

Great Lakes (UK) Limited Pension Plan

Statement of Investment Principles – July 2020

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
- Associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended).

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.

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2. Process for Choosing Investments

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).

3. 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.

During Q1 2020 the Trustees purchased an insurance policy with Aviva Life & Pensions UK Limited (Aviva), a UK Insurance Company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. In due course the intention

is that the buy-in asset will be moved to a buy-out contract and the Plan will be wound up.

Under the current policy Aviva is obliged to make payments to meet the Plan's liabilities in respect of the benefits under the policy. The Trustees selected Aviva having considered appropriate advice from their advisors.

Over the buy-in period before wind-up, where an exact match between Plan's benefits and insured benefits is not possible, a surplus remains to approximately reserve for additional costs shortly after the main buy-in premium is paid to Aviva. This surplus will also be used to reserve for other estimated costs such as Plan expenses and the all risks cover insurance premium. Should any surplus remain after these the Trustees and Company will determine how it should be used.

The surplus assets are to be invested 100% in a cash fund, in line with the below table. The allocation will be reviewed periodically by the Trustees.

Asset Class	Benchmark Index	Target Benchmark Allocation (%)	Control Ranges (%)
MGI UK Cash Fund	FTSE GBP 1 Month Euro Deposit	100.0	+/- 0.0
Total		100.0	

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.
- Investments in annuity policies represent a concentration of risk that the annuity provider does not make the required payments. These policies are governed by substantial insurance market solvency regulations and, as such, the Trustees believe this risk is low. The Trustees have further mitigated this risk through careful choice of provider and contract terms. The Trustees recognise that annuities are illiquid.
- The Trustees recognise that the Plan is exposed to operational risk in relation to the buy-in with Aviva, who are taking on the majority of risks in relation to the Plan's liabilities.
- 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, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer fund(s) to enable the monitoring of differences 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 6 sets out how these risks are managed.

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.

5. Additional Voluntary Contributions

Members will have the option to transfer their AVCs to Aviva later in the buy-in process, but remaining AVCs have not been transferred as part of the buy-in premium payment.

6. 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. The Trustees have taken into account the expected time horizon of the Plan when considering how to integrate these issues into the investment decision making process. Furthermore, as the Plan is currently targeting buy-out its time horizon is relatively short with the Plan expected to wound up over the next 12 - 24 months and the Plan is 100% invested in the MGI UK Cash Fund.

As noted above The Trustees have appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a Fund / range of Funds managed by MGIE. Asset managers appointed to manage the Mercer Fund(s) 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, and MGIE's investment processes and those of the underlying asset managers in the monitoring process. Mercer and MGIE, is expected to provide reporting, to the Trustees 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.

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.

7. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 3, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 3. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Plan's funding level and the Mercer Fund(s) in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Fund(s).

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 6 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 3. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

8. Compliance with this Statement

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

9. 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: N Ladha Date: 25 September 2020

Name: Nadeem Ladha

Signed: J Yates Date: 25 September 2020

Name: Julia Yates