheme had the following derivatives:

	31 March 2020		31 March 2019	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Swaps	3,013	(10,910)	95	(87)
Forward FX contracts	945	(18,528)	5,870	(380)
	<u>3,958</u>	<u>(29,438)</u>	<u>5,965</u>	<u>(467)</u>

The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Futures - the Scheme holds fixed income futures to increase exposure in this particular asset class without disturbing the underlying assets.

Options - option contracts are used within certain mandates to adjust exposure to particular investments or asset classes.

Swaps - certain investment managers use swaps to take interest rates duration positions in a more efficient manner than by trading physical bond assets.

Forward foreign exchange contracts - to reduce the risk resulting from investing in securities denominated in currencies other than Sterling.

The notional principal of the swap is the amount used to determine the swapped receipts and payments. The Scheme paid collateral of £12,282,000 (2019: £91,000) and £nil (2019: £(1,125,000)), this collateral is reported within other investment balances.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

15. Derivatives (continued)

Swaps

The Scheme had outstanding derivative swap contracts at the year end as follows:

Nature	No. of contracts	Notional amounts £000	Expires	Asset value £000	Liability value £000
Interest rate swap (receiving fixed/paying floating)	38	119	2023-2045	2,449	–
Interest rate swap (paying fixed/receiving floating)	38	176	2024-2045	7	(4,629)
Inflation rate swap (paying fixed/receiving floating)	3	94	2023-2029	–	(4,683)
Inflation rate swap (receiving fixed/paying floating)	1	10	2026	478	–
Inflation rate swap	4	97	2022-2030	79	(41)
Other Swap	1	102	2021	–	(1,557)
Total 2020		<u>598</u>		<u>3,013</u>	<u>(10,910)</u>
Total 2019		<u>17,413</u>		<u>95</u>	<u>(87)</u>

At the year end there was 8 inflation rate swap and 76 interest rate swap contracts of which 53 were in the UK and 32 were overseas.

Forward FX contracts

The Scheme had open forward foreign exchange contracts at the year end as follows:

Contract	Settlement date	No. of contracts	Currency bought '000	Currency sold '000	Asset value £000	Liability value £000
OTC traded	1 months	9	EUR 4,700	GBP 4,232	20	(92)
OTC traded	2 months	2	EUR 6,046	GBP 5,486	–	(132)
OTC traded	1 months	21	GBP 28,616	EUR 33,575	1	(1,103)
OTC traded	2 months	1	GBP 37,806	EUR 45,489	–	(2,479)
OTC traded	1 months	27	GBP 37,304	USD 48,440	129	(1,880)
OTC traded	1 months	8	GBP 225,410	USD 289,881	567	(8,807)
OTC traded	2 months	11	GBP 28,682	USD 37,490	–	(1,525)
OTC traded	1 months	11	USD 10,355	GBP 8,549	101	(301)
OTC traded	1 months	8	USD 53,071	GBP 44,742	127	(2,093)
OTC traded	2 months	1	USD 6,617	GBP 5,447	–	(116)
Total 2020					<u>945</u>	<u>(18,528)</u>
Total 2019					<u>5,870</u>	<u>(380)</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

16. Insurance policies

	2020	2019
	£000	£000
Buy-in policy	<u>1,512</u>	<u>1,350</u>

17. Longevity hedging insurance contract

	2020	2019
	£000	£000
Longevity hedging insurance contract	<u>(116,500)</u>	<u>(119,400)</u>

The Trustee has entered into a longevity hedging insurance contract designed to protect the Scheme and Employer against the risk of certain members living significantly longer than expected.

The longevity hedging insurance contract is with ReAssure Limited, a subsidiary of Swiss Re, and was signed in May 2012. Under this agreement, the Scheme agrees to make a series of cash flows (the premiums) to be paid over an agreed term (sixty years from 1 August 2011) in exchange for ReAssure paying the actual pension benefits paid to the members (the claims). Under the agreement, collateral amounts are calculated on 31 December 2012 and quarterly thereafter. Under the terms of the agreement, collateral of nominal and index linked gilts of £141.13m has been pledged during the year (2019: £130.3m) and the collateral as at the year-end was £135.19m (2019: £138.7m).

The valuation of the longevity hedging insurance contract is the present value of the difference between future premiums payable from the Scheme to ReAssure (fixed) and future pension payments payable from ReAssure to the Scheme (variable depending on how long members live). The valuations use discount rates and inflation assumptions derived from the swap market. Future mortality assumptions are realistic assumptions chosen by ReAssure based on experience within the Scheme.

18. AVC investments

	2020	2019
	£000	£000
The Standard Life Assurance Company: unit linked	238	247
Phoenix Life Limited: unit linked	6	6
The Equitable Life Assurance Company: unit Linked	1	1
Aviva	2,701	4,021
The Equitable Life Assurance Company: with Profits	508	604
The Prudential Assurance Company: unit linked	686	997
MGM Limited: unit linked	1	1
	<u>4,141</u>	<u>5,877</u>

The Trustee hold assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the asset values. The aggregate amounts of AVC investments are shown above.

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

19. Cash

	2020	2019
	£000	£000
Cash assets		
Cash	50,252	485,905

20. Other investment balances

	2020	2019
	£000	£000
Other investment balances assets		
Amounts due from brokers	203,202	36,299
Reverse repurchase agreements	47,281	65,930
VAT due from HMRC	–	77
Accrued rental income	1,581	677
Accrued income	15,059	10,221
Cash collateral held elsewhere	12,282	91
	279,405	113,295
Other investment balances liabilities		
Amounts due to brokers	(96,370)	–
Repurchase contracts	(488,811)	(639,333)
VAT due to HMRC	(179)	–
Deferred rental income	(2,912)	(3,300)
Rental deposits due to tenants	(13,911)	(14,072)
Obligation to return collateral	–	(1,125)
	(602,183)	(657,830)
	(322,778)	(544,535)

As at 31 March 2020 bonds are held by the Scheme amounting to £46,885,965 (2019: £68,281,307) as part of the reverse repurchase agreements, these bonds are not recognised in the Scheme's financial statements.

As at 31 March 2020 £488,787,167 (2019: £580,978,857) of bonds reported in the Scheme assets and recognised in the Scheme's financial statements are held by counterparties in respect of amounts payable under repurchase agreements.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

21. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 31 March 2020			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Equities	–	103	–	103
Bonds	–	3,018,526	–	3,018,526
Property	–	–	280,870	280,870
Pooled investment vehicles	35,893	177,845	329,800	543,538
Derivatives	–	(17,583)	(7,897)	(25,480)
Insurance policies	–	–	1,512	1,512
Other investments	–	–	(116,500)	(116,500)
AVC investments	–	3,392	749	4,141
Cash	50,252	–	–	50,252
Other investment balances	118,752	(441,530)	–	(322,778)
	<u>204,897</u>	<u>2,740,753</u>	<u>488,534</u>	<u>3,434,184</u>

	At 31 March 2019			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Equities	–	103	–	103
Bonds	–	2,516,688	–	2,516,688
Property	–	–	285,435	285,435
Pooled investment vehicles	133,513	197,467	430,456	761,436
Derivatives	–	5,498	–	5,498
Insurance policies	–	–	1,350	1,350
Other investments	–	–	(119,400)	(119,400)
AVC investments	–	5,023	854	5,877
Cash	485,905	–	–	485,905
Other investment balances	(3,797)	(540,738)	–	(544,535)
	<u>615,621</u>	<u>2,184,041</u>	<u>598,695</u>	<u>3,398,357</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

22. Investment risk disclosures

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks.

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from its investment consultant. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

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22. Investment risk disclosures *(continued)*

The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Currency	Market risk Interest rate	Other price	2020 Value (£000s)	2019 Value (£000s)
Scheme assets						
Equities	*	^	*	#	103	103
Bonds (LDI)	#	*	#	*	3,018,526	2,516,688
Property	^	*	*	#	280,870	285,435
<i>Pooled investment vehicles</i>						
Equities	*	^	*	#	169,047	183,168
Bonds	#	^	#	*	–	133,513
Property	^	*	*	#	71,207	69,972
Reinsurance	^	#	^	#	9,093	121,116
Infrastructure	^	*	^	*	163,732	136,324
CLO debt	#	^	#	*	83,770	103,043
Cash (pooled)	^	*	*	*	46,689	14,300
Cash (incl derivatives)	^	^	*	^	(298,006)	(53,132)
Longevity Contract	^	*	#	*	(116,500)	(119,400)
Total investments					<u>3,428,531</u>	<u>3,391,130</u>

Note: The figures in the above table have been provided by the custodian, Northern Trust and excludes the buy-in policy and AVC investments.

In the above table, the risk noted affects the asset class "#" significantly, "^" partially or "*" hardly/not at all.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Investment strategy

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits under the trust deed and rules as they fall due.

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities and the funding agreed with the Employer.

Following the 2017 actuarial valuation, a new de-risking plan was put in place. As part of this approach, the Trustee initially targeted an investment return on its assets of gilts+1.5% p.a. decreasing to gilts+0.5% over a 13 year period from 2017.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

22. Investment risk disclosures *(continued)*

Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in government bonds, corporate bonds, property (let to tenants) and has cash balances. These investments will be subject to varying degrees of credit risk and the Scheme mitigates such risk by holding a diverse range of investments including global corporate credit, UK sovereign credit, and high-grade securitised credit.

The Scheme is directly exposed to credit risk in relation to the credit instruments. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles. Direct credit risk is mitigated by diversification of investments amongst a number of credit issuers and individual instruments. The Trustee receives investment and legal advice on the appointment of new investment managers and on an ongoing basis monitors any changes to the operating environment of the credit managers.

The Scheme is exposed to a measure of credit risk relating to the longevity insurance contract.

Cash is held with financial institutions which are at least investment grade credit rated. The Trustee consider financial instruments and counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's. For details of assets exposed to direct and indirect risk, see table on page 34 and notes 11 and 15 of the financial statements.

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22. Investment risk disclosures *(continued)*

The following table summarises the Pooled Investment Vehicles by its legal nature:

Legal nature	2020	2019
Bermuda exempted investment company. (The Fund is set up as an exempted investment company incorporated under the laws of Bermuda to operate as a feeder fund investing all or substantially all of its assets into Iron Catastrophe Master Fund Ltd the Master Fund effective on or about January 1, 2012 (prior to such date the Fund invested in Iron Catastrophe Fund L.P., a Delaware limited partnership which in turn invested in the Master Fund))	11,091	121,116
English Limited Liability Partnership	49,876	32,658
Guernsey domiciled Protected Cell Company. (Limited liability, registered as an open-ended collective investment scheme)	83,770	103,043
Guernsey Property Unit Trust	10,552	11,146
Jersey Property Unit Trust	9,749	9,361
limited partnership registered in England (authorised in Guernsey to be a closed-ended collective investment scheme)	26,849	27,603
limited partnership registered in England and Wales	63,661	52,272
Luxembourg SICAV	32,708	37,582
Open ended investment company	13,985	4,919
Property Authorised Investment Fund (PAIF). (Note prior to April 2019 the fund was an Exempt Unauthorised Unit Trust (EUUT))	50,907	49,465
Registered limited partnership	23,346	23,791
UCITS Mutual Fund	32,704	9,381
Unit linked life insurance funds	63,670	73,020
Unit-Linked Insurance Fund	34,777	36,438
Unit-linked life fund (mutual fund)	35,893	36,128
Others	–	133,513
	<u>543,538</u>	<u>761,436</u>

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

22. Investment risk disclosures *(continued)*

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The Scheme is subject to direct currency risk in its holdings of pooled investment vehicles which are not priced in GBP. As at the year-end, £43.8 million (2019: £158.7 million) of pooled investment vehicles are held in non-Sterling denominated currencies (mainly US\$ and Euro). These are not hedged.

The Scheme is also subject to indirect currency risks through its investments in pooled funds that invest in non-Sterling underlying securities/assets. The extent to which these pooled vehicles (by asset class) are subject to indirect currency risks are set out in the table on page 34. The Trustee monitors the performance of these funds which take into account the impact of currency movements.

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and gilt funds (either as segregated investments or through pooled vehicles), and cash. The Trustee has recently agreed to target a hedge ratio of 95% of liabilities, on a self-sufficiency basis. Under this strategy, if interest rates fall, the value of liability hedging (LDI) investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year end the LDI portfolio represented 54% of the total investment portfolio (2019: 48%). Assets subject to interest rate risk are set out in the table on page 34 and also notes 11 and 15 of the financial statements.

Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, reinsurance, and property. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. See the table on page 34 and notes 11 and 15 of the financial statements for amounts of those assets subject to this risk.

23. Concentration of investments

No investments amounted to more than 5% of the total net assets of the Scheme.

24. Employer related investments

Employer related investments are held through pooled investment vehicles (BlackRock Aquila Life World ex-UK Equity Fund and Legal & General RAFI AW 3000 Index Fund) and through a direct property tenancy. The value of these investments was less than 5% of the Scheme's Net Assets at the year end. There were no other employer related investments during the year or at the year end.

AKZO NOBEL (CPS) PENSION SCHEME
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YEAR ENDED 31 MARCH 2020

25. Current assets

	2020	2019
	£000	£000
Other debtors and prepayments	763	5
Cash balances	4,494	3,752
	<u>5,257</u>	<u>3,757</u>

26. Current liabilities

	2020	2019
	£000	£000
Unpaid benefits	832	715
Accrued expenses	–	350
PAYE payable	1,029	1,062
Other creditors	5	40
	<u>1,866</u>	<u>2,167</u>

27. Related party transactions

From 1 April 2013, all administrative expenses of the Scheme are met by the Principal Employer. Trustee Directors were paid fees totalling £141,153 (2019: £220,475) directly by the Principal Employer during the year.

During the year, four Trustee Directors received a pension from the Scheme and two Trustee Directors were contributing members (see page 1 for details).

As set out on page 6 and referred to in note 4, deficit funding contributions have been paid out of an escrow account set up following the 2017 valuation. As at 31 March 2020 the balance in the escrow account was £49.8m (2019: £75.4m).

Under an agreement, dated 28 September 2018, between Akzo Nobel NV and the Trustee of the Akzo Nobel (CPS) Scheme dated a guarantee is in place for Akzo Nobel NV to support the Scheme should any of the participating companies be unable to fulfil their obligations, subject to certain limitations and conditions.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

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28. Contingent liabilities and contractual commitments

Other than the obligation to pay continuing premiums under the longevity insurance contract after the year end, the Scheme had the following contingent liabilities and contractual commitments at 31 March 2020: £nil (2019: £nil).

The Scheme has outstanding capital commitments in relation to the Macquarie Infrastructure Debt (UK Inflation Linked) Fund L.P. Commitments initially contracted were £25m with undrawn commitments at the year end of £0.9m (2019: £2.1m).

The Scheme has outstanding capital commitments in relation to Equitix Infrastructure Partnership. Commitments initially contracted were £50m with undrawn commitments at the year end of £1.6m (2019: £8.7m).

The Scheme has outstanding capital commitments in relation to the Dalmore Capital Fund 3 LP. Commitments initially contracted were £50m with undrawn commitments at the year end of £2.3m (2019: £16.6m).

In October 2018 a Court ruling determined that defined pension schemes must equalise the guaranteed minimum pension ('GMP') element of men and women which was earned between May 1990 and April 1997. The disparity arose because of government legislation which required the GMP element of mens' and womens' pensions to be calculated differently in the past. The Trustee expects that the Scheme will therefore be liable for additional past service cost for members who did not receive equal GMPs in the past. The Trustee is working with the Scheme Actuary to determine the actual costs to the Scheme of equalising GMPs, which at 31 March 2020 had not been determined with reasonable certainty.

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of scheme assets. The Trustee consider the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practicable at this time to provide a quantitative estimate of the impact of the virus.

Annual Implementation Statement – Scheme year ending 31 March 2020

October 2020

AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

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AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

YEAR ENDED 31 MARCH 2020

Section 1: Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of Akzo Nobel (CPS) Pension Scheme (“the Scheme”) covering the scheme year (“the year”) to 31 March 2020.

The purpose of this statement is to:

- Set out how, and the extent to which, in the opinion of the trustees, the Scheme’s engagement policy within the SIP (required under regulations 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year
- Describe the voting behaviour by, or on behalf of, Trustee (including the most significant votes cast by Trustee or on their behalf) during the year

This is the first year in which this statement has been published and has been produced on a best efforts basis with little precedent material. We expect to evolve this reporting in future years.

We also note that the SIP was last updated in September 2020 whereas this statement covers the Scheme year to 31 March 2020, as such there may be SIP policies or actions not undertaken during the year to 31 March 2020 as they were not policies at the time.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact. A copy of the latest implementation statement is made available on the Scheme’s website

Common abbreviations used within this report:

- SIP: Statement of Investment Principles
- SI: Sustainable Investment
- ESG: Environmental, Social and Governance
- IC: Investment Committee

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Section 2: Adherence to the Scheme's engagement policy within the SIP

Company level engagement and rights attached to investments (including voting):

The Trustee has delegated the day to day ESG integration and stewardship activities with companies (including voting and engagement) to its investment managers.

The Trustee expects the managers to exercise its voting rights wherever possible and to promote positive change in the companies in which they invest on the Scheme's behalf. As part of the review of the Statement of Investment Principles in September 2019 and September 2020, the Trustee considered and reviewed its stewardship and terms of engagement with the Scheme's appointed asset managers.

Details on voting behaviour (including most significant votes cast) is included in Section 3 of this document.

Engagement with managers.

Throughout the year, the Investment Committee regularly monitors the Scheme's investment managers. Performance is monitored relative to an appropriate market benchmark where one is available or an appropriate return objective where a market benchmark is not available.

On a forward-looking basis, past performance is only one input into the Investment Committee's assessment of an investment manager, which relies on research views provided by the Scheme's investment advisors based on a range of qualitative and quantitative factors, including the consideration of ESG factors as outlined below, and views of the members of the Investment Committee.

The Scheme also monitors manager performance relative to an appropriate benchmark. Whilst there were some changes to the underlying investment managers, as outlined elsewhere, no managers were terminated based on short term performance alone. Consistent with the Scheme's long investment time horizon, the Trustee seeks to be a long-term investor and the Investment Committee has appointed managers with the expectation of a long-term relationship.

The Investment Committee oversees the Scheme's investment strategy, including making certain decisions about investments (including asset allocation and manager selection). The committee is also responsible for managing the sustainability of the portfolio and how ESG factors are allowed for in the portfolio, including within the investment process of managers.

The Trustee believes that companies that effectively manage ESG risks can protect and enhance value by, for example, avoiding risk to their reputation, reducing potential financial liability and by increasing their ability to recruit and retain high-quality staff. Therefore the Scheme wishes to promote the proactive management of ESG risks amongst the companies in which the Scheme invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

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SIP Engagement Policies, Actions and Examples

1. Ensure portfolio is consistent with SIP policies

Policy for engagement with asset managers:

- The Scheme may use different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also review the investment objectives and guidelines of any particular pooled vehicle for consistency with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

Action:

- The Scheme reviews the investment objectives and guidelines for an investment upon appointing a manager. For pooled funds these guidelines are reviewed via an "investment review" provided by the Scheme's investment advisor alongside a satisfactory investment (s36) letter. For segregated mandates, guidelines are written with support from the Scheme's investment advisers to ensure consistency with the Trustee's policies.

Examples:

- In the Scheme year to 31 March 2020 the Scheme appointed one new mandate, BlackRock Buy and Maintain Credit. This was a segregated mandate and the guidelines were reviewed by both the IC and the Scheme's investment advisor to ensure consistency with the Trustee's policies.

2. Maintaining manager alignment

Engagement Policy

- To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

Action:

- Managers are provided the SIP on an annual basis and asked to confirm consistency with policies

Examples:

- This policy was introduced to the SIP in September 2020, therefore the action was not carried out for the Scheme Year ending March 2020. The SIP will be provided to all managers to confirm consistency for the Scheme year ending March 2021.

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3. Engaging with managers to encourage alignment

Engagement Policy:

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee, or its advisers, will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

Action:

- The Trustee monitors manager portfolios on a quarterly basis with detailed bespoke reporting provided by the managers to be reviewed at investment committee meetings. Managers are also invited to present to the committee on a regular basis. Additionally the Scheme's managers are surveyed on an annual basis with respect to sustainable investment and rated by the Scheme's investment adviser in 10 categories relating to ESG issues. Finally, the Scheme receives updates from its investment advisor's manager research team with notable updates on managers and any changes of investment rating (which includes integration of sustainable investment/ESG characteristics within the rating).

Examples:

- Bespoke manager reports were reviewed by the investment committee for all investment managers for each quarter in the Scheme year to 31 March 2020. Additionally managers Equitix, BlackRock, GSAM and CBRE were invited to present in detail on the Scheme's portfolio. At the February 2020 Investment Committee the annual SI/ESG report was considered, rating each manager on 10 ESG factors. Areas for improvement and next steps were identified. The Scheme's investment advisors conducted multiple meetings with the Scheme's managers over the year, no changes were made to manager ratings. No managers have been terminated or replaced as a result of unsatisfactory alignment.

4. Assessing managers on long-term outcomes

Engagement Policy

- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a 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.

Action:

- Long-term manager performance of all managers is provided by the Scheme's Independent Performance Measurer, Northern Trust and is reviewed on a quarterly basis by the Investment Committee. This is supplemented by regularly inviting managers to meetings and with information on other factors based on bespoke reports from all managers detailing key mandate information and portfolio changes over the quarter. Changes to manager ratings and ad-hoc updates are provided by the Scheme's advisors manager research team as necessary.

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Example:

- All quarterly performance reports and bespoke manager reports were reviewed by the Investment Committee. Four managers were invited to IC meetings, no manager ratings were changed by the Scheme's investment advisors. No managers were terminated off the basis of short term performance. BlueBay (global corporate bonds) was terminated due to limited fit with long-term strategic objectives.

5. Manager fees structures

Engagement policy

- Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustee's view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures would therefore only be used in a limited number of cases.

Action:

- Manager fees are included on a quarterly basis as part of the bespoke reporting provided by managers. Fees negotiated on appointment and on an ad-hoc basis

Examples:

- Tiered fees have been negotiated for the Scheme's buy-and-maintain credit mandates, with the Scheme thus benefiting from lower fees as the mandates have grown in size. Performance-related fees are only included in a sub-set of secure income strategies.

6. Reviewing costs (including turnover costs)

Engagement Policy:

- The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Action:

- Manager asset management charges are reviewed on a quarterly basis. Other costs, including turnover costs, are reviewed on an annual basis as part of an annual review of fees and costs and/or MiFID reporting. For segregated mandates turnover ranges are considered as part of the manager selection process and in manager guidelines.

Examples:

- The policy to review costs in addition to annual management charges was added to the SIP in September 2020 and so the review did not take place in the Scheme year to March 2020. Annual management charges are reviewed on a quarterly basis. Expected portfolio turnover (and thus transaction costs) is considered as a key factor when the Investment Committee assesses the performance of the Scheme's buy-and-maintain credit mandate relative to its peer group on an annual basis.

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7. ESG Factors, including climate change

Engagement Policy

- The Trustee continues to engage with its investment managers to deepen its understanding of ESG factors and how these may affect the Scheme's investments. This investigation includes exploring the capital structure of investee companies, actual and potential conflicts, the interests of other stakeholders and the ESG impact of underlying holdings. The way the investment managers exercise these management duties on behalf of the Trustee in considering these factors also forms part of this investigation. The consideration of climate-related risks will be covered explicitly within this review.

Action:

- The Scheme's managers are surveyed on an annual basis with respect to sustainable investment and rated by the Scheme's investment adviser in 10 categories relating to ESG issues. Additionally, the Scheme receives updates from its investment adviser's manager research team with notable updates on managers and any changes of investment rating (which includes integration of ESG characteristics within the rating). The Scheme's advisors also engage with managers on ESG issues on the Scheme's behalf, as well as policy makers and the industry as a whole.

Examples:

- At the February 2020 Investment Committee the annual SI/ESG report was considered, rating each manager on 10 ESG factors. Areas for improvement and next steps were identified. The Scheme's investment advisers conducted multiple meetings with the Scheme's managers over the year, and no changes were made to manager ratings.

Section 3: Voting behaviour (including most significant votes)

Voting

The Scheme's equity holdings are held within pooled investment vehicles and are managed on a passive basis relative to a defined index, with the exception of the standalone emerging market mandate with Genesis. The Trustee delegates voting rights and the execution of those rights to the underlying managers for the securities they hold.

The Scheme's investment advisors engage managers on areas for development, not least around resourcing, and improving the breadth and depth of corporate engagements.

Further information on the voting and engagement activities of the managers is provided below.

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BlackRock - Aquila Life World (Ex UK) Equity Index Fund

Total fund size: £1,917,320,000
Akzo Nobel's proportion of total fund: 1.81%

Voting Statistics (over the year to 31 March 2020)

How many meetings were you eligible to vote at?	2166
How many resolutions were you eligible to vote on?	26,120
What % of resolutions did you vote on for which you were eligible?	95%
Of the resolutions on which you voted, what % did you vote with management?	94%
Of the resolutions on which you voted, what % did you vote against management?	6%
Of the resolutions on which you voted, what % did you abstain from voting?	0%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	NA*

*While BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, they do not follow any single proxy research firm's voting recommendations.

Voting Policies (over the year to 31 March 2020)

What is your policy on consulting with clients before voting?
<i>We welcome discussions with our clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them. As outlined in our Global Corporate Governance and Engagement Principles, BlackRock determines which companies to engage directly based on our assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of our engagement being productive. Our voting guidelines are intended to help clients and companies understand our thinking on key governance matters. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. We inform our vote decisions through research and engage as necessary. If a client wants to implement their own voting policy, they will need to be in a segregated</i>
Please provide an overview of your process for deciding how to vote
<i>BlackRock's approach to corporate governance and stewardship is explained in the Global Corporate Governance and Engagement Principles. These high-level Principles are the framework for more detailed, market-specific voting guidelines, all of which are published on the BlackRock website. The Principles describe our philosophy on stewardship (including how they monitor and engage with companies), our policy on voting, our integrated approach to stewardship matters and how we deal with conflicts of interest. These apply across relevant asset classes and products as permitted by investment strategies. BlackRock reviews our Global Corporate Governance & Engagement Principles annually and updates them as necessary to reflect in market standards, evolving governance practice and insights gained from engagement over the prior year.</i>
<i>Our Global Corporate Governance & Engagement Principles available on our website at https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investmentengprinciples-global.pdf</i>
<i>The team and its voting and engagement work continuously evolves in response to changing governance related developments and expectations. Our voting guidelines are market-specific to ensure we take into account a company's unique circumstances by market, where relevant. We inform our vote decisions through research and engage as</i>

AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

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necessary. Our engagement priorities are global in nature and are informed by BlackRock's observations of governance related and market developments, as well as through dialogue with multiple stakeholders, including clients. We may also update our regional engagement priorities based on issues that we believe could impact

the long-term sustainable financial performance of companies in those markets. We welcome discussions with our clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them. As outlined in our Global Corporate Governance and Engagement Principles, BlackRock determines which companies to engage directly based on our assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of our engagement being productive. Our voting guidelines are intended to help clients and companies understand our thinking on key governance matters. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. We inform our vote decisions through research and engage as necessary. If a client wants to implement their own voting policy, they will need to be in a segregated account. BlackRock's Investment Stewardship team would not implement the policy ourselves, but the client would engage a third-party voting execution platform to cast the votes.

How, if at all, have you made use of proxy voting services?

While BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, we do not follow any single proxy research firm's voting recommendations. We use several other inputs, including a company's own disclosures, and our record of past engagements, in our voting and engagement analysis.

Are you currently affected by any conflicts of interest across any of your holdings?

As an investment manager, BlackRock has a duty of care to its clients. BlackRock's duty extends to all of its employees and is critical to our reputation and business relationships, and to meeting the requirements of our various regulators worldwide. Employees are held responsible by BlackRock to seek to avoid any activity that might create potential or actual conflicts with the interests of clients. BlackRock maintains a compliance program for identifying, escalating, avoiding and/or managing potential or actual conflicts of interest. The program is carried out through our employees' adherence to relevant policies and procedures, a governance and oversight structure and employee training.

Among the various policies and procedures that address conflicts of interest is BlackRock's Global

Conflicts of Interest Policy. This policy governs the responsibility of BlackRock and its employees to place our clients' interests first and to identify and manage any conflicts of interest that may arise in the course of our business. In order to mitigate potential and actual conflicts of interest, each BlackRock employee must, among other things:

- Identify potential or actual conflicts of interest both in relation to existing arrangements and when considering changes to, or making new, business arrangements;*
- Report any conflicts of interest promptly to his/her supervisor and Legal & Compliance;*
- Avoid (where possible) or otherwise take appropriate steps to mitigate a conflict to protect our clients' interests; and*
- Where appropriate, disclose conflicts of interest to clients prior to proceeding with a*

proposed arrangement BlackRock Legal & Compliance conducts mandatory annual compliance training, which includes a discussion of the Global Conflicts of Interest Policy.

Read more about how we manage conflicts of interest in our Global Corporate Governance and Engagement Principles found here <https://www.blackrock.com/corporate/literature/factsheet/blk-responsible-investment-engprinciples->

AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

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[global.pdf](#) and in our stand alone statement found here <https://www.blackrock.com/corporate/literature/publication/blk-statement-conflictsof-interest.pdf>. For more information about securities lending, please see our commentary, *Securities Lending Viewed through the Sustainability Lens* here

<https://www.blackrock.com/corporate/literature/publication/securities-lending-viewed-throughthe-sustainability-lens.pdf>

Please include here any additional comments which you believe are relevant to your voting activities or processes

BlackRock is a Tier 1 rated signatory of The Stewardship Code and are actively engaged in corporate governance in the interest of our investors. Our statement on compliance can be found on our website here: <https://www.blackrock.com/corporate/enus/literature/fact-sheet/blk-responsible-investment-statementoncompliance-ukstewardshipcode.pdf>

- We have been a signatory of the UN Principles of Responsible Investment (UN PRI) since 2008 and as such make sure that ESG factors are incorporated and adhered to in our approach to investment and engagement. A copy of our 2020 PRI Transparency Report can be found on BlackRock's corporate website here:

<https://www.blackrock.com/corporate/literature/publication/blk-pri-publictransparency-report-2020-web.pdf>

- We have been a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) since 2017 and are constantly striving to increase the transparency of our climate related disclosures as well as build and improve our low carbon and renewable energy product offerings. Read more about our approach to engagement on TCFD and

SASB aligned reporting here:

<https://www.blackrock.com/corporate/literature/publication/blk-commentary-tcfd-sasb-aligned-reporting.pdf>

- Our most recent step towards furthering a global approach to combating climate change was taken in 2020 in our decision to join Climate Action 100+, a group which engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement. Read more about our work in our 2020 Sustainability

Report, and our Annual and Quarterly Stewardship Reports found here:

<https://www.blackrock.com/corporate/about-us/investment-stewardship#guidelines>

Please read more about BlackRock's engagement and voting activity in our 2020 Sustainability Report, our 2020 Annual Stewardship report, our Global Quarterly Stewardship Reports and through our Voting Bulletins which are all found here:

<https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-andvoting-history>

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Most Significant Vote (over the year to 31 March 2020)

Please provide the company name and date of the vote
<i>Qualcomm Inc., 10th March 2020.</i>
Please provide an approximate size of the holding as at the date of the vote
<i>Not provided</i>
Please provide a summary of the resolution
<i>The agenda items for the 2020 AGM, upon which BlackRock voted against: (1) To elect to the Board of Directors: Harish Manwani (4) To approve, on an advisory basis, executive compensation.</i>
How did you vote?
<i>BIS held the board accountable by voting against election of longest-tenured compensation committee member and against the Advisory Vote on Compensation.</i>
If voting against management, did you communicate your intent to the company ahead of the vote?
<i>We engaged with the Chairman of the Board to express our concerns regarding the appropriateness of awarding the special grant. We also discussed other elements of the plan structure, including the company's</i>
Please provide a brief rationale for your voting decision
<i>BlackRock believes compensation committees should have discretion to make adjustments to executive compensation plans. Where discretion has been used, we expect disclosure relating to how and why it was used and further, how the adjusted outcome is aligned with the interests of shareholders. The company provided such disclosure, emphasizing the one-time equity awards were connected to the aforementioned settlement and related agreements. We recognize the importance of this event to Qualcomm's business given ongoing litigation and regulatory risks impacting the company. However, the company did not provide sufficient justification for why this outcome with Apple is outside Mr. Mollenkopf's realm of responsibilities as CEO, which are already covered in the company's long term executive compensation plan. Ultimately, granting this one-off award suggests a pay plan that is not aligned with shareholders' long-term interests, which is difficult to reconcile with ongoing underperformance versus Qualcomm's peers, raising a perceived pay-for-performance disconnect. The prior year's executive compensation plan also included a onetime award which we supported as the award was conditioned on achieving certain performance targets that can help ensure alignment with long-term shareholder interests.</i>
What was the outcome of the vote?
<i>In response to the settlement and related agreements, Qualcomm awarded a one-time equity grant to CEO Steve Mollenkopf and one-time grants to other executive officers.</i>
What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?

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We will continue to engage with the board and management of Qualcomm on a range of governance, compensation, and material sustainability issues, and we intend to monitor and provide feedback on the quality of relevant disclosures.

On which criteria have you assessed this vote to be "most significant"?

The BlackRock Stewardship team publishes statements on our analysis, engagements and votes in relation to certain high-profile proposals at company shareholder meetings. These vote bulletins aim to explain our approach and decision publicly so interested clients and others can be aware of BlackRock's vote when it is of most relevance to them. We consider these vote bulletins to contain explanations of the most significant votes for the purpose of the Shareholder Rights Directive II.

AKZO NOBEL (CPS) PENSION SCHEME

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Genesis - MFO GENESIS EMERGING MKTS INV - B

Total fund size: \$2,251,272,000
Akzo Nobel's proportion of total fund: 1.8%

Voting Statistics (over the year to 31 March 2020)

How many meetings were you eligible to vote at?	144
How many resolutions were you eligible to vote on?	1,440
What % of resolutions did you vote on for which you were eligible?	98%
Of the resolutions on which you voted, what % did you vote with management?	92%
Of the resolutions on which you voted, what % did you vote against management?	8%
Of the resolutions on which you voted, what % did you abstain from voting?	0%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	NA*

*Genesis has contracted with Institutional Shareholder Services, Inc. (ISS), an independent third-party provider of proxy voting and corporate governance services. Specifically, ISS has been retained to provide proxy research and recommendations, execute votes as instructed by Genesis and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for our clients' accounts. ISS recommendations are one form of external research which is factored into the decision-making process by our investment team. We also consider proxy voting analysis and recommendations from other local advisers (for example in India and South Korea). We analyse each voting issue independently and do not necessarily vote in line with company management or external recommendations.

Voting Policies (over the year to 31 March 2020)

What is your policy on consulting with clients before voting?
<i>For those clients who have given us authority to vote their shares, we aim to vote all of their shares in all markets.</i>
<i>In all voting decisions, our objective is to protect and enhance long-term shareholder value. Proxy voting decisions are based on our set of corporate governance principles and in the best interests of clients, but we are mindful of the varied market practices across emerging market countries and we recognise that more than one governance model may be effective</i>
Please provide an overview of your process for deciding how to vote
<i>We view proxy voting as an investment function and in evaluating a proposal, our investment team draw on a variety of resources including their many years of experience as investment analysts. We are long-term investors and our detailed knowledge and internal assessment of a company's business, performance and management is supplemented by the results of our ongoing engagement efforts, company disclosures and external research.</i>
How, if at all, have you made use of proxy voting services?
<i>Genesis has contracted with Institutional Shareholder Services, Inc. (ISS), an independent third-party provider of proxy voting and corporate governance services. Specifically, ISS has been retained to provide proxy research and recommendations, execute votes as instructed by Genesis and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for our clients' accounts.</i>

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ISS recommendations are one form of external research which is factored into the decision-making process by our investment team. We also consider proxy voting analysis and recommendations from other local advisers (for example in India and South Korea). We analyse each voting issue independently and do not necessarily vote in line with company management or external recommendations.

Are you currently affect by any conflicts of interest across any of your holdings?

We are not aware of any conflict of interest.

In order to identify conflicts that may damage the interests of a client, Genesis consider, whether in the context of providing investment management services or not, whether Genesis or any Staff member:

- is likely to make a financial gain, or avoid a financial loss at the expense of a client*
- has an interest in the outcome of a service provided to or carried out on behalf of a client which is distinct from the client's interest in that outcome;*
- has a financial or other incentive to favour the interest of another client or group of clients over the interest of the client;*
- carries on the same business as the client;*
- receives or will receive from a person other than a client an inducement in relation to a service provided to the client in the form of monetary or non-monetary benefits, other than the standard commission or fee for that service.*

All Staff are responsible for ensuring that if a conflict is identified that is not contained in this policy it is notified to Compliance immediately. In addition, Compliance can advise how to manage or avoid any potential or suspected conflict of interest.

The Conflicts of Interest Policy is reviewed by Compliance on an ongoing basis to determine whether any new conflicts have arisen which necessitate an update to this Policy. In addition, it is reviewed by senior management annually to determine whether all conflicts remain relevant or if any conflicts no longer apply and may be removed.

Please include here any additional comments which you believe are relevant to your voting activities or processes

In all voting decisions, our objective is to protect and enhance long-term shareholder value. Proxy voting decisions are based on our set of corporate governance principles¹ and in the best interests of clients but we are mindful of the varied market practices across emerging market countries and we recognise that more than one governance model may be effective. Thus, we take a pragmatic approach considering the circumstances of each vote and each company.

Most Significant Vote (over the year to 31 March 2020)

Please provide the company name and date of the vote

Magnit

Please provide an approximate size of the holding as at the date of the vote

Not provided – not a top 10 holding

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Please provide a summary of the resolution
<i>With coordination assistance from a Moscow-based corporate governance group, Association of Institutional Investors, (API), we joined with other shareholders to nominate and elect two independent directors to the board. This is possible in Russia because (i) shareholders can join together to reach the required threshold ownership levels needed to nominate candidates to the board and (ii) cumulative voting allows shareholders to focus their voting power on particular candidates. Prior to the nominations, we also interviewed the candidates.</i>
<i>This is a paper-intensive process and the Moscow group (which we have worked with for many years) advises on the technicalities and helps coordinate.</i>
How did you vote?
<i>Focused votes for the election of the two independent candidates.</i>
If voting against management, did you communicate your intent to the company ahead of the vote?
<i>Management did not make a recommendation on the election of directors and we had communicated our intentions to the company ahead of the vote.</i>
Please provide a brief rationale for your voting decision
<i>Shareholders rights are better protected with two independent directors. ISS (Institutional Shareholder Services), an independent third-party provider of proxy voting and corporate governance services, also supported these two candidates.</i>
What was the outcome of the vote?
<i>The independent candidates were successfully elected to the Board.</i>
What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?
<i>The implication of this outcome is that shareholders rights are better protected with two independent directors having been elected. As noted above, this is a resource intensive process and we appreciate the assistance of API. We would expect to go through a similar process in the future.</i>
On which criteria have you assessed this vote to be "most significant"?
<i>We have selected this example for a voting case study to illustrate the level of Genesis involvement. From a regulatory reporting perspective, we would identify those instances when we voted against management as 'most significant'.</i>

Legal and General Investment Managers - FTSE RAFI All World 3000 Equity

Total fund size: £4,597,876,074

Akzo Nobel's proportion of total fund: 0.7%

Voting Statistics (over the year to 31 March 2020)

How many meetings were you eligible to vote at?	3,378
How many resolutions were you eligible to vote on?	39,994
What % of resolutions did you vote on for which you were eligible?	98%
Of the resolutions on which you voted, what % did you vote with management?	83%
Of the resolutions on which you voted, what % did you vote against management?	17%

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Of the resolutions on which you voted, what % did you abstain from voting?	0%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	10%

Voting Policies (over the year to 31 March 2020)

What is your policy on consulting with clients before voting?
<p><i>LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.</i></p> <p><i>Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.</i></p>
Please provide an overview of your process for deciding how to vote
<p><i>All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.</i></p>
How, if at all, have you made use of proxy voting services?
<p><i>LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions</i></p> <p><i>To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.</i></p> <p><i>We retain the ability in all markets to override any vote decisions, which are based on our custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.</i></p>

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Are you currently affected by any conflicts of interest across any of your holdings?

The Legal & General Investment Management (LGIM) Investment Stewardship team has responsibility for engaging and voting with listed companies to safeguard and enhance our clients' assets and identifying and engaging on emerging governance topics. As part of this process, it is necessary to be able to take informed positions, and to be able to actively support companies, in order to obtain the best outcome for our clients. Using our scale can influence investee companies on important decisions.

Being seen to identify, manage and mitigate both actual and perceived conflicts is essential to our activities, so that clients understand their interests are always put first. Additionally, the management of conflicts is important in building long-term relationships with the companies in which we invest, as in order to drive change and have an impact on the market we need to be seen as a trusted, fair and transparent investor.

LGIM owes each of its clients a duty of care with respect to all services undertaken on their behalf. We place our clients' interests ahead of our own, and undertake activities and cast proxy votes in a manner consistent with the best interests of all clients. The team is structured and supported in a way that aims to minimise potential conflicts of interest, but when these arise we are able to act to achieve the best outcome for all clients.

There are a number of potential conflicts of interest inherent in the corporate governance activity undertaken at LGIM.

Detailed below are some of the frequent conflicts of interest that we identify and resolve through the application of the

conflicts of interest policy. This is not an exhaustive list and the Investment Stewardship team may encounter additional conflicts not detailed in this policy.

- Reputational conflicts may arise through the parent company not currently adhering to the best practice espoused by the LGIM Investment Stewardship team*
- The parent company may have commercial relationships and connections with companies and stakeholders with whom the Investment Stewardship team is engaging*
- The parent company may try to influence LGIM's activities on corporate governance, takeovers and public stances on key topics*
- Many of our clients are corporate-sponsored pension schemes that are associated with the companies in which LGIM invests*
- Clients may not support the voting and engagement activities of LGIM. For example, where we are casting votes against the sponsor management or engaging on issues where they do not adhere to best practice*
- There may be conflicts between clients, for example in the prioritisation of team resource or identifying and engaging on material aspects and topics of engagement*
- Active equity and active bond mandates have different investment strategies and time horizons to passive strategies*

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- *The interests of equity and bond investors may diverge, for example at the time of a debt issuance, a rights issue or a merger and acquisition scenario*
- *The views of internal portfolio managers may differ between each other and with the Investment Stewardship team. A negative stance from the Investment Stewardship team may impact other interactions with the company*
- *LGIM often receives and processes commercially and price sensitive information*
- *The companies LGIM engages with and votes on may be direct competitors of LGIM or L&G*
- *The companies LGIM engages with and votes on may contain directors who also sit on the LGIM or L&G board*
- *There may be personal contacts and connections at the investee company*

Please include here any additional comments which you believe are relevant to your voting activities or processes

It is vital that the proxy voting service are regularly monitored and LGIM do this through quarterly due diligence meetings with ISS. Representatives from a range of departments attend these meetings, including the client relationship manager, research manager and custom voting manager. The meetings have a standing agenda, which includes setting out our expectations, an analysis of any issues we have experienced when voting during the previous quarter, the quality of the ISS research delivered, general service level, personnel changes, the management of any potential conflicts of interest and a review of the effectiveness of the monitoring process and voting statistics. The meetings will also review any action points arising from the previous quarterly meeting.

LGIM has its own internal Risk Management System (RMS) to provide effective oversight of key processes. This includes LGIM's voting activities and related client reporting. If an item is not confirmed as completed on RMS, the issue is escalated to line managers and senior directors within the organisation. On a weekly basis, senior members of the Investment Stewardship team confirm on LGIM's internal RMS that votes have been cast correctly on the voting platform and record any issues experienced. This is then reviewed by the Director of Investment Stewardship who confirms the votes have been cast correctly on a monthly basis. Annually, as part of our formal RMS processes the Director of Investment Stewardship confirms that a formal review of LGIM's proxy provider has been conducted and that they have the capacity and competency to analyse proxy issues and make impartial recommendations.

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Most Significant Vote (over the year to 31 March 2020)

Please provide the company name and date of the vote
<i>BP PLC, 21/05/2019</i>
Please provide an approximate size of the holding as at the date of the vote
<i>Not provided</i>
Please provide a summary of the resolution
<i>Resolution 22 - Approve the Climate Action 100+ Shareholder Resolution on Climate Change Disclosures.</i>
How did you vote?
<i>For.</i>
If voting against management, did you communicate your intent to the company ahead of the vote?
<i>LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.</i>
Please provide a brief rationale for your voting decision
<i>LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. At the company's annual general meeting, the proposal was passed with overwhelming approval from shareholders. We have since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. The company has announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.</i>
What was the outcome of the vote?
<i>99.1% support</i>
What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?
<i>LGIM continues to engage with the company and monitor progress.</i>
On which criteria have you assessed this vote to be "most significant"?
<i>This is the first shareholder resolution put forward by LGIM.</i>

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Legal and General Investment Managers - MSCI World Adaptive Capped 2x Index Fund

Total fund size: £1,453,462,228
Akzo Nobel's proportion of total fund: 2.3%

Voting Statistics (over the year to 31 March 2020)

How many meetings were you eligible to vote at?	1,692
How many resolutions were you eligible to vote on?	22,273
What % of resolutions did you vote on for which you were eligible?	98%
Of the resolutions on which you voted, what % did you vote with management?	84%
Of the resolutions on which you voted, what % did you vote against management?	16%
Of the resolutions on which you voted, what % did you abstain from voting?	0%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	11%

Voting Policies (over the year to 31 March 2020)

What is your policy on consulting with clients before voting?
<p><i>LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.</i></p> <p><i>Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.</i></p>
Please provide an overview of your process for deciding how to vote
<p><i>All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.</i></p>
How, if at all, have you made use of proxy voting services?
<p><i>LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions</i></p> <p><i>To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider</i></p>

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are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We retain the ability in all markets to override any vote decisions, which are based on our custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.

Are you currently affected by any conflicts of interest across any of your holdings?

The Legal & General Investment Management (LGIM) Investment Stewardship team has responsibility for engaging and voting with listed companies to safeguard and enhance our clients' assets and identifying and engaging on emerging governance topics. As part of this process, it is necessary to be able to take informed positions, and to be able to actively support companies, in order to obtain the best outcome for our clients. Using our scale can influence investee companies on important decisions.

Being seen to identify, manage and mitigate both actual and perceived conflicts is essential to our activities, so that clients understand their interests are always put first. Additionally, the management of conflicts is important in building long-term relationships with the companies in which we invest, as in order to drive change and have an impact on the market we need to be seen as a trusted, fair and transparent investor.

LGIM owes each of its clients a duty of care with respect to all services undertaken on their behalf. We place our clients' interests ahead of our own, and undertake activities and cast proxy votes in a manner consistent with the best interests of all clients. The team is structured and supported in a way that aims to minimise potential conflicts of interest, but when these arise we are able to act to achieve the best outcome for

all clients.

There are a number of potential conflicts of interest inherent in the corporate governance activity undertaken at LGIM.

Detailed below are some of the frequent conflicts of interest that we identify and resolve through the application of the

conflicts of interest policy. This is not an exhaustive list and the Investment Stewardship team may encounter additional conflicts not detailed in this policy.

- Reputational conflicts may arise through the parent company not currently adhering to the best practice espoused by the LGIM Investment Stewardship team*
- The parent company may have commercial relationships and connections with companies and stakeholders with whom the Investment Stewardship team is engaging*
- The parent company may try to influence LGIM's activities on corporate governance, takeovers and public stances on key topics*

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- *Many of our clients are corporate-sponsored pension schemes that are associated with the companies in which LGIM invests*
- *Clients may not support the voting and engagement activities of LGIM. For example, where we are casting votes against the sponsor management or engaging on issues where they do not adhere to best practice*
- *There may be conflicts between clients, for example in the prioritisation of team resource or identifying and engaging on material aspects and topics of engagement*
- *Active equity and active bond mandates have different investment strategies and time horizons to passive strategies*
- *The interests of equity and bond investors may diverge, for example at the time of a debt issuance, a rights issue or a merger and acquisition scenario*
- *The views of internal portfolio managers may differ between each other and with the Investment Stewardship team. A negative stance from the Investment Stewardship team may impact other interactions with the company*
- *LGIM often receives and processes commercially and price sensitive information*
- *The companies LGIM engages with and votes on may be direct competitors of LGIM or L&G*
- *The companies LGIM engages with and votes on may contain directors who also sit on the LGIM or L&G board*
- *There may be personal contacts and connections at the investee company*

Please include here any additional comments which you believe are relevant to your voting activities or processes

It is vital that the proxy voting service are regularly monitored and LGIM do this through quarterly due diligence meetings with ISS. Representatives from a range of departments attend these meetings, including the client relationship manager, research manager and custom voting manager. The meetings have a standing agenda, which includes setting out our expectations, an analysis of any issues we have experienced when voting during the previous quarter, the quality of the ISS research delivered, general service level, personnel changes, the management of any potential conflicts of interest and a review of the effectiveness of the monitoring process and voting statistics. The meetings will also review any action points arising from the previous quarterly meeting.

LGIM has its own internal Risk Management System (RMS) to provide effective oversight of key processes. This includes LGIM's voting activities and related client reporting. If an item is not confirmed as completed on RMS, the issue is escalated to line managers and senior directors within the organisation. On a weekly basis, senior members of the Investment Stewardship team confirm on LGIM's internal RMS that votes have been cast correctly on the voting platform and record any issues experienced. This is then reviewed by the Director of Investment Stewardship who confirms the votes have been cast correctly on a monthly basis. Annually, as part of our formal RMS processes the Director of Investment Stewardship confirms that a formal review of LGIM's proxy provider has been conducted and that they have the capacity and competency to analyse proxy issues and make impartial recommendations.

AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

YEAR ENDED 31 MARCH 2020

Most Significant Vote (over the year to 31 March 2020)

Please provide the company name and date of the vote
<i>BAYER AG, 26/04/2019</i>
Please provide an approximate size of the holding as at the date of the vote
<i>Not provided</i>
Please provide a summary of the resolution
<i>Res 2 - Approve Discharge of Management Board for Fiscal 2018</i>
How did you vote?
<i>Against.</i>
If voting against management, did you communicate your intent to the company ahead of the vote?
<i>LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.</i>
Please provide a brief rationale for your voting decision
<i>Following its acquisition of agribusiness Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that Monsanto's glyphosate-based weedkiller RoundUp was linked to causing cancer. The damages were reduced upon appeal, and Bayer was adamant that RoundUp was not carcinogenic. We are concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US. Although at the time of the merger agreement in 2016 there were only about a hundred such lawsuits, by the end of 2019, the number grew to over 40,000. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%. Unrelated to the litigation, we have previously discussed the importance of a lead independent director, particularly in times of crisis. We spoke to the company ahead of its 2019 AGM to gain a better understanding of the decision-making process in relation to the Monsanto acquisition and the legal advice it received for litigation risk. We recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise; appointing non-executive directors with specific expertise; and appointing new executives. In addition, we suggested that these incidents should have a bearing on remuneration awarded for the year.</i>
What was the outcome of the vote?
<i>44.5% for; 55.5% against</i>
What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?
<i>The company subsequently established a glyphosate litigation committee to monitor litigation and consult with the board. We will continue to pay close attention to the litigation and any possible settlements, as well as the decisions of Bayer's remuneration committee. The company also announced that the chair would step down at the 2020 AGM.</i>
On which criteria have you assessed this vote to be "most significant"?
<i>Vote of no confidence, a rare escalation step.</i>

AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

YEAR ENDED 31 MARCH 2020

State Street Global Advisors - MPF All World Equity Low Volatility / High Quality Screened Fund

Total fund size: £35,912,194

Akzo Nobel's proportion of total fund: 100%

Voting Statistics (over the year to 31 March 2020)

How many meetings were you eligible to vote at?	1,257
How many resolutions were you eligible to vote on?	15,435
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	91%*
Of the resolutions on which you voted, what % did you vote against management?	9%*
Of the resolutions on which you voted, what % did you abstain from voting?	1%*
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	Not answered

*May not sum to 100% due to rounding

Voting Policies (over the year to 31 March 2020)

What is your policy on consulting with clients before voting?
<i>Not answered</i>
Please provide an overview of your process for deciding how to vote
<p><i>At State Street Global Advisors, we take our fiduciary duties as an asset manager very seriously. We have a dedicated team of corporate governance professionals who help us carry out our duties as a responsible investor. These duties include engaging with companies, developing and enhancing in-house corporate governance guidelines, analysing corporate governance issues on a case-by-case basis at the company level, and exercising our voting rights. The underlying goal is to maximize shareholder value.</i></p> <p><i>State Street Global Advisors maintains Proxy Voting and Engagement Guidelines for select markets, including: Australia, the European Union, Japan, New Zealand, North America (Canada and the US), the UK and Ireland, and emerging markets. International markets not covered by our market-specific guidelines are reviewed and voted in a manner that is consistent with our Global Proxy Voting and Engagement Principles; however, State Street Global Advisors also endeavours to show sensitivity to local market practices when voting in these various markets.</i></p> <p><i>The Principles support governance structures that we believe add to, or maximize shareholder value, for the companies held in our clients' portfolios.</i></p>
How, if at all, have you made use of proxy voting services?
<p><i>In order to facilitate our proxy voting process, we retain Institutional Shareholder Services Inc. ("ISS"), a firm with expertise in proxy voting and corporate governance. We utilize ISS's services in three ways: (1) as our proxy voting agent (providing State Street Global Advisors with vote execution and administration services), (2) for applying the Guidelines, and (3) as providers of research and analysis relating to general corporate governance issues and specific proxy items.</i></p>

AKZO NOBEL (CPS) PENSION SCHEME

IMPLEMENTATION STATEMENT

YEAR ENDED 31 MARCH 2020

Are you currently affected by any conflicts of interest across any of your holdings?
<i>In some instances, the Asset Stewardship Team may refer significant issues to the Proxy Review Committee (PRC) for a determination of the proxy vote. In addition, in determining whether to refer a proxy vote to the PRC, the Asset Stewardship Team will consider whether a material conflict of interest exists between the interests of our client and those of State Street Global Advisors or its affiliates.</i>
Please include here any additional comments which you believe are relevant to your voting activities or processes
<i>We vote in all markets where it is feasible; however, we may refrain from voting meetings when power of attorney documentation is required, where voting will have a material impact on our ability to trade the security, where issuer-specific special documentation is required, or where various market or issuer certifications are required. We are unable to vote proxies when certain custodians, used by our clients, do not offer proxy voting in a jurisdiction or when they charge a meeting specific fee in excess of the typical custody service agreement.</i>

Most Significant Vote (over the year to 31 March 2020)

Please provide the company name and date of the vote
<i>Not answered</i>
Please provide an approximate size of the holding as at the date of the vote
<i>Not answered</i>
Please provide a summary of the resolution
<i>Not answered</i>
How did you vote?
<i>Not answered</i>
If voting against management, did you communicate your intent to the company ahead of the vote?
<i>Not answered</i>
Please provide a brief rationale for your voting decision
<i>Not answered</i>
What was the outcome of the vote?
<i>Not answered</i>
What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?
<i>Not answered</i>
On which criteria have you assessed this vote to be "most significant"?
<i>Not answered</i>

**AKZO NOBEL (CPS) PENSION SCHEME
IMPLEMENTATION STATEMENT
YEAR ENDED 31 MARCH 2020**
