Great Lakes (UK) Limited Pension Plan

Statement of Investment Principles – September 2019

1. Introduction

The Trustees of the Great Lakes (UK) Limited Pension Plan (the "Plan") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
- Subsequent legislation.

The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustees' investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard (a copy of which is available for inspection on request) and relevant legislation.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Lanxess Solutions UK Limited (the "Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements and, in particular on the Trustee's objectives.

The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. A separate document (the Investment Policy Implementation Document, "IPID") detailing the specifics of the Plan's investment arrangements is available upon request.

The Plan provides two types of benefit; one linked to final salary (Defined Benefit Section) and the other of a money purchase type (Defined Contribution Section). These are covered separately in Sections 2 and 3 respectively.

2. Defined Benefit Section

2.1 Process For Choosing Investments

2.1.1 The Trustees have decided to implement a low risk strategy whereby the Plan invests in such a way that expected cashflows should broadly match a proportion of the Plan's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required).

2.1.2 The Trustees have delegated the implementation of the strategy to Mercer through the use of Mercer Implemented Investment Solutions ("Mercer IIS").

2.1.3 In considering the appropriate investments for the Plan the Trustees obtain and consider the written advice of Mercer Limited, whom the Trustees believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 Investment Objectives

The Trustees' primary objective is to act in the best interest of its members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. The main objective of the Trustees is therefore to maintain a position such that the assets held are sufficient to meet the liabilities as determined, in the event of the Plan winding-up, on the basis of a buyout with an insurance company. In addition, the strategy aims to reduce, to a low level, variability in the funding position where the funding position is assessed on a low-risk basis (i.e. whereby no advance credit is taken for the assets held in the Plan outperforming the return that can be achieved from holding risk-free assets - i.e. assets that match the liability payments expected to be made from the Plan by size and date with minimal to no risk of default).

The Trustees, in consultation with the Sponsor, will consider buying out the liabilities with an insurance company when funding level allows (taking into consideration the attractiveness of insurance company rates) in order to safeguard members' benefits.

In implementing the strategy, the Trustees aim to control the risk of additional deficit contributions being requested from the Sponsor.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determines to be financially material considerations. Non-financial considerations are discussed in section 5.

2.3 Investment Strategy

The Trustees, having attained the final trigger on the Plan's previous de-risking strategy, have decided that a new strategy which seeks to hold assets that 'cashflow match' the Plan's assets relative to its liabilities over time using a Cashflow Driven Investment (CDI) solution. The Trustees have decided to engage Mercer to implement their CDI solution via a delegated approach.

The CDI solution aims to:

- Match a high proportion of the Plan's expected liability cashflows over the next c.10 years by investing in predominantly income-generating asset classes such that expected asset cashflows should broadly match the Plan's expected liability cashflow profile

- Initially support a discount rate of approximately gilts + 0.35% p.a.

With this in mind, the Trustees have agreed that the Plan's broad target asset allocation should be as set out in the table below:

Asset Class	**Target Benchmark Allocation (%)**	**Control Ranges (%)**
Hedge Management	50.0	+/-5
Non-Hedge Management	50.0	+/-5
Total	**100.0**	

The strategy targets a funded liability hedge ratio of 95% with respect to the Plan's interest rate and inflation exposures, although it is recognised that given the inherent uncertainty in the timing and nature of liability cashflows, a "perfect" hedge is not possible to achieve outside of an insurance contract.

Details of the underlying funds and hedge management processes are set out in the IPID.

2.4 Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on the Plan's risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more volatility in the Plan's funding position.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Investment exposure is obtained via pooled vehicles.

- To help diversify active manager risk, the Trustees have made diversified manager appointments, where appropriate, by investing in multi-manager pooled funds managed by Mercer.

- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments.

- To help the Trustees ensure the continuing suitability of the current investments the Trustees delegate responsibility for the hiring, firing and ongoing monitoring of the Plan's investment managers to Mercer. Mercer provides the Trustees with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 5 sets out how these risks are managed.
- Responsibility for the safe custody of the Plan's assets is delegated to Mercer who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their pooled vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

Should there be a material change in the Plan's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current de-risking strategy remains appropriate.

2.5 Expected Return

The Trustees have adopted a long-term investment strategy to meet their primary objective of achieving an investment return that is consistent with the discount rate used to value the liabilities.

2.6 Day–to-Day Management of the Assets

The Trustees have delegated day-to-day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying specialist investment managers. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Plan subject to agreed constraints.

The Trustees have taken steps to satisfy itself that Mercer have the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Plan's investments.

The Trustees regularly reviews the continuing suitability of the Plan's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority ("FCA").

2.7 Realisation of Investments

Mercer and the underlying investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

2.8 Cashflow and cash flow management

If the Trustees instruct an investment into the Plan's assets held with Mercer, these will be processed into the Mercer Funds at Mercer's discretion. Standard cash inflows are typically expected to be allocated to the UK Cash Fund and then to other funds as deemed appropriate.

If the Trustees instruct a disinvestment into the Plan's assets held with Mercer, these will be processed from the Mercer Funds at Mercer's discretion. Standard cash outflows are expected to be met by redeeming from the UK Cash Fund and then from other funds as deemed appropriate, in particular if there is insufficient assets within the UK Cash Fund.

2.9 Rebalancing

For the avoidance of doubt, no automatic rebalancing within or between the portfolios is in place.

3. Section 3 - Defined Contribution Section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Consider the risks faced by members of the Defined Contribution section.
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a members working life.

In considering the appropriate investments for the Plan the Trustees have obtained and considered the written advice of their Investment Consultant, Mercer, whom the Trustees believe to be suitably qualified to provide such advice.

3.2 Investment Objectives

The Trustees' overall investment policy is guided by the following objectives:

- To seek to maximise the value of members retirement benefits.
- To protect the purchasing power of members' funds as they approach retirement against:
  - a) Fluctuations in the (implicit and explicit) cost of retirement benefits
  - b) Falls in capital value.
- To provide members with a range of investment options to enable them to tailor investment strategy to their own needs.
- To establish a default investment strategy which is designed to be reasonable for any member not wishing to make his or her own decisions, supported by clear communication regarding its objectives.
- To avoid over-complexity in investment in order to keep administration costs and employee understanding to a reasonable level.
- To select arrangements that are capable of being administered properly.

3.3 Risk Management and Measurement

The Trustees have considered risk from a number of perspectives over the Plan's anticipated lifetime. The Trustees believe that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to take their benefits from the Plan.

In considering the range of funds to offer to members, the Trustees acknowledge that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire.

In designing the lifestyle arrangements, the Trustees have taken the proximity to the target retirement date into account, and the associated financially material risks over the time horizon of these strategies.

In choosing funds to make available to members, the Trustees have considered risk from a number of perspectives. The key risks which they have identified are as follows:

- The risk that the investment returns over members' working lives is not adequate relative to inflation. In light of this, the Trustees have made index-linked gilt and equity funds available to members.
- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the benefits secured. In light of this risk, the Trustees offer a range of fund options along the risk / return spectrum in order for members to tailor their choices. A lifestyle program is also offered for members who plan to purchase an annuity, which provides an automated de-risking approach for this benefit type.
- The risk that the chosen investment manager underperforms the benchmark against which they are assessed. The Trustees have selected passive fund management (with the exception of cash) in order to reduce this risk.
- The risk that the investment profile of the default investment option is unsuitable for the requirements of some members.
- The risk that members will be unable to sell investments in a timely manner (liquidity risk). To mitigate this risk, the Plan invests in daily dealt and daily priced pooled funds.
- Environmental, Social and Corporate Governance (ESG) risk – the risk that ESG concerns, including climate change, have a financially material impact on the return of the Plan's assets. The management of ESG related risks is delegated to investment managers, with oversight from the Trustees. See Section 5 for our policies in this regard.

3.4 Investment Strategy

Default investment option

Although the Plan is now closed to new members and contributions, investments have historically been placed into a default investment option.

This option is designed to be broadly appropriate for members who intend to take 25% of their funds as cash at retirement (in line with current regulations regarding tax-free cash) and to purchase an annuity with the balance of their funds. The default investment option includes "lifestyling" arrangements to de-risk investments to an asset allocation, at retirement, designed to be appropriate for these benefits.

The aims of the default investment option, and the ways in which the Trustees seek to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy.

  The default option's growth phase invests in global equities. These investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the 10 year period to a member's retirement date. Investments are switched into a mix of cash (for capital preservation purposes) and long dated index-linked UK Government bonds (to provide a broadly appropriate match for annuity price movements).

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take 25% of their benefits as a cash lump sum, with the balance being used to purchase an annuity.

  One year prior to the member's selected retirement date, 25% of the member's assets will be invested in a money market fund and 75% invested in a UK index-linked Government bond fund.

Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees considered the trade-off between risk and expected returns. Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the broad profile of members.

The Trustees will continue to review the appropriateness of the legacy default investment options over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

Assets in the default investment options are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by a professional investment management firm. The selection, retention and realisation of assets within the pooled funds are delegated to the investment manager in line with the mandates of the funds. Likewise, the investment manager has full discretion (within the constraints of the mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. However, the Trustees have in place a policy regarding such issues, which is detailed in Section 5 of this Statement. Currently, no additional policies in this regard have been applied to the default arrangement, and the core policy in section 5 applies.

Alternatives to the default investment option

In addition to the default investment option that has historically been in place, a range of self-select funds are offered to members. The options available include a mix of asset class types along the risk / return spectrum, as set out below:

- The **Equity Fund** is intended to be the primary investment vehicle over the majority of a member's working lifetime because equities are expected to provide investment returns above those of other mainstream asset classes (and inflation) over the long term. This should serve to maximise the real return on members' assets achieved by retirement.

  It is recognised however, that equities can provide volatile returns in the short term. While such volatility may be tolerated by younger members who can still target long term growth, it is less desirable for those members approaching retirement.

- The two **Gilt Funds** are intended to protect against fluctuations in the cost of buying a pension annuity as members approach retirement. This is because there is a relatively close relationship between movements in the long-dated gilt market and the annuity prices quoted by insurers.

- The **Cash Fund** aims to protect the capital value of members' accumulated funds as they approach retirement. This is useful if they wish to take a cash lump sum at retirement.

3.5 Day–to-Day Management of the Assets

The Trustees delegate the day to day management of the assets to a professional investment manager who is regulated by the FCA. The investment manager has full discretion to buy and sell investments on behalf of the Plan subject to agreed constraints and applicable legislation. The Trustee board has taken steps to satisfy itself that the manager has the appropriate knowledge and experience for managing the investments and that it is carrying out its work competently. The investment manager manages investments for the Plan to a specific mandate which includes performance objectives, risk parameters and timescales over which performance will be measured.

More detail on the available funds and the default lifestyle strategy can be found in the IPID.

3.6 Additional Assets

Details of the current Additional Voluntary Contribution providers can be found in the IPID.

4. Monitoring Investments

The Trustees regularly review the continuing suitability of the Plan's investments. To facilitate this, the Trustees receive quarterly investment monitoring from Mercer in the case of the Defined Benefit section and from the investment manager in the case of the Defined Contribution section.

5. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Defined Benefit Section

The Trustees have delegated day to day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. These investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Defined Contribution Section

The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments.

Similarly, the Plan's voting rights are exercised by the investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

6. Compliance with this Statement

The Trustees will monitor compliance with this Statement at least annually.

7. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will be made in consultation with the Sponsor and only after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed on behalf of the Trustees of the Great Lakes (UK) Limited Pension Plan

Signed: Date: 13 September 2019

Name: NIGEL MOORE

Signed: Date: 19/9/2019

Name: ANTHONY PISINO