

Synthetic Chemicals Pension Scheme ("the Scheme")

Statement of Investment Principles

Defined Benefit Section

1. INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

2. STRATEGY

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. This involves looking at the Scheme's assets as either "return-seeking" or "risk-reducing". Return-seeking assets are typically equities and alternative asset classes including different types of absolute return and hedge funds, active currency and possibly certain types of infrastructure, private equity, commodities and property funds. Risk-reducing assets are generally bonds and other financial instruments such as interest rate and inflation swaps.

The current planned long term asset allocation strategy chosen to meet the objective above is set out in the table below. The Trustee will monitor the actual asset allocation versus the target weight and the ranges set out in the table below:

Asset Class	Target Weighting %	Range %
RETURN-SEEKING ASSETS	10	0 – 20
RISK-REDUCING ASSETS	90	80 – 100
CASH	0	0 – 10

In addition to the majority of the Scheme's assets held in the above strategy, the Trustee also aims to hold up to 12 months' worth of the Scheme's regular monthly disinvestment requirement in the Sterling Liquidity Fund with Legal & General Investment Management. The Trustee recognises that this liquidity position will be gradually reduced towards zero over any given year. The Sterling Liquidity Fund allocation will be reviewed and topped-up as necessary on an annual basis or sooner if required. The Trustee conducts a formal review of the Scheme's cashflow requirements every year, with the next review to be conducted towards the end of 2019.

For the avoidance of doubt, the Sterling Liquidity Fund allocation is considered separate from the majority of the Scheme's assets which are invested in accordance with the above long term asset allocation strategy.

The Trustee's expectation is that the long term asset allocation strategy will be reviewed following each triennial valuation.

The ranges allow the asset allocation to vary due to market movements and also allow the asset allocation to be adjusted in light of medium term asset allocation advice from the Trustees' investment

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advisor. The asset allocation may fall outside of the target ranges whilst considering a change in investment strategy or the investment managers employed to implement the strategy.

In addition, and for the avoidance of doubt, the Trustee's investment strategy and its implementation may make use of insurance products, such as immediate and deferred annuity contracts.

The Trustee's policy is to make the assumption that return seeking assets such as equities will outperform risk reducing assets such as gilts over the long term. However, the Trustee recognises the potential volatility in return seeking asset returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set. When choosing the Scheme's planned asset allocation strategy the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- Current market conditions and medium term market views.

3. RISK

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These include the following:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund manager to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employers ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives periodic reports and updates showing:

- Actual funding level versus the Scheme specific funding objective.

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- Performance versus the Scheme investment objective.
- Performance of the individual fund manager versus its targets.
- Any significant issues with the fund manager that may impact its ability to meet the performance targets set by the Trustee.
- In addition, an update on the employer's financial position to enable it to monitor the strength of the employer's covenant.
- The Trustee also maintains a risk register, a section of which is specific to investment related risks.

4. IMPLEMENTATION

Aon has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions and to monitor those they delegate. Aon are paid on a time cost basis for all the work they undertake for the Scheme although fixed fees may be negotiated for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received. The fund manager structure and investment objectives for each fund manager ("mandates") are as follows:

"Return-Seeking" Assets

Manager	Asset Class	Benchmark
Legal & General Investment Management (LGIM)	UK Equities	FTSE All-Share
	Overseas Equities	-
	North America*	FTSE W North America
	Europe (ex UK)*	FTSE Developed Europe (ex UK)
	Japan*	FTSE Japan
	Asia Pacific (ex Japan)*	FTSE Developed Asia Pacific (ex Japan)
Total		

*Note: 50% hedged into sterling

The split between the UK and overseas passive equities held by Legal & General is approximately 15% UK and 85% overseas, although this split will also vary over time and is not enforced as a set target by the Trustee.

The target return for the Legal & General passive equity and bond funds is to perform in line with the respective benchmarks, within appropriate tolerance levels.

"Risk-Reducing" Assets

Manager	Asset Class	Approximate Weight %	Benchmark
Legal & General	UK Fixed Interest Gilts	45	Various indices
	UK Corporate Bonds	35	Various indices
	UK Index Linked Gilts	20	Various indices
	Cash	-	Libid 7-day Notice
Total		100	

The Trustee reviewed the Scheme's matching assets in October 2016 and implemented target hedge ratios of approximately 80% against changes in interest rates and inflation expectations (please note that the hedge ratios are expressed against the Scheme's liabilities valued on a flat gilts basis). Further changes to the investment strategy in 2019 are expected to increase the hedge ratios.

The Trustee believes that it is possible to add value to the Scheme's investments by taking account of Aon 's medium term asset allocation views. As a result, the allocations can move to take into account these views.

Synthetic Chemicals Pension Scheme ("the Scheme")

Statement of Investment Principles

Defined Contribution / Additional Voluntary Contribution ('AVC') Section

1. INVESTMENT OBJECTIVE

The Trustee is responsible for investing the Scheme's assets that are money purchase in nature in line with members' preferences. Its key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. It has taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

2. STRATEGY & IMPLEMENTATION

The Trustee's policy is to provide suitable information for members so that they can make appropriate investment decisions. The range of funds was chosen by the Trustee after taking advice from the Trustee's investment advisers. In choosing the Scheme's investment options, it is the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management.
- The suitability of each asset class for a defined contribution scheme.
- The need for appropriate diversification of asset classes.

The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth.

The long-term returns on bond and cash options are expected to be lower than returns on equity options. However, bond fund volatility and price movements are expected to broadly match the price of annuities, giving some protection in the amount of secured pension for members closer to retirement. Cash funds aim to provide protection against changes in short-term capital values and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

For future investment switches, the Scheme's investment objective is implemented using a range of funds managed by Legal & General. Details of the available funds, together with the Annual Management Charges (AMCs) for these funds are included in Appendix A.

To complement the individual fund options, the Trustee also makes available a Cash Lifestyle Option which offers an automatic de-risking strategy for those who are seeking to match their investment approach with taking their AVCs wholly as at cash at retirement.

There is also a legacy with-profits fund which is closed to future investment switches (although existing assets may be retained). Detail on the legacy fund provider is included in Appendix A.

The Trustee keeps this option under periodic review and recognises that the nature of this investment makes unilateral disinvestment inappropriate at this time.

3. RISK MEASUREMENT AND MANAGEMENT

In determining which investment options to make available, the Trustee has considered the investment risks associated with defined contribution pension investment and takes advice on the funds to make available to members. The key risks identified and their management are set out below:

- The risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustee and their advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that investments do not provide a return at least in line with inflation ('inflation risk'), such that the "purchasing power" of the ultimate fund available is not maintained. The Trustee aims to manage this risk by providing a variety of investment options which are expected to provide a long-term rate of return that exceeds inflation.
- The risk that assets are not easily realisable such that cash is not readily available to meet benefits being drawn, or switched ('liquidity risk'). The Trustee manages this risk by investing in appropriately liquid fund options which are daily dealt.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustee's policy is to periodically review the range of funds offered.

These risks are considered as part of each normal strategy review. In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

Defined Benefit and Defined Contribution/AVC Sections

1. GOVERNANCE

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take and which to delegate, the Trustee has taken into account whether it has the appropriate training and knowledge, having taken advice where appropriate in order to take an informed decision. The Trustee has established the following decision making structure:

Trustee <ul style="list-style-type: none">• Monitor actual returns versus Scheme investment objective.• Set structures and processes for carrying out its role.• Select and monitor investment advisers and fund managers.• Select and monitor planned asset allocation strategy (incorporating Aon 's medium term asset allocation views).• Structure for implementing investment strategy.• Select and monitor direct investments (see below).• Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy.• Consult with sponsoring employer.	
Investment Advisers <ul style="list-style-type: none">• Advise on all aspects of the investment of the Scheme assets, including implementation.• Advise on this statement.• Provide required training.	Fund Managers <ul style="list-style-type: none">• Operate within the terms of this statement and their written contracts.• Select individual investments with regard to their suitability and diversification.• Advise Trustee on suitability of the benchmark indices.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities

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- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

The Trustee expects the fund manager to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this statement so far as is reasonably practicable.

LGIM is remunerated on an ad valorem basis. The level of remuneration paid to the fund manager is reviewed annually by the Trustee against market rates to ensure the fund manager's interests are aligned with those of the Scheme.

In addition, the fund manager pays commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

LGIM's custodians are HSBC, for the gilt and UK equity funds, and Citibank, for the remaining funds. Finally, the custodian of the underlying assets of the Equitable Life With Profits Fund is BlackRock.

The custodians provide safekeeping for all the Scheme's assets and perform the administrative duties attached thereto, such as the collections of interest and dividends and dealing with corporate actions.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change could negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which the Scheme's investments reside.

To this end, the Trustee has invested in passive Funds managed by LGIM. LGIM has a policy of Global Active ownership and uses its influence as a major institutional investor to exercise the Scheme's rights and duties as a stakeholder including voting, and engagement with underlying investee companies to promote sustainability.

On an annual basis, the Trustee will ask its investment manager for evidence of its achievements in respect of responsible investment, stewardship practices and exercise of voting rights.

Should the Trustee look to appoint a new manager, it will request the same information as part of the selection process.

The Trustee regularly reviews the continuing suitability of the appointed manager and takes advice from its investment adviser with regards to any changes. The Trustee engages with its investment manager as necessary for information to ensure that robust active ownership behaviour, reflective of its active ownership aims, are being actioned. This is reviewed annually with input from the Trustee's investment adviser.

If the Trustee considers an incumbent manager is falling short of the standards the Trustee has set out, the Trustee will engage with the manager and seek a more sustainable position, ultimately if necessary replacing the manager.

The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"¹).

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

3. COST MONITORING

The Trustee is aware of the importance of monitoring the total investment costs and the impact that these costs can have on the potential value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs and charges incurred throughout the investment process which contribute to the total cost.

The Trustee collects annual cost transparency reports covering all of its investments and asks that the investment manager provides this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This enables the Trustee to collect data in a standardised format and achieve a high-level breakdown of major cost categories.

Additionally, the Trustee has appointed a consultant (i.e. XTP) specialising in the area of investment costs. XTP will assist in validating the CTI templates against other routine reporting provided by the asset manager, highlighting any observed discrepancies. XTP will support the Trustee in its understanding of the cost information and explain the costs associated with delivering similar investment services by using insights from its proprietary database of investment costs. The Trustee will challenge any cost figures or asset manager remuneration which deviate from industry expected levels.

XTP will collate relevant information on behalf of the Trustee, which is expected to be helpful in future disclosure exercises and when assessing value for money. The Trustee expects its asset manager to offer full cost transparency and comply with any requests submitted by the Trustee or its appointed providers. This will be reviewed before the appointment of any new managers and includes the existing managers appointed by the Scheme.

The Trustee accepts that transaction costs will be incurred in the process of altering the asset allocation. The level of these costs varies across asset classes and by investment style within an asset class. Where the Trustee's monitoring identifies any irregularities, the mandate will be reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment manager's fund holdings change over a year. The Scheme's investment consultant will monitor the portfolio turnover, in the context of asset performance, on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

4. ARRANGEMENTS WITH THE ASSET MANAGER

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset manager is aligned with its policies. This includes monitoring the extent to which the asset manager:

- makes decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engages with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant.

The Trustee receives regular reports and verbal updates from its investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives, and assesses the asset manager over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its investment manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares this SIP with the Scheme's investment manager and seeks to identify and address any misalignment.

Before appointing a new investment manager, the Trustee reviews the governing documentation associated with the investment. Where it is not possible to make changes – for example if the Scheme invests in a collective vehicle – then the Trustee will express its expectations to the investment manager by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset manager by other means (where necessary), and regular monitoring of the asset manager's performance and investment strategy, is sufficient to incentivise the investment manager to make decisions that align with the Trustee's policies. The investment manager has yet to define "portfolio turnover costs" and hence disclose these on a regular basis.

There is no set duration for arrangements with the investment manager, although the continued appointment of the investment manager will be reviewed periodically, and at least every three years.

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Appendix A: Defined Contribution/AVC Sections

Fund range open to new investment switches

The following LGIM funds are invested in or available to accept new investment switches from the Scheme members:

Fund name	Annual management Charge (%)
Equity funds:	
• L&G Global Equity 30:70 (Currency Hedged) Index	0.20
• L&G Ethical Global Equity Index	0.30
• L&G UK Equity Index	0.10
• L&G World (ex UK) Equity Index	0.22
Bond and Index linked gilt funds:	
• L&G AAA-AA Fixed Interest Over 15 Years Targeted Duration	0.15
• L&G Pre-retirement	0.15
• L&G Over 5 year Index Linked Gilt Index	0.10
Multi asset class fund:	
• L&G Diversified	0.18
Cash fund:	
• L&G Cash	0.13

In addition to the range of funds shown in the above table, the Trustee also provides a 'Lifestyle' option. The Lifestyle option targets cash at retirement.

Legacy provider

Assets are still invested with one or more of the legacy providers. Existing with-profits assets may be invested in a legacy policy with Equitable Life