

**AKZO NOBEL (CPS) PENSION SCHEME  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 MARCH 2023  
PENSION SCHEME REFERENCE NUMBER: 10161703**

# AKZO NOBEL (CPS) PENSION SCHEME

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YEAR ENDED 31 MARCH 2023

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# AKZO NOBEL (CPS) PENSION SCHEME

## TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2023

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

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## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2023

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|                              |  |
|------------------------------|--|
| <b>Investment managers</b>   | BlackRock Investment Advisors (UK) Limited<br>CB Richard Ellis Global Investors LLC<br>Legal & General Investment Management Limited<br>Nephila Capital Limited<br>Macquarie Group Limited<br>Equitix Investment Management Limited<br>Alcentra Limited (until 15 April 2022)<br>Alpha Real Capital LLP<br>Greencoat Capital LLP<br>Dalmore Capital Limited<br>State Street Bank and Trust Company<br>Goldman Sachs Asset Management |
| <b>Investment custodians</b> | The Northern Trust Company   |
| <b>AVC providers</b>         | The Standard Life Assurance Company<br>The Prudential Assurance Company Limited<br>Scottish Friendly Assurance<br>Aviva Life and Pensions UK Limited<br>Phoenix Alba Life  |
| <b>Longevity insurer</b>     | ReAssure Limited   |
| <b>Bulk annuity insurer</b>  | Phoenix Life Ltd (from November 2022)<br>AVIVA   |
| <b>Bankers</b>               | Barclays Bank Plc  |

# **AKZO NOBEL (CPS) PENSION SCHEME**

## **TRUSTEE'S REPORT**

**YEAR ENDED 31 MARCH 2023**

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### **Introduction**

The Trustee of the Akzo Nobel (CPS) Pension Scheme ("the Scheme") presents its annual report together with the actuarial certification of the schedule of contributions and audited financial statements for the year ended 31 March 2023.

### **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 four occasions and the administration committee on four occasions. Additionally the Sustainable Investing Group met four times.

The Scheme rules contain provisions for the appointment and removal of Trustee Directors. The Trustee Board at full strength comprises the Chair, one Trustee Director 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 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, 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.

# AKZO NOBEL (CPS) PENSION SCHEME

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 MARCH 2023

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#### Changes to the Scheme

In November 2022 the Scheme entered into a bulk annuity buy-in policy with Phoenix Life insuring the benefits being paid to 5,094 pensioner members and dependants in different benefit sections. The contract is held as an investment of the Scheme and is not marketable. The contract cannot be surrendered, except in very limited circumstances.

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

#### 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 Principal Employer to serve notice on the Trustee to terminate the Scheme or that it 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 fair and impartial.

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.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2023

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#### Membership

The changes in membership during the year are as follows:

|  | Active<br>members | Deferred<br>members | Pensioners,<br>spouses<br>and<br>dependants | Total         |
|--|-------------------|---------------------|---|---------------|
| At 1 April 2022                        | 273               | 5,427               | 16,570                                      | <b>22,270</b> |
| Adjustments to prior period            | (5)               | 8                   | (16)  | <b>(13)</b>   |
| Retirements                            | (10)              | (248)               | 258   | <b>–</b>      |
| Members leaving with deferred benefits | (19)              | 19                  | –   | <b>–</b>      |
| Deaths                                 | (1)               | (32)                | (845)                                       | <b>(878)</b>  |
| New spouses and dependants pensions    | –                 | –                   | 200   | <b>200</b>    |
| Commutations and entitlements ceasing  | –                 | (55)                | (57)  | <b>(112)</b>  |
| Transfers out                          | –                 | (63)                | –   | <b>(63)</b>   |
| <b>At 31 March 2023</b>                | <b>238</b>        | <b>5,056</b>        | <b>16,110</b>                               | <b>21,404</b> |

In addition to the above there are 253 (2022: 225) contingent deferred pensioners and 2,558 (2022: 2,883) deferred pensioners due only a lump sum payment from the Scheme on retirement.

At the year end there were 3,755 (2022: 3,932) spouse and dependant beneficiaries that are included within pensioners, spouses and dependants above.

This includes 5,094 pensioner and dependent members covered by the buy-in policy with Phoenix Life.

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

#### Pension increases

Pensions in payment in excess of the Guaranteed Minimum Pension (GMP) for the greater part of the pension in the main CPS benefit section were increased in the last 3 years as follows:

|              | Pre 99* | Post 99** |
|--------------|---------|-----------|
| 6 April 2021 | 0.8%    | 0.5%      |
| 6 April 2022 | 3.4%    | 3.1%      |
| 6 April 2023 | 8.8%    | 5.0%      |

\* applies to pensions in excess of GMP accrued before 6 April 1999 for members who joined before 1 April 1993, and pensions in excess of GMP accrued between 6 April 1997 and 5 April 1999 for members who joined after 31 March 1993.

\*\* applies to pensions accrued after 5 April 1999 for members who joined before 1 April 1993, and pensions accrued between 6 April 1999 and 5 April 2005 for members who joined after 31 March 1993.

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 increases are based on a combination of CPI and a proportion of RPI,

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.

Deferred pensions were increased in line with statutory requirements with an increase for the CPS Section of 8.8% on the pension accrued before 6 April 1999 (nil: post 5 April 1999) where this is higher.

There were no discretionary pension increases.

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## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2023

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##### 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.

##### 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 2020 and revealed a deficit of £62 million which equated to a funding level of 98%.

Following the 2020 actuarial valuation the Trustee and the Employer agreed a recovery plan such that:

- the Employer paid an additional contribution of £26.1 million in March 2021 and paid a further £3.7 million in March 2022 from the escrow account set up by the Employer in 2019. The escrow account has been extinguished.
- The effect of these contributions taken together with positive investment performance since the valuation date was expected to have removed the funding deficit by 30th September 2021.

The next full actuarial valuation of the Scheme is due as at 31 March 2023 and the final results of that valuation are not available at the date of this report. It is expected that the final agreed results of the valuation will show that the funding position of the Scheme has improved further.

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 2020. This showed that on that date:

|  |                |
|--|----------------|
| The value of the Technical Provisions was: | £3,499 million |
| The value of the assets at that date was:  | £3,437 million |



# AKZO NOBEL (CPS) PENSION SCHEME

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 MARCH 2023

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#### Report on Actuarial Liabilities *(continued)*

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 gilt curve (as derived from Bank of England data) at the valuation date plus a margin of 1.1% pa until March 2022, then reducing linearly to 0.25% per annum by March 2030 and continuing at this level.

**Future Retail Price Index (RPI) inflation:** Breakeven RPI curve.

**Future Consumer Price Index (CPI) inflation:** Breakeven RPI curve minus 1% till 2030 and no deduction thereafter.

**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:** in line with the CPI assumption for the purpose of determining the technical provisions.

**Mortality - base tables:** for the period in retirement:

- standard tables S3PMA with a scaling factor of 94% for male members and all widowers;
- standard tables S3PFA with a scaling factor of 92% for all female members; and
- standard tables S3DFA with a scaling factor of 92% for all widows.

**Mortality - future improvements:** in line with the CMI 2019 core projection model from 2020 onwards with an assumed long term mortality improvement trend of 1.5% per annum and initial addition to mortality improvements (A) of 0.25% pa from 2020.

#### Going Concern

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 2023

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#### Task Force on Climate Change-related Financial Disclosures (TCFD)

New Regulations came into effect from 1st October 2021 which specifically relate to climate change. It is required to have in place effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities. The Trustee is required to publish its first 'Taskforce on Climate-related Financial Disclosures (TCFD)' report by 31 October 2023. The report will be available here: [https://akzonobelcspensionscheme.co.uk/Climate-related-financial\\_report.pdf](https://akzonobelcspensionscheme.co.uk/Climate-related-financial_report.pdf)

#### 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.

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 its 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 13, the SIP is also available on link: <http://akzonobelcspensionscheme.co.uk/library.html>

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 2020 actuarial valuation, the Trustee is targeting an investment return on its assets of gilts +1.1% p.a. decreasing to gilts +0.25% over a 10 year period from 2020. The asset allocation as at 31 March 2023 is provided below.

| Asset Class  | Proportion          | Value               |
|--|---------------------|---------------------|
|  | as at<br>31/03/2023 | as at<br>31/03/2023 |
|  | %                   | £m                  |
| Equities   | 5                   | 106                 |
| Property   | 12                  | 258                 |
| LDI portfolio  | 82                  | 1,678               |
| Secure income assets                                     | 8                   | 160                 |
| Cash deposits, derivatives and other pending investments | -7                  | -148                |
| <b>Total</b>   | <b>100</b>          | <b>2,054</b>        |

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 2023

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#### Investment Objective *(continued)*

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)<br>Pension Scheme | Benchmark |
|---------------------|------------------------------------|-----------|
|                     | %                                  | %         |
| 2023                | -18.8                              | -24.7     |
| 2022                | +1.5                               | +1.0      |
| 2021                | +3.7                               | -0.6      |
| 2020                | +4.1                               | +3.2      |
| 2019                | +6.2                               | +6.1      |
| 3 year (annualised) | -5.1                               | -8.9      |
| 5 year (annualised) | -1.1                               | -3.0      |

Note: The numbers above have been provided by the Scheme's custodian, Northern Trust, as at 31 March 2023, 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, the bulk annuity buy-in policy 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.

In 2022 the Scheme entered into a bulk annuity buy-in policy with Phoenix Life insuring the benefits being paid to 5,094 pensioner members and dependants in different benefit sections. The contract is held as an investment of the Scheme and is not marketable. The contract cannot be surrendered, except in very limited circumstances.

#### 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.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2023

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#### Sustainable Investing

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.
  - 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 believes ensuring good stewardship of assets by managers, in an appropriate manner across all asset classes, is an important part of trustee fiduciary duty towards members. Therefore whilst the Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights and engagement with underlying companies) attaching to investments to the investment managers, the Trustee recognises that voting and engagement are ultimately their responsibility.
  - The Trustee regularly reviews manager's voting and engagement records with the assistance of its investment adviser through reporting or meetings with its investment managers as appropriate. The Trustee's stewardship priorities and expectations of managers includes the following principles agreed by the Trustee's Sustainable Investment Group with due consideration of members' interests:
    - Long-term sustainability issues have a material impact on risk and outcomes, both financial and nonfinancial and therefore should be integrated alongside more traditional investment factors.
    - Climate change may present a material financial risk to the Scheme and is therefore a priority for the Trustee requiring particular attention. The Scheme has set a target of net zero by 2050, which it expects managers to align with.
    - Engagement is an effective strategy to pursue and is often more powerful than exclusion, however the Trustee expects the Scheme's investment managers to take appropriate action if certain exposures start to present material investment, regulatory or reputational risks.
    - Managers should ensure robust corporate governance within their underlying holdings.
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## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2023

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#### Sustainable Investing *(continued)*

- Voting and engagement rights should be exercised and should be done so in a manner that is consistent with the Trustee's policies. Managers are expected to explain and demonstrate how their stewardship approach impacts their investment decisions, particularly on votes and engagement activities relating to the Trustee's policies.
  - The Trustee may engage in collaborative activities with other asset owners, investment managers and other parties in support of broader responsible investment initiatives or otherwise to further the Trustee's aims and objectives as set out in this statement.
  - The Trustee supports the principles of the UK Stewardship Code 2020 and expects its managers to become a signatory or make progress towards becoming a signatory of the Code.
- 
- Should the Trustee's monitoring process reveal that a manager's voting and engagement actions are not aligned with the Trustee's policies, the Trustee, or its advisers, will engage with the manager further to encourage alignment. 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.
  - The Trustee holds a set of specific sustainable investment beliefs which are considered alongside the Trustee's investment policies. These beliefs are reviewed periodically.
  - 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.
  - 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 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.
  - 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.
  - 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.

The Trustee's 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.

## **AKZO NOBEL (CPS) PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2023**

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##### **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.

##### **Employer-related investments**

At the year-end employer-related investments are held indirectly through pooled investment vehicles (Legal & General MSCI ACWI Adaptive Capped ESG Index Fund). The value of employer-related investments within this fund 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, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. A further High Court case in November 2020 has ruled that schemes are now required to equalise transfer values paid to members prior to October 2018 to take account of GMP equalisation where applicable. The implication of these rulings on the Scheme and the equalisation of guaranteed minimum pensions between men and women, in the context of the rules of the Scheme and the value of any liability, is estimated not to be material to the figures presented in these accounts.

The Trustee is in the process of reviewing the impact of GMP equalisation on both current members of the Scheme and those that have previously transferred out. Once this review is finalised and any liability quantified, then members will be contacted and their benefits adjusted as appropriate.

##### **Significant events during the year**

As a result of the political events there was a dramatic downturn in UK debt markets in September 2022 which impacted LDI portfolios and for some schemes required the provision of additional collateral. The Scheme had a sufficient buffer within its LDI portfolio to withstand the sharp rise in gilt rates and the LDI portfolio met all collateral calls without requiring unplanned cash input as at the date these financial statements were approved. The Trustee has designed and implemented an investment strategy to withstand short term fluctuations. The Trustee continues to take proactive and considered steps, in conjunction with their advisers, to assess the situation and respond to it.

# AKZO NOBEL (CPS) PENSION SCHEME

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2023


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### 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:

**Towers Watson**  
**Akzo Nobel (CPS) Pension Scheme**  
**PO Box 545**  
**Redhill**  
**Surrey**  
**RH1 1YX**  
**(e-mail: [cps.pacontact@wtwco.com](mailto:cps.pacontact@wtwco.com))**

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

DocuSigned by:  
  
E3F21BDA744B49E...

**Trustee Director**

**Date** 24 October 2023

DocuSigned by:  
  
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**Trustee Director**

**Date** 24 October 2023

## **AKZO NOBEL (CPS) PENSION SCHEME**

### **ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS**

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#### **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 2020 to be met by the end of the period specified in the recovery plan dated 28 September 2021.

#### **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 2021.

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, a Willis Towers Watson**  
**Company**

**Date** 28 September 2021

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**



**AKZO NOBEL (CPS) PENSION SCHEME**  
**TRUSTEE'S SUMMARY OF CONTRIBUTIONS**  
**YEAR ENDED 31 MARCH 2023**

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**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 monitoring 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 2023**

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 2021 in respect of the Scheme year ended 31 March 2023. The Scheme auditor report on contributions payable under the schedule in their auditor's statement about contributions.

|   | <b>£000</b>         |
|---|---------------------|
| <b>Contributions required by the Schedules of Contributions</b>   |                     |
| <b>Employers</b>  |                     |
| Normal contributions  | 6,681               |
| <b>Employees</b>  |                     |
| Normal contributions  | 10                  |
| Contributions payable under the Schedules (as reported on by the Scheme auditor and reported in the financial statements) | <u>6,691</u>        |
| <b>Other contributions</b>  |                     |
| <b>Employees</b>  |                     |
| Additional voluntary contributions  | 163                 |
| <b>Total contributions reported in the financial statements</b>   | <u><b>6,854</b></u> |

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

DocuSigned by:  
  
 E3F21BD6744B49E...  
**Trustee Director**

DocuSigned by:  
  
 A8C89E53DDE43B...  
**Trustee Director**

**Date** 24 October 2023

**Date** 24 October 2023

## **AKZO NOBEL (CPS) PENSION SCHEME**

### **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE**

#### **YEAR ENDED 31 MARCH 2023**

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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 2023 which is set out on page 15.

In our opinion contributions for the Scheme year ended 31 March 2023 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid for the period at least in accordance with the Schedule of Contributions certified by the Actuary on 28 September 2021.

#### **Respective responsibilities of Trustee and the auditor**

As explained more fully in the Statement of Trustee's Responsibilities set out on page 15, 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.



Gemma Broom  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
66 Queen Square  
Bristol  
BS1 4BE

Date 24 October 2023

# AKZO NOBEL (CPS) PENSION SCHEME

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2023

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### Opinion

We have audited the financial statements of the Akzo Nobel (CPS) Pension Scheme ("the Scheme") for the year ended 31 March 2023 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and related notes, 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 2023 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;
- 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 3A 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 as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has 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").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Scheme will continue in operation.

## AKZO NOBEL (CPS) PENSION SCHEME

### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

#### YEAR ENDED 31 MARCH 2023

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##### **Fraud and breaches of laws and regulations - ability to detect**

###### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee as to the Scheme's high-level policies and procedures to prevent and detect fraud as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.
- Reading Trustee Board minutes and the Scheme's Administration Reports.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Trustee (or its delegates including the Scheme administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as the valuation of the Scheme's directly held property, longevity swap and bulk annuity policy. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under agreed schedules or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared and unusual journals to cash.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

###### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and its delegate (as required by auditing standards), and discussed with the Trustee and its delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

## AKZO NOBEL (CPS) PENSION SCHEME

### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2023

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#### **Fraud and breaches of laws and regulations - ability to detect *(continued)***

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and its delegates and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the schedule of contributions in our statement about contributions on page 16 of the annual report.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

#### **Other information**

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities, the summary of contributions, the TCFD Report and the implementation statement) and the actuarial certification of the schedule 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.

## AKZO NOBEL (CPS) PENSION SCHEME

### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2023

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#### Trustee's responsibilities

As explained more fully in its statement set out on page 4, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; 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; 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 it either intends to wind up the Scheme, or has no realistic alternative but to do so.

#### Auditor's responsibilities

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](http://www.frc.org.uk/auditorsresponsibilities).

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

This report is made solely to the Scheme 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 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 Trustee for our audit work, for this report, or for the opinions we have formed.



Gemma Broom  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
66 Queen Square  
Bristol  
BS1 4BE

Date 24 October 2023

# AKZO NOBEL (CPS) PENSION SCHEME

## FUND ACCOUNT

YEAR ENDED 31 MARCH 2023

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|   | Note | 2023<br>£000            | 2022<br>£000            |
|---|------|-------------------------|-------------------------|
| <b>Contributions and benefits</b>                 |      |                         |                         |
| Employer contributions                            |      | 6,681                   | 10,354                  |
| Employee contributions                            |      | 173                     | 139                     |
| Total contributions                               | 4    | <u>6,854</u>            | <u>10,493</u>           |
| Benefits  | 5    | (122,238)               | (121,065)               |
| Payments to and on account of leavers             | 6    | (25,111)                | (24,427)                |
| Administrative expenses                           | 7    | (4)                     | (6)                     |
|   |      | <u>(147,353)</u>        | <u>(145,498)</u>        |
| <b>Net withdrawals from dealings with members</b> |      | <b>(140,499)</b>        | <b>(135,005)</b>        |
| <b>Returns on investments</b>                     |      |                         |                         |
| Investment income                                 | 8    | 70,941                  | 62,655                  |
| Change in market value of investments             | 9    | (740,835)               | 12,314                  |
| Investment management expenses                    | 10   | (2,166)                 | (3,041)                 |
| <b>Net return on investments</b>                  |      | <b>(672,060)</b>        | <b>71,928</b>           |
| <b>Net decrease in the fund during the year</b>   |      | <b>(812,559)</b>        | <b>(63,077)</b>         |
| <b>Net assets of the Scheme</b>                   |      |                         |                         |
| At 1 April  |      | <u>3,394,976</u>        | <u>3,458,053</u>        |
| <b>At 31 March</b>                                |      | <u><b>2,582,417</b></u> | <u><b>3,394,976</b></u> |

The notes on pages 23 to 42 form part of these financial statements.

# AKZO NOBEL (CPS) PENSION SCHEME

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2023

|   | Note      | 2023<br>£000            | 2022<br>£000            |
|---|-----------|-------------------------|-------------------------|
| <b>Investment assets</b>                    | <b>9</b>  |                         |                         |
| Equities                                    |           | 103                     | 103                     |
| Bonds                                       |           | 1,678,145               | 2,958,779               |
| Property                                    | 12        | 182,620                 | 309,145                 |
| Pooled investment vehicles                  | 13        | 376,807                 | 468,946                 |
| Derivatives                                 | 14        | 74,846                  | 48,953                  |
| Insurance policies                          | 15        | 620,619                 | 1,219                   |
| AVC investments                             | 17        | 3,543                   | 3,978                   |
| Cash  | 18        | 45,740                  | 63,759                  |
| Other investment balances                   | 19        | 18,100                  | 73,753                  |
|   |           | <u>3,000,523</u>        | <u>3,928,635</u>        |
| <b>Investment liabilities</b>               | <b>9</b>  |                         |                         |
| Longevity hedging insurance contract        | 16        | (100,200)               | (114,510)               |
| Derivatives                                 | 14        | (43,686)                | (36,000)                |
| Other investment balances                   | 19        | (277,937)               | (386,227)               |
|   |           | <u>(421,823)</u>        | <u>(536,737)</u>        |
| <b>Total investments</b>                    |           | <u>2,578,700</u>        | <u>3,391,898</u>        |
| <b>Current assets</b>                       | <b>24</b> | <b>6,171</b>            | <b>5,870</b>            |
| <b>Current liabilities</b>                  | <b>25</b> | <b>(2,454)</b>          | <b>(2,792)</b>          |
| <b>Net assets of the Scheme at 31 March</b> |           | <u><u>2,582,417</u></u> | <u><u>3,394,976</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 7 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:

DocuSigned by:  
  
 E3F21BD7A744B49E...  
**Trustee Director**

DocuSigned by:  
  
 A9CE05E63DDF43B...  
**Trustee Director**

Date 24 October 2023

Date 24 October 2023

The notes on pages 23 to 42 form part of these financial statements.



# AKZO NOBEL (CPS) PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 MARCH 2023

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#### 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 on page 13.

#### 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").

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 the impact of the current economic environment on investments, future income and capital growth, portfolio liquidity, cashflow requirements and the Employer covenant. The Trustee has also considered the impact of the current economic environment 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 2020 revealed a funding level on the Scheme's Technical Provisions basis of 98%, the most recent formal measuring point. No further deficit contributions are due under the current Schedule of Contributions. The next full actuarial valuation of the Scheme as at 31 March 2023 is currently being prepared.

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

#### 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.

**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2023**

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**3. Accounting policies** *(continued)*

**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 2023**

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**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 2023

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#### 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 2023. 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 benefits 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 2023

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#### 3. Accounting policies *(continued)*

The value of the bulk annuity policy issue by Phoenix Life has been calculated by the Scheme Actuary. To provide consistency with the original purchase price, the valuation has been determined using assumptions broadly consistent with general bulk annuity market pricing at the accounting date, adjusted for the difference between such general pricing and the (lower) actual price achieved at the time of purchase.

The value of the bulk annuity policy issued by Aviva has been calculated by the Scheme Actuary. On practicality and materiality grounds, the valuation has been determined using assumptions which overall are broadly consistent with general bulk annuity market pricing at the valuation date.

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

|                                    | <b>2023</b>  | 2022          |
|------------------------------------|--------------|---------------|
|                                    | <b>£000</b>  | £000          |
| <b>Employer contributions</b>      |              |               |
| Normal                             | <b>6,681</b> | 6,606         |
| Deficit funding                    | –            | 3,748         |
|                                    | <b>6,681</b> | <u>10,354</u> |
| <b>Employee contributions</b>      |              |               |
| Normal                             | <b>10</b>    | 15            |
| Additional voluntary contributions | <b>163</b>   | 124           |
|                                    | <b>173</b>   | <u>139</u>    |
|                                    | <b>6,854</b> | <u>10,493</u> |

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 most participating employees no longer pay employee contributions to the Scheme and the employers pays additional contributions on their behalf.

**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2023**

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**5. Benefits**

|  | <b>2023</b>           | 2022           |
|--|-----------------------|----------------|
|  | <b>£000</b>           | £000           |
| Pensions   | <b>111,504</b>        | 109,774        |
| Commutations and retirement lump sums                  | <b>10,107</b>         | 10,997         |
| Lump sum death benefits                                | <b>600</b>            | 191            |
| Taxation (where lifetime or annual allowance exceeded) | <b>27</b>             | 103            |
|  | <b><u>122,238</u></b> | <u>121,065</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.

**6. Payments to and on account of leavers**

|                                       | <b>2023</b>          | 2022          |
|---------------------------------------|----------------------|---------------|
|                                       | <b>£000</b>          | £000          |
| Individual transfers to other schemes | <b><u>25,111</u></b> | <u>24,427</u> |

**7. Administrative expenses**

|            | <b>2023</b>     | 2022     |
|------------|-----------------|----------|
|            | <b>£000</b>     | £000     |
| Other fees | <b><u>4</u></b> | <u>6</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.

**8. Investment income**

|   | <b>2023</b>          | 2022          |
|---|----------------------|---------------|
|   | <b>£000</b>          | £000          |
| Net income from properties                                    | <b>6,738</b>         | 8,077         |
| Income from bonds   | <b>49,271</b>        | 58,323        |
| Dividends from equities                                       | <b>–</b>             | 10            |
| Income from pooled investment vehicles                        | <b>9,322</b>         | 6,335         |
| Income from derivatives                                       | <b>1,010</b>         | (9,703)       |
| Income from annuities   | <b>10,830</b>        | 387           |
| Net expense from repurchase and reverse repurchase agreements | <b>(6,499)</b>       | (783)         |
| Income on cash deposits and cash equivalents                  | <b>269</b>           | 9             |
|   | <b><u>70,941</u></b> | <u>62,655</u> |

The net income from properties above has been reduced by an amount of £9,485,000 (2022: £5,600,000) relating to property expenses deducted.

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**9. Investments**

|                               | Value as at<br>01/04/22<br>£000 | Purchases<br>at cost and<br>derivative<br>payments<br>£000 | Sales<br>proceeds<br>and<br>derivative<br>receipts<br>£000 | Change in<br>market<br>value<br>£000 | Value as at<br>31/03/23<br>£000 |
|-------------------------------|---------------------------------|--|--|--------------------------------------|---------------------------------|
| Equities                      | 103                             | –  | (64)   | 64                                   | 103                             |
| Bonds                         | 2,958,779                       | 439,189  | (1,063,362)  | (656,461)                            | 1,678,145                       |
| Property                      | 309,145                         | 4,000  | (95,150)   | (35,375)                             | 182,620                         |
| Pooled investment<br>vehicles | 468,946                         | 395,937  | (481,331)  | (6,745)                              | 376,807                         |
| Derivatives                   | 12,953                          | 88,351   | (46,875)   | (23,269)                             | 31,160                          |
| Insurance policies            | 1,219                           | 645,126  | –  | (25,726)                             | 620,619                         |
| Longevity swap                | (114,510)                       | 7,527  | –  | 6,783                                | (100,200)                       |
| AVC investments               | 3,978                           | 163  | (543)  | (55)                                 | 3,543                           |
|                               | <u>3,640,613</u>                | <u>1,580,293</u>   | <u>(1,687,325)</u>   | <u>(740,784)</u>                     | <u>2,792,797</u>                |
| Cash                          | 63,759                          |  |  | (51)                                 | 45,740                          |
| Other investment<br>balances  | <u>(312,474)</u>                |  |  | –                                    | <u>(259,837)</u>                |
|                               | <u>3,391,898</u>                |  |  | <u>(740,835)</u>                     | <u>2,578,700</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:

|            | 2023         |                    |               |               | 2022          |
|------------|--------------|--------------------|---------------|---------------|---------------|
|            | Fees<br>£000 | Commission<br>£000 | Taxes<br>£000 | Total<br>£000 | Total<br>£000 |
| Equities   | –            | –                  | –             | –             | 150           |
| Other      | –            | –                  | –             | –             | 130           |
| Total 2023 | <u>–</u>     | <u>–</u>           | <u>–</u>      | <u>–</u>      |               |
| Total 2022 | <u>280</u>   | <u>–</u>           | <u>–</u>      |               | <u>280</u>    |

**10. Investment management expenses**

|                 |              |              |
|-----------------|--------------|--------------|
|                 | <b>2023</b>  | 2022         |
|                 | <b>£000</b>  | £000         |
| Management fees | <u>2,166</u> | <u>3,041</u> |

# AKZO NOBEL (CPS) PENSION SCHEME

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#### 11. 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.

#### 12. Property

|                      | <b>2023</b>           | 2022           |
|----------------------|-----------------------|----------------|
|                      | <b>£000</b>           | £000           |
| UK Property - direct | <b><u>182,620</u></b> | <u>309,145</u> |

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.

#### 13. Pooled investment vehicles

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

|                | <b>2023</b>           | 2022           |
|----------------|-----------------------|----------------|
|                | <b>£000</b>           | £000           |
| Equity         | <b>105,637</b>        | 190,752        |
| Hedge funds    | <b>550</b>            | 346            |
| Private equity | <b>159,728</b>        | 167,954        |
| Property       | <b>75,513</b>         | 80,169         |
| Cash           | <b>35,379</b>         | 29,725         |
|                | <b><u>376,807</u></b> | <u>468,946</u> |

#### 14. 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:

|                      | <b>31 March 2023</b> |                    | <i>31 March 2022</i> |                    |
|----------------------|----------------------|--------------------|----------------------|--------------------|
|                      | <b>Assets</b>        | <b>Liabilities</b> | <i>Assets</i>        | <i>Liabilities</i> |
|                      | <b>£000</b>          | <b>£000</b>        | £000                 | £000               |
| Swaps                | 68,967               | (43,470)           | 48,264               | (25,236)           |
| Forward FX contracts | 5,879                | (216)              | 689                  | (10,764)           |
|                      | <u>74,846</u>        | <u>(43,686)</u>    | <u>48,953</u>        | <u>(36,000)</u>    |

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## AKZO NOBEL (CPS) PENSION SCHEME

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#### 14. Derivatives *(continued)*

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

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 pledged cash collateral of £90,000 (2022: £7,275,000) and received cash collateral of £3,701,000 (2022: £75,000), this collateral is reported within other investment balances.

#### Swaps

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

| Nature   | No. of contracts | Notional amounts<br>£000 | Expires   | Asset value<br>£000 | Liability value<br>£000 |
|--|------------------|--------------------------|-----------|---------------------|-------------------------|
| Interest rate swap<br>(receiving fixed/paying<br>floating)   | 99               | 192,860                  | 2025-2072 | 379                 | (35,268)                |
| Interest rate swap (paying<br>fixed/receiving floating)      | 89               | 466,768                  | 2023-2052 | 47,120              | (2,051)                 |
| Inflation rate swaps<br>(paying fixed/receiving<br>floating) | 8                | 166,895                  | 2024-2032 | 21,468              | -                       |
| Inflation rate swap<br>(receiving fixed/paying<br>floating)  | 1                | 32,000                   | 2027      | -                   | (6,151)                 |
| <b>Total 2023</b>  |                  | <u>858,523</u>           |           | <u>68,967</u>       | <u>(43,470)</u>         |
| Total 2022   |                  | <u>884,340</u>           |           | <u>48,264</u>       | <u>(25,236)</u>         |

At the year end there was 9 inflation rate swap and 188 interest rate swap contracts of which 121 were in the UK and 76 were overseas.

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**14. Derivatives (continued)**

**Forward FX contracts**

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

| <b>Contract</b>   | <b>Settlement date</b> | <b>No. of contracts</b> | <b>Currency bought '000</b> | <b>Currency sold '000</b> | <b>Asset value £000</b> | <b>Liability value £000</b> |
|-------------------|------------------------|-------------------------|-----------------------------|---------------------------|-------------------------|-----------------------------|
| OTC traded        | 1 month                | 9                       | EUR 9,415                   | GBP 8,342                 | 2                       | (69)                        |
| OTC traded        | 1 months               | 21                      | GBP 141,105                 | EUR 158,686               | 1,623                   | –                           |
| OTC traded        | 3 month                | 1                       | GBP 41,745                  | EUR 47,236                | 112                     | –                           |
| OTC traded        | 1 months               | 11                      | GBP 61,282                  | USD 74,880                | 740                     | –                           |
| OTC traded        | 2 month                | 9                       | GBP 167,944                 | USD 203,624               | 3,402                   | –                           |
| OTC traded        | 1 month                | 6                       | USD 4,410                   | GBP 3,630                 | –                       | (64)                        |
| OTC traded        | 2 months               | 3                       | USD 4,219                   | GBP 3,492                 | –                       | (83)                        |
| <b>Total 2023</b> |                        |                         |                             |                           | <u>5,879</u>            | <u>(216)</u>                |
| Total 2022        |                        |                         |                             |                           | <u>689</u>              | <u>(10,764)</u>             |

**15. Insurance policies**

|                               | <b>2023<br/>£000</b>  | <b>2022<br/>£000</b> |
|-------------------------------|-----------------------|----------------------|
| AVIVA insurance policy        | <b>819</b>            | <b>1,219</b>         |
| Phoenix Life Insurance policy | <b>619,800</b>        | <b>–</b>             |
|                               | <u><b>620,619</b></u> | <u><b>1,219</b></u>  |

In 2022 the Scheme entered into a bulk annuity buy-in policy with Phoenix Life insuring the benefits being paid to 5,094 pensioner members and dependants in different benefit sections. The contract is held as an investment of the Scheme and is not marketable. The contract cannot be surrendered, except in very limited circumstances.

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**16. Longevity hedging insurance contract**

|                                      | <b>2023</b>      | 2022             |
|--------------------------------------|------------------|------------------|
|                                      | <b>£000</b>      | £000             |
| Longevity hedging insurance contract | <b>(100,200)</b> | <b>(114,510)</b> |

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 Phoenix Life, 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 £104.68m was posted at 31 March 2023 (2022: £133.74m). Following the quarterly review of the collateral under the terms of the contract, £112.73m of collateral was required as at 31 March 2023 (2022: £130.13m) and the difference was posted after the year end.

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.

**17. AVC investments**

|  | <b>2023</b>         | 2022                |
|--|---------------------|---------------------|
|  | <b>£000</b>         | £000                |
| The Standard Life Assurance Company: unit linked | <b>173</b>          | 192                 |
| Phoenix Life Limited: unit linked                | <b>6</b>            | 6                   |
| Aviva Life and Pensions UK Limited               | <b>3,041</b>        | 3,303               |
| The Prudential Assurance Company: unit linked    | <b>322</b>          | 476                 |
| MGM Limited: unit linked                         | <b>1</b>            | 1                   |
|  | <b><u>3,543</u></b> | <b><u>3,978</u></b> |

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.

**18. Cash**

|                    | <b>2023</b>          | 2022                 |
|--------------------|----------------------|----------------------|
|                    | <b>£000</b>          | £000                 |
| <b>Cash assets</b> |                      |                      |
| Sterling           | <b><u>45,740</u></b> | <b><u>63,759</u></b> |

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**19. Other investment balances**

|  | <b>2023</b>      | 2022             |
|--|------------------|------------------|
|  | <b>£000</b>      | £000             |
| <b>Other investment balances assets</b>      |                  |                  |
| Amounts due from brokers                     | 219              | 3,338            |
| Reverse repurchase agreements                | –                | 42,902           |
| Accrued rental income                        | 472              | 1,547            |
| Accrued income                               | 17,319           | 18,692           |
| Cash collateral held elsewhere               | 90               | 7,274            |
|  | <u>18,100</u>    | <u>73,753</u>    |
| <b>Other investment balances liabilities</b> |                  |                  |
| Amounts due to brokers                       | (1,552)          | (6,081)          |
| Repurchase contracts                         | (250,346)        | (360,955)        |
| VAT due to HMRC                              | (733)            | (312)            |
| Deferred rental income                       | (2,320)          | (3,016)          |
| Rental deposits due to tenants               | (19,285)         | (15,788)         |
| Obligation to return collateral              | (3,701)          | (75)             |
|  | <u>(277,937)</u> | <u>(386,227)</u> |
|  | <u>(259,837)</u> | <u>(312,474)</u> |

As at 31 March 2023 bonds are held by the Scheme amounting to £nil (2022: £39,597,039) as part of the reverse repurchase agreements, these bonds are not recognised in the Scheme's financial statements.

As at 31 March 2023 £242,434,671 (2022: £343,510,568) 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. A further £10,598,027 (2022: £19,125,297) of bonds reported in the Scheme assets has been deposited with counterparties to cover the exposure between the value of the bonds sold subject to repurchase and the value of the repurchase agreements.

**20. 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.

## AKZO NOBEL (CPS) PENSION SCHEME

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#### 20. Fair value determination *(continued)*

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

|                            | At 31 March 2023 |                  |                 | Total<br>£000    |
|----------------------------|------------------|------------------|-----------------|------------------|
|                            | Level 1<br>£000  | Level 2<br>£000  | Level 3<br>£000 |                  |
| Equities                   | –                | 103              | –               | 103              |
| Bonds                      | –                | 1,678,145        | –               | 1,678,145        |
| Property                   | –                | –                | 182,620         | 182,620          |
| Pooled investment vehicles | –                | 141,016          | 235,791         | 376,807          |
| Derivatives                | –                | 5,662            | 25,498          | 31,160           |
| Insurance policies         | –                | –                | 620,619         | 620,619          |
| Longevity swap             | –                | –                | (100,200)       | (100,200)        |
| AVC investments            | –                | 3,366            | 177             | 3,543            |
| Cash                       | 45,740           | –                | –               | 45,740           |
| Other investment balances  | (9,491)          | (250,346)        | –               | (259,837)        |
|                            | <u>36,249</u>    | <u>1,577,946</u> | <u>964,505</u>  | <u>2,578,700</u> |

|                            | At 31 March 2022 |                  |                 | Total<br>£000    |
|----------------------------|------------------|------------------|-----------------|------------------|
|                            | Level 1<br>£000  | Level 2<br>£000  | Level 3<br>£000 |                  |
| Equities                   | –                | 103              | –               | 103              |
| Bonds                      | –                | 2,958,779        | –               | 2,958,779        |
| Property                   | –                | –                | 309,145         | 309,145          |
| Pooled investment vehicles | –                | 220,360          | 248,586         | 468,946          |
| Derivatives                | –                | (10,075)         | 23,028          | 12,953           |
| Insurance policies         | –                | –                | 1,219           | 1,219            |
| Longevity swap             | –                | –                | (114,510)       | (114,510)        |
| AVC investments            | –                | 3,782            | 196             | 3,978            |
| Cash                       | 63,759           | –                | –               | 63,759           |
| Other investment balances  | 5,578            | (318,052)        | –               | (312,474)        |
|                            | <u>69,337</u>    | <u>2,854,897</u> | <u>467,664</u>  | <u>3,391,898</u> |

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**21. 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

#### YEAR ENDED 31 MARCH 2023

##### Investment risk disclosures (continued)

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

|   | Credit risk | Market risk<br>Currency | Interest rate | Other price | 2023<br>Value<br>(£000s) | 2022<br>Value<br>(£000s) |
|---|-------------|-------------------------|---------------|-------------|--------------------------|--------------------------|
| <b>Scheme assets</b>                              |             |                         |               |             |                          |                          |
| Equities  | *           | *                       | *             | #           | 103                      | 103                      |
| Bonds (LDI)                                       | #           | *                       | #             | *           | 1,678,145                | 2,958,779                |
| Property  | ^           | *                       | *             | #           | 182,620                  | 309,145                  |
| <i>Pooled investment vehicles</i>                 |             |                         |               |             |                          |                          |
| Equities  | *           | #                       | *             | #           | 105,637                  | 190,752                  |
| Property  | ^           | *                       | *             | #           | 75,513                   | 80,169                   |
| Reinsurance                                       | ^           | #                       | ^             | #           | 550                      | 346                      |
| Infrastructure                                    | ^           | *                       | ^             | *           | 159,728                  | 167,954                  |
| Cash (pooled)                                     | ^           | *                       | *             | *           | 35,379                   | 29,725                   |
| Cash (incl derivatives and repurchase agreements) | ^           | ^                       | *             | ^           | (182,937)                | (235,762)                |
| Longevity Contract                                | ^           | *                       | #             | *           | (100,200)                | (114,510)                |
| <b>Total investments</b>                          |             |                         |               |             | <u>1,954,538</u>         | <u>3,386,701</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 2020 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 +1.1% p.a. decreasing to gilts +0.5% over a 10 year period from 2020.

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**21. 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 properties with diverse tenant, sector and geographical spread.

| <b>Grade</b>                | <b>2023</b>             | <b>2022</b>             |
|-----------------------------|-------------------------|-------------------------|
|                             | <b>£000</b>             | <b>£000</b>             |
| <b>Investment grade</b>     | <b>1,644,566</b>        | <b>2,917,277</b>        |
| <b>Non-investment grade</b> | <b>33,579</b>           | <b>41,502</b>           |
| <b>Total</b>                | <b><u>1,678,145</u></b> | <b><u>2,958,779</u></b> |

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 and the buy-in bulk annuity policy.

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 36 and notes 9 and 13 of the financial statements.



**AKZO NOBEL (CPS) PENSION SCHEME**  
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**21. Investment risk disclosures** *(continued)*

The following table summarises the Pooled Investment Vehicles by its legal nature. The pooled investments are all unrated.

| <b>Legal nature</b>  | <b>2023</b>           | <b>2022</b>           |
|--|-----------------------|-----------------------|
|  | <b>£000</b>           | <b>£000</b>           |
| 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)) | <b>550</b>            | <b>464</b>            |
| English Limited Liability Partnership  | <b>57,484</b>         | <b>57,373</b>         |
| Guernsey Property Unit Trust   | <b>9,834</b>          | <b>11,262</b>         |
| Jersey Property Unit Trust   | <b>14,279</b>         | <b>14,279</b>         |
| Limited partnership registered in England (authorised in Guernsey to be a closed-ended collective investment scheme)   | <b>23,750</b>         | <b>31,465</b>         |
| Limited partnership registered in England and Wales  | <b>55,064</b>         | <b>55,770</b>         |
| Open ended investment company  | <b>15,100</b>         | <b>10,555</b>         |
| Property Authorised Investment Fund (PAIF). (Note prior to April 2019 the fund was an Exempt Unauthorised Unit Trust (EUUT))   | <b>51,401</b>         | <b>54,628</b>         |
| Registered limited partnership   | <b>23,429</b>         | <b>23,346</b>         |
| UCITS Mutual Fund  | <b>20,279</b>         | <b>19,170</b>         |
| Unit linked life insurance funds   | <b>105,637</b>        | <b>190,634</b>        |
|  | <b><u>376,807</u></b> | <b><u>468,946</u></b> |

**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2023**

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**21. 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, £0.5 million (2022: £0.5 million) of pooled investment vehicles are held in non-Sterling denominated currencies (mainly US\$ and Euro). These are not hedged. The currency risk of some of its segregated bonds holdings is eliminated by hedging through currency forward contracts.

|              | 2023           |                | 2022           |                |
|--------------|----------------|----------------|----------------|----------------|
|              | EUR<br>£000    | USD<br>£000    | EUR<br>£000    | USD<br>£000    |
| <b>Bonds</b> | 130,165        | 218,055        | 148,075        | 251,733        |
| <b>Swaps</b> | 15,719         | (14)           | 6,714          | 5,468          |
| <b>Total</b> | <u>145,884</u> | <u>218,041</u> | <u>154,789</u> | <u>257,201</u> |

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 35. 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 44% of the total investment portfolio (2022: 44%). Assets subject to interest rate risk are set out in the table on page 37 and also notes 9 and 13 of the financial statements.

The Scheme is also subject to interest rate risk in respect of the buy-in.

**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 37 and notes 9 and 13 of the financial statements for amounts of those assets subject to this risk.

**22. Concentration of investments**

The following investments amounted to more than 5% of the total net assets of the Scheme:

|                                | 2023           |              | 2022 |   |
|--------------------------------|----------------|--------------|------|---|
|                                | £000           | %            | £000 | % |
| Standard Life Insurance policy | <b>619,800</b> | <b>24.00</b> | –    | – |

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## AKZO NOBEL (CPS) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2023

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#### 23. Employer related investments

At the year-end employer related investments are held indirectly through pooled investment vehicles (Legal & General MSCI ACWI Adaptive Capped ESG Index Fund). The value of employer related investments within this fund 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.

#### 24. Current assets

|                               | <b>2023</b>         | 2022         |
|-------------------------------|---------------------|--------------|
|                               | <b>£000</b>         | £000         |
| Other debtors and prepayments | <b>1,972</b>        | 37           |
| Cash balances                 | <b>4,199</b>        | 5,833        |
|                               | <b><u>6,171</u></b> | <u>5,870</u> |

#### 25. Current liabilities

|                  | <b>2023</b>         | 2022         |
|------------------|---------------------|--------------|
|                  | <b>£000</b>         | £000         |
| Unpaid benefits  | <b>897</b>          | 691          |
| Accrued expenses | <b>438</b>          | 1,054        |
| PAYE payable     | <b>1,107</b>        | 1,043        |
| Other creditors  | <b>12</b>           | 4            |
|                  | <b><u>2,454</u></b> | <u>2,792</u> |

#### 26. 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 £163,369 (2022: £154,171) directly by the Principal Employer during the year.

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

Under an agreement, dated 28 September 2018, between Akzo Nobel NV and the Trustee of the Akzo Nobel (CPS) Scheme 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**

#### **YEAR ENDED 31 MARCH 2023**

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#### **27. Contingent liabilities and contractual commitments**

The Scheme has no outstanding capital commitments (2022: £Nil).

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. A further High Court case in November 2020 has ruled that schemes are now required to equalise transfer values paid to member prior to October 2018 to take account of GMP equalisation where applicable. The implication of these rulings on the Scheme and the equalisation of guaranteed minimum pensions between men and women, in the context of the rules of the Scheme and the value of any liability, is estimated not to be material to the figures presented in these accounts.

The Trustee is in the process of reviewing the impact of GMP equalisation on both current members of the scheme and those that have previously transferred out, once this review is finalised and any liability quantified, then members will be contacted and their benefits adjusted as appropriate.

Akzo Nobel (CPS) Pension Scheme

**Annual Implementation  
Statement – Scheme year  
ending 31 March 2023**

September 2023

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## 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 to 31 March 2023 (“the Year”).

This document aims to meet the requirements set out below and draws on drafting advice issued by the Pensions and Lifetime Savings Association (PLSA). The Statement must be included in the annual Scheme report and accounts and published online once the Annual Report is signed.

The purpose of this statement is to:

- Set out the extent to which, in the opinion of the Trustee, the Scheme’s Statement of Investment Principles (“SIP”) required under section 35 of the Pensions Act 1995 has been followed during the Year
- Detail any reviews of the SIP that the Trustee has undertaken, and any changes made to the SIP over the year as a result of the reviews
- Describe the voting behaviour by, or on behalf of, trustees during the Year and any use of the services of a proxy voter during the Year

| <b>Implementation Statement Requirements to be included in annual Reports &amp; Accounts</b>   |
|--|
| <ol style="list-style-type: none"> <li>1. <i>Set out how, and the extent to which, in the opinion of the trustees, the statement of investment principles (the “SIP”) required under section 35 of the 1995 Act has been followed during the Year</i></li> <li>2. <i>Describe any review of the SIP undertaken during the Year including any review of how the statement of investment principles has been met</i></li> <li>3. <i>Explain any change made to the SIP during the Year and the reason for the change</i></li> <li>4. <i>Where no review was undertaken during the Year give the date of the last review</i></li> <li>5. <i>Describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the Year and state any use of services of a proxy voter during that Year</i></li> </ol> |



The SIP was reviewed once over the Year, with an updated document published in December 2022. Changes were made to reflect the Scheme’s current investment strategy and the latest regulations, including expanded wording with regards to stewardship, voting and engagement.

In preparing this Statement, for the purpose of assessing how the Scheme’s SIP has been followed, the remainder of this Statement specifically focuses on the SIP formally signed off as at December 2022, recognising that all the main principles set out in this document echoed those previously in place.

A copy of the latest 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

SIG: Sustainable Investment Group

## Section 2: How the Trustee has adhered to policies related to voting and engagement

As set out in the Trustee's ESG Beliefs, engagement and voting are both thought to be highly influential activities and the Trustee recognises that they can lead to changing behaviour of companies and ultimately improving investment performance, as well as having a positive impact on the environment and society. The primary goal of the Trustee is to act in the best financial interests of its members, and the investment strategy is formulated to support its primary objective of paying member benefits as and when they fall due. Contributing towards this objective, the Trustee works in close partnerships with the Scheme's investment managers, monitoring stewardship processes closely, with the advice and expertise of third parties.

The Scheme makes use of both pooled and segregated vehicles. Investing in pooled funds allows the Scheme to benefit from economies of scale and potentially lower fees. However, this means that the investment or engagement decisions regarding the companies invested in by each fund are made at the discretion of the investment manager of the pooled fund. The Trustee is comfortable with this approach, given that ESG factors form a significant part of manager selection exercises and ongoing due diligence, particularly when considering long-term investments. Across both pooled and segregated mandates, whilst the Trustee does not direct voting or engagement activities themselves, they seek to exert their influence as an asset owner through engaging with the managers where concerns are highlighted through the various monitoring processes. The Trustee has not set any specific guidelines around manager voting but requires the investment managers to develop and maintain appropriate voting and engagement policies, both as part of the initial selection process and ongoing where applicable. As part of the review of the SIP in December 2022, the Trustee considered and reviewed its stewardship and engagement policies.

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 ("IC") 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 or peer group where a market benchmark is not available.

On a forward-looking basis, past performance is only one input into the IC'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 sustainable investment factors as outlined below, and views of the Committee.

The Scheme also monitors manager performance relative to an appropriate benchmark, and no managers are 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). Historically, the committee has also been responsible for managing the sustainability of the portfolio and how Environmental, Social and Governance ("ESG") factors are allowed for in the portfolio, including within the selection and monitoring process of investment managers (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures).



Sustainable investing remains a key focus for the Scheme, mainly driven by increasing regulation and the Trustee's desire to adopt a better practice approach in this area. As such, the Sustainable Investment Group (the "SIG") was established in 2020 as a subset of the Trustee in order to ensure that the Trustee continues to meet regulatory requirements in the area of Sustainable Investment, including obligations under TCFD, and to accelerate the pace of the Scheme's progress towards good practice within this area.

As part of this, during the Scheme year to 31 March 2023 (the "Year"), the SIG continued to make progress in the area of sustainable investment in a number of ways. This included conducting a climate scenario analysis in May 2022 which considered the impact of four climate scenarios to better understand the effect of transition and physical risks on both the Scheme's assets and liabilities. The SIG also invited CBRE to present at the May 2022 SIG meeting on their approach to ESG risk management, such as tools for assessing physical and transition risk, and their firm level climate goals and data coverage. In August 2022, the SIG conducted its annual sustainable investment review on the Scheme's managers across a number of ESG areas, assessing managers' progress over the Year on specific weaknesses identified at the previous review and identifying areas of focus for the following year.

In preparation for the Scheme's first TCFD report, the SIG conducted an updated analysis of the Scheme's TCFD metrics at the August 2022 SIG meeting both at a portfolio level and at an asset class level, providing useful insights into the Scheme's carbon journey plan, which is expected to act as a valuable framework in helping the Scheme to achieve its net zero targets over the long term.

The Director of Sustainability at Akzo Nobel also provided a presentation and Q&A session with the SIG at the March 2023 meeting to highlight the Sponsor's approach to ESG.

#### SIP Engagement Policies, Actions and Examples

### **1. Ensure portfolio is consistent with SIP policies**

Engagement Policy:

- 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, and regularly as appropriate thereafter. 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 advisors to ensure consistency with the Trustee's policies.

Examples:

The investment guidelines for the Scheme's two buy-and-maintain managers are currently under review, with a view to incorporating wording around achieving the Scheme's net zero goals, and excluding certain sub-sectors from the portfolios.

Furthermore, investment guidelines for the Scheme's LDI manager were updated in Q2 2023 to incorporate appropriate wording around collateral management, in light of the gilt market events in September and October 2022.

## 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 with the SIP on an annual basis and asked to confirm consistency with its policies.

### Examples:

The Trustee distributed the SIP to the Scheme's investment managers as part of the Scheme's engagement policy. We drew particular attention to the new Sustainable Investment section of the SIP and asked for their comments. All the investment managers were pleased to have sight of the SIP, and welcomed the Scheme's focus, albeit gave no direct comments.

## 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 may be replaced.

### Action:

The Trustee monitors manager portfolios on a quarterly basis with detailed bespoke reporting provided by the managers to be reviewed at IC meetings. Managers are also invited to present to the IC and SIG 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 a number of 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 are reviewed by the IC on a quarterly basis. Additionally, over the Scheme year, one of the Scheme's Buy and Maintain credit managers, GSAM, was invited to present to the June 2022 IC meeting, whilst CBRE was invited to the May 2022 SIG meeting to present on their approach to ESG risk management.

At the August 2022 SIG meeting, the annual sustainable investment 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 a number of changes were made to manager ratings. No managers have been removed or replaced as a result of unsatisfactory alignment.

#### **4. Investing with a long-time horizon**

##### **Engagement Policy**

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.

##### **Action:**

Managers are asked to confirm that their investment horizon is medium to long on an annual basis. The Scheme's asset allocation is reviewed at all IC meetings and approximated on a daily basis using the Scheme's advisor's asset and liability tracking software.

##### **Examples:**

The IC sought confirmation of the long-term time horizon of the Scheme's investment managers as part of sharing the SIP. The investment managers welcomed the Scheme's long-term focus. The Scheme's asset allocation is reviewed at all investment committee meetings, with changes made as appropriate to align with the Scheme's long-term strategic objectives. The Scheme's estimated funding level and asset allocation is approximately tracked on a daily basis and rebalancing is discussed on a regular basis as necessary.

#### **5. 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 performance figures for all managers are provided by the Scheme's Independent Performance Measurer, Northern Trust, and is reviewed on a quarterly basis by the IC. 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.

##### **Example:**

Quarterly performance reports and bespoke manager reports were reviewed by the investment committee. Three managers were invited to IC or SIG meetings over the Year, and no manager ratings were changed by the Scheme's investment advisor. In addition, over the course of the year, the IC and SIG carried out a dedicated sustainable investment review, a fee review and a buy-and-maintain credit peer group monitoring exercise to ensure managers are appropriately assessed over the long-term through number of lenses. No manager appointments were terminated on the basis of short-term performance, however it was agreed to part-disinvest from some illiquid mandates, with the decision taken from a strategic perspective.

## 6. 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 are negotiated on appointment and on an ad-hoc basis. The Scheme's investment advisor conducts an annual fee review of the Scheme's investment fee arrangements and any developments to the manager fees and additional costs. The most recent fee review was conducted in November 2022.

### 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.

## 7. 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:

Costs, including turnover costs, were reviewed in the Year as part of the MiFID II reporting process and the annual fee review. Additionally, annual management charges are reviewed on a quarterly basis. Expected portfolio turnover (and thus transaction costs) is considered as a key factor when the IC assesses the performance of the Scheme's buy-and-maintain credit mandate relative to its peer group on an annual basis.

## 8. ESG Factors, including climate change

### **Engagement Policy**

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.

### 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 a number of categories relating to ESG issues. Additionally, 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). 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.

The introduction of the SIG has materially increased the level of resource that can be afforded to the Trustees in order to assess the ESG credentials of the Scheme's managers, including factors related to climate change.

### Examples:

- At the May 2022 SIG meeting, the Committee discussed the results of the Scheme's climate scenario analysis and considered the impact of four climate scenarios to understand the impact of physical and transition risks on the Scheme's assets and liabilities. CBRE was also invited to present at the May SIG meeting, noting their approach to ESG risk management and firm level net zero goals and data coverage.
- At the August 2022 SIG, the annual manager sustainable investment report was considered, rating each of the Scheme's manager against 10 ESG factors. Areas for improvement and next steps were identified. The SIG also conducted an updated analysis of the Scheme's carbon journey plan and TCFD metrics.
- The Scheme's investment advisors conducted multiple meetings with the Scheme's managers over the year - no changes were made to manager ratings.
- Examples of industry engagement by the Scheme's investment adviser include being a signatory of the revised 2020 UK Stewardship Code and to the United Nations Principles for Responsible Investment (UN PRI), and an active member of the Institutional Investors Group on Climate Change (IIGCC)

### Section 3: Voting information (including most significant votes)

#### **Voting**

The Scheme is invested in a range of asset classes. However, this section focuses on the equity investments which have voting rights attached. The Trustee delegates voting rights and the execution of those rights to the underlying managers for the securities they hold. Over the course of the year, the Scheme held equities in the following standalone equity funds:

- **LGIM MSCI ACWI Adaptive Capped ESG Index Fund:** ESG-weighted Global equity index fund that employs an index tracking strategy, aiming to replicate the performance of its benchmark.

As part of the Trustee's ongoing engagement with, and monitoring of the Scheme's investment managers, the Trustee has set out the voting activities of the Scheme's equity investment managers over the Scheme Year, including detail of the managers' use of proxy voting.

The Scheme's investment managers have their own policies which determine their approach to voting, and the principles they follow when voting on investors' behalf. The Trustee is not aware of any material changes to these policies over the past 12 months.

The Trustee, via its investment advisor, has assessed the investment managers' voting policies as part of its overall assessment of the investment manager's capabilities. The Trustee has considered the policies to be appropriate, and consistent with the Trustee's own policies and objectives, therefore ultimately in the best financial interests of the members.

The Trustees believe that effective stewardship can add value over the long-term. Following due consideration, and in collaboration with their investment advisor, the Trustees have agreed that votes in relation to Climate (including the transition to net zero); Diversity, Equity & Inclusion; and Corporate Governance should be deemed "significant votes" for the Scheme, and will look to engage with the Scheme's underlying investment managers on these topics in particular. That said, these are not the only topics that are important to the Trustee, whilst the Trustee recognises that the criteria for defining significant votes is complex and involves an assessment of each vote outcome to determine significance, whilst what is deemed "significant" by the Scheme's underlying managers may differ from the approach taken by the Trustee. The above is reflected in the voting information as set out on the following pages.

The Trustee expects investment managers to act as responsible stewards of capital as applicable to their mandates. The Trustee considers the investment managers' policies and activities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis through meetings with the managers. The Trustee engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Scheme Year.

The Trustee believes that the voting practices demonstrated by the Scheme's equity managers are a key part of manager engagement, which may add value to the Scheme's assets over the relevant time period. All investment managers also use voting proxy advisors which aid in their decision-making when voting. Details are summarised in the tables below, which include significant voting data provided by the Scheme's equity managers across the whole Scheme Year.

LGIM's criteria for defining significant votes is complex and involves an assessment of each vote outcome to determine significance and is considered across each of the largest stocks in the underlying portfolios. A large proportion of the significant votes provided by LGIM are in relation to board composition, diversity and the separation of the Chair and CEO role. These areas align with two of the Scheme's stewardship priorities identified by the Trustee, whilst in the voting section below we have also extracted a key climate-related vote in order to align the examples provided by the manager with the Trustee's third major stewardship priority, also a key area of focus for LGIM.

**Legal and General Investment Management**

|  | <b>MSCI ACWI Adaptive Capped ESG Index Fund</b> |
|--|---|
| Total fund size as at 31 March 2023:                 | £3,504,415,994                                  |
| Scheme proportion of total fund as at 31 March 2023: | 3.02%   |

**Voting Statistics (over the year to 31 March 2023)**

|  | <b>MSCI ACWI Adaptive Capped ESG</b> |
|--|--------------------------------------|
| How many meetings were you eligible to vote at?  | 3,286                                |
| How many resolutions were you eligible to vote on?   | 38,231                               |
| 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?  | 78%                                  |
| Of the resolutions on which you voted, what % did you vote against management?   | 21%                                  |
| 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) | 13%                                  |

Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?

LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. The Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that are received from ISS for UK companies when making specific voting decisions.

To ensure LGIM's proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. LGIM have the ability to override any vote decisions which are based on this custom voting policy if they see fit.

LGIM is also an active member of the IIGCC Proxy Advisor Working Group, and have engaged with ISS both independently, and collaboratively with the Group, which included contributing to the consultation process for the ISS Benchmark Policy changes for 2023, ensuring their views were taken into account in the development of voting policies.

Ultimately, LGIM retain the ability to override any vote decisions, which are based on their custom voting policy. The manager has strict monitoring controls to ensure that votes are fully and effectively executed in accordance with their voting policy by their service provider.

**Most Significant Votes (over the year to 31 March 2023)****Vote 1.**

|  |
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| Please provide the company name and date of the vote   |
| <i>UBS Group AG, 6<sup>th</sup> April 2022</i>   |
| Please provide an approximate size of the holding as at the date of the vote   |
| <i>0.18%</i>   |
| Please provide a summary of the resolution   |
| <i>Resolution 3 - Approve Climate Action Plan</i>  |
| How did you vote?  |
| <i>LGIM voted for the resolution (management recommendation: 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 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>Climate change: A vote AGAINST this proposal is applied following internal discussion. While we positively note the company's progress over the last year, as well as its recent commitment to net zero by 2050 across its portfolio, we have concerns with the strength and coverage of the Climate Action Plan's Scope 3 targets and would ask the company to seek external validation of its targets against credible 1.5°C scenarios. Gaining approval and verification by SBTi (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.</i> |
| What was the outcome of the vote?  |
| <i>77.7% of shareholders supported the resolution.</i>   |
| What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?  |
| <i>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</i>   |
| On which criteria have you assessed this vote to be "most significant"?  |
| <i>LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.</i>  |

**Vote 2.**

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| Please provide the company name and date of the vote  |
| <i>Archer-Daniels-Midland Company, 5<sup>th</sup> May 2022</i>  |
| Please provide an approximate size of the holding as at the date of the vote  |
| <i>0.23%</i>  |
| Please provide a summary of the resolution  |
| <i>Resolution 1f - Elect Director Juan R. Luciano</i>   |
| How did you vote?   |
| <i>LGIM voted against the resolution</i>  |
| If voting against management, did you communicate your intent to the company ahead of the vote?   |
| <i>LGIM publicly communicates its vote instructions 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   |



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| <i>Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight.</i>  |
| What was the outcome of the vote?   |
| <i>91.8% of shareholders supported the resolution.</i>  |
| What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?   |
| <i>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</i>  |
| On which criteria have you assessed this vote to be "most significant"?   |
| <i>LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we have voted against all combined board chair/CEO roles.</i> |

**Vote 3.**

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| Please provide the company name and date of the vote  |
| <i>American Tower Corporation, 18<sup>th</sup> May 2022</i>   |
| Please provide an approximate size of the holding as at the date of the vote  |
| <i>0.16%</i>  |
| Please provide a summary of the resolution  |
| <i>Resolution 1f - Elect Director Robert D. Hormats</i>   |
| How did you vote?   |
| <i>LGIM voted against the resolution</i>  |
| If voting against management, did you communicate your intent to the company ahead of the vote?   |
| <i>LGIM publicly communicates its vote instructions 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>Diversity: A vote against is applied as the company has an all-male Executive Committee.</i>   |
| What was the outcome of the vote?   |
| <i>98.1% of shareholders supported the resolution.</i>  |
| What are the implications of the outcome? Were there any lessons learned? What steps will you take in response?   |
| <i>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</i>  |
| On which criteria have you assessed this vote to be "most significant"?   |
| <i>LGIM views diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.</i>  |

#### **Section 4: Conclusion**

As highlighted throughout this statement, the Trustee has undertaken a large number of activities over the Scheme year in order to build on their approach towards engagement and is proud of the progress made thus far. The Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the year, going above and beyond in a number of areas, and strives to further improve practice in the future.

Following monitoring of the Scheme's investment managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that its managers are acting in the Scheme members' best interest and are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the investment managers' stewardship practices on an ongoing basis in order to ensure that the Scheme's investment strategy and Trustee decision-making consistently aligns with the Trustee's investment beliefs and contributes towards achieving the Trustee's mission statement to provide long-term value and security to the Scheme's members.