Akzo Nobel (CPS) Pension Scheme
Statement of Investment Principles
(September 2020)

Introduction

1 This document is the Statement of Investment Principles ('SIP') prepared by the Trustee of the Akzo Nobel (CPS) Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustee will review this SIP at least once a year, or without delay after any significant change in investment policy. Before finalising this SIP, the Trustee has sought advice from the Scheme's Investment Consultant and consulted the Sponsor. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

3 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries on a defined benefit ("DB") basis.

Scheme Objectives

4 The Trustee's primary responsibility is to manage the Scheme so that members receive their benefits as and when they fall due, by maintaining an adequate level of funding for members' benefits. The assets of the Scheme are held by the Trustee for this purpose. They consist of contributions paid by members and the Sponsor, and the accumulated income and capital growth on these contributions.

5 Investment Objectives:

a 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 Sponsor, the cost of current and future benefits which the Scheme provides.

b To limit the risk of the assets failing to meet the liabilities over the long term.

c To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives a and b above.

Investment Strategy

6 The Trustee receives advice to help determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently and has therefore delegated responsibility for investment decisions to an Investment Committee (IC). The responsibilities of the IC are captured within a separate terms of reference. All decisions of the IC will be recorded in Committee minutes and made available to the full Trustee Board.

7 The Scheme targets an asset return in excess of its liabilities that is expected to be sufficient for reaching full funding on a self-sufficiency funding basis within a suitable timescale, taking account of agreed Sponsor deficit contributions. The Scheme’s assets are invested in a way which is expected to generate a prudent return which is at least equivalent to the Scheme’s liability discount rate.

8 The Trustee has agreed a suitable asset mix that is designed to ensure that the Scheme's investments are adequately diversified and are expected to meet the Scheme’s long-term objective under a range of economic scenarios and within a suitable level of risk. This asset mix is expected to evolve over time as the Scheme’s funding level changes, and as future return expectations for different asset classes are updated, and hence the Trustee does not manage the portfolio against formal asset class weightings.

9 The balance within and between the Scheme’s investments will be considered regularly with regard to maximising the chance of achieving the Scheme’s investment objectives.

10 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and Scheme Actuary, the appropriateness of its investment strategy.

11 The Trustee will ensure that the Scheme holds sufficient cash to meet likely benefit payments from time to time. The Trustee’s policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Trustee’s overall investment strategy where possible.

Investment Managers

12 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to the appointed Investment Managers. The Investment Managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently. Before investing in any manner, the Trustee obtains and considers formal advice on the question of whether the investments are suitable having regard to the risks and matters set out below.

13 The appointment of the Scheme’s Investment Managers is reviewed by the IC on a regular basis. The IC holds meetings with the Scheme’s Investment Managers on a needs basis to ensure that Investment Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

14 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.

15 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.

16 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 IC will consider terminating and replacing the manager.

17 For most of the Scheme’s investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may from time to time invest in certain strategies (e.g. hedge fund strategies) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme’s allocation to such mandates is determined in the context of the Scheme’s overall objectives.

18 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.

19 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.

20 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.

Sustainable Investing

21 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.

22 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.

23 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.

24 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.

25 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.

26 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.

27 The Scheme provides a facility for members to pay Additional Voluntary Contributions (AVCs) to enhance their benefits at retirement. The Trustee's objective is to provide a broad range of funds to satisfy the reasonable return and risk combinations of most members. An appropriate range of funds is available through the Scheme's chosen AVC providers via insurance policies held by the Trustee. It is the Trustee' policy to review the AVC arrangements from time to time and to obtain formal advice for the purposes of the Pensions Act on whether these investment options continue to be appropriate.

28 Longevity insurance contract

a The Scheme holds a longevity swap structured as an insurance contract. In broad terms this contract protects the Scheme against the financial loss associated with any mortality improvements on a specific set of pensioners.

b Under the terms of the contract collateral may be posted either to or from the Scheme by way of title transfer in the form of cash and/or gilts, subject to an obligation to account to the poster for the investment returns thereon. The Trustee's policy is to hold any collateral posted to it in the form in which it is posted, to disregard the assets comprising collateral posted to the Scheme for the purposes of asset allocation decisions, and to treat assets posted as collateral to the swap's counterparty as if they remained comprised within the Scheme for the purposes of asset allocation decisions.

Risk measurement and management

29 The Trustee and IC recognise, measure and manage a number of risks involved in the investment of the assets of the Scheme, including but not limited to:

- Deficit risk:
  - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current investment policy
  - is managed through the asset allocation strategy and through ongoing triennial actuarial valuations.
- Interest rate and inflation risk:
  - is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
  - is managed by holding a portfolio of matching assets (physical bonds and/or derivatives, including swaps) that enable the Scheme's assets to better match movements in the value of the liabilities due to changes in inflation and interest rates
- Investment manager risk:
  - is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives
  - is managed through the diversification of the Scheme's assets across a range of investment managers with different styles.
- Currency risk:
  - is measured by the level of concentration of any one currency leading to the risk of an adverse influence on investment values arising from currency movements
  - is managed through diversification of the Scheme's assets across a range of currencies and hedging non-Sterling currency exposure where deemed appropriate to do so.
- Liquidity risk:
  - is measured by the level of cashflow required by the Scheme over a specified period is managed through the investment manager guidelines and internal procedures as appropriate.
  - is managed through a near-term cash management process discussed at each IC meeting to ensure that sufficient cash balances are available, with specific assets earmarked for liquidation should further cash be required
- Regional / Political risk:
  - is measured by the level of concentration of any one economy leading to the risk of an adverse influence on investment values arising from political intervention

  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- Custodial risk:
  - is measured by assessing the custodian's ability to settle trades on time and provide secure safekeeping of the assets under custody
  - is managed through the agreement with the third party Custodian and ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise the transfer of cash and the account to which transfers can be made.

- Counterparty risk:
  - is measured through the level of concentration with any one counterparty leading to the risk of an adverse influence on investment values arising from a default on obligations
  - is managed through the investment manager guidelines and internal procedures as appropriate.

- Sponsor risk:
  - is measured by the level of ability and willingness of the Sponsor to support the continuation of the Scheme and to make good any current or future deficit.
  - is managed by assessing the interaction between the Scheme and the Sponsor, as measured by a number of factors, including the creditworthiness of the Sponsor, guarentees put in place by the Sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Sponsor.

30 The Trustee and IC continue to monitor these risks.

Approved by the Trustee of the Akzo Nobel (CPS) Pension Scheme at a Board meeting held on 15 September 2020