

Baxenden Chemicals Limited Family Security Plan

Statement of Investment Principles – December 2024

1. Introduction

The Trustees of the Baxenden Chemicals Limited Family Security Plan (the “**Plan**”) have drawn up this Statement of Investment Principles (the “**Statement**”) in order to comply with the requirements of the Pensions Act 1995 (the “**Act**”) and subsequent legislation. In doing so the Statement sets out the investment principles that guide the Trustees’ decisions regarding the Plan’s investments and takes full regard of the Trustees’ investment responsibilities set out in the Plan’s Trust Deed and Rules.

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 Urethanes UK Limited (the “**Sponsor**”) to ascertain whether there are any material issues that the Trustees should be aware of when deciding their investment objectives and the resulting investment strategy.

2. Process for Choosing Investments

In considering appropriate investments for the Plan, the Trustees obtain and consider the written advice of Mercer, whom are regulated by the Financial Conduct Authority and whom the Trustees believe to be suitably qualified to provide such advice. At the date of this Statement, the advice received and the arrangements implemented have been, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees’ objective is to secure their obligations to the beneficiaries of the Plan by, ultimately, buying out the Plan’s liabilities with an insurance company.

At the date of the Statement the Plan was in excess of 100% funded under the de-risked funding basis of gilts+0%p.a., that the Trustees use to monitor progress towards buy out, and under the basis set by the Trustees and used by the Plan Actuary when calculating the Sponsor’s contribution obligations to the Plan (the “**Technical Provisions**” basis).

In order to support the investment return assumptions in the Technical Provisions basis the Trustees currently invest a proportion of the Plan’s assets in equities and other assets where return expectations are higher than that available on low-risk liability matching bonds (these assets taken together are the Plan’s “**Growth**” portfolio). The balance of the Plan’s assets is invested in a portfolio of low risk liability matching bonds (the “**Matching**” portfolio).

This strategy introduces an element of risk into the Trustee’s investment arrangements, and thus volatility in the Plan’s funding level and contribution requirements from the Sponsor.

The Trustees delegate the implementation of the Plan’s investment strategy, including the day-to-day management of the Plan’s assets, to Mercer.

4. Risk Management and Measurement

There are various risks to which any pension plan is exposed. The investment risks (and associated operational risks) that the Trustees consider are financially material to the Plan over its expected lifetime are as follows:

- The Trustees recognise that whilst taking investment risk relative to the portfolio of low risk bonds that best matches its liabilities can generate returns in excess of this bond portfolio, and thus assist in improving the funding of the Plan, this risk has the capacity to cause significant volatility in the Plan's funding position and the Sponsor's realised contribution obligations. The primary investment risk upon which the Trustees therefore focus is the degree of mismatch risk between the Plan's assets and its liabilities and the Sponsor's ability to support this risk.
- To control, and then reduce, mismatch risk, the Trustees have set the split between the Plan's Growth and Matching assets at the date of the Statement such that it believes the expected return on the portfolio is sufficient to achieve the Trustees' objectives without taking excessive risk. Should the Plan's de-risked funding level then increase as a result of its assets exceeding these expected returns, then the Trustee will opportunistically switch assets from the Growth portfolio to the Matching portfolio in order to reduce mismatch risk.
- Whilst investing the Plan's assets in Matching assets helps control volatility in the Plan's funding position and the Sponsor's future contribution requirements, the Trustees recognise that, even if the Plan was fully invested in Matching assets, some mismatch risk between the Plan's assets and liabilities might remain. This mismatch risk might be a result of, for example, unexpected changes in the Plan's liability profile. As such, the Trustees regularly review the Plan's Matching asset portfolio to ensure it takes full account of the Plan's up-to-date liabilities
- The Trustees recognise the risks that may arise from the lack of diversification of investments, particularly within the Plan's Growth portfolio. To control this risk, the Trustees delegate the asset allocation decisions within the Growth and Matching portfolios to Mercer. Subject to managing the risk from a mismatch of assets and liabilities, Mercer are expected to build suitably diversified Growth and Matching portfolios both by asset class and investment manager.
- There is a risk that the investment managers appointed to manage the Plan's assets do not deliver the returns expected of them or take an inappropriate level of risk when attempting to deliver the expected returns. To address this risk, the Trustees delegate responsibility for the appointment, monitoring and termination (where necessary) of the Plan's investment managers to Mercer. Mercer are expected to select managers based on their positive views on a manager's idea generation and its approach to portfolio

construction, implementation and business management – importantly, the Trustees expects Mercer not to select managers based on past performance alone.

To help diversify manager specific risk, the Trustees expect Mercer to make multiple manager appointments within each asset class where Mercer considers it appropriate to do so.

- The Trustees delegate to Mercer the responsibility for appointing “active” managers, giving these managers mandates to outperform specified benchmarks appropriate for each mandate, and “passive” managers, who are appointed to deliver returns in line with a benchmark with an acceptable degree of tracking error for the mandate. For specific asset classes the Trustees expects Mercer to appoint active managers where they believe the risk of underperformance is outweighed by the potential gains from successful active management. Likewise, the Trustees expect Mercer to prefer passive manager appointments where their use may help effectively diversify risk or where the scope for added value from active management is considered limited.
- The Trustees recognise the illiquidity and counterparty risks associated with investing in assets that are not listed on regulated investment markets. As such the Trustees expect that Mercer will only make such investments in order to facilitate efficient portfolio management and/or where the return or risk diversification benefits of the asset more than compensate for the illiquidity risks. In doing so the Trustees expect Mercer to consider the Plan’s liquidity requirements over the Plan’s expected lifetime and where counterparty risks are appropriately managed.
- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. The Trustees expect Mercer to control this risk using, for example, currency forward contracts, where it is appropriate to do so given the nature of the assets class and its role in the portfolio.
- The Trustees recognise that environmental, social and corporate governance issues, including climate change, have the potential to have a material impact on the Plan’s portfolio of assets from both a return and risk perspective. Section 10 of this Statement sets out how the Trustees manage these issues.
- In order to effectively control the above risks, and for the purposes of operational simplicity, efficient portfolio management and cost-effective diversification, the Plan’s investment strategy is implemented by Mercer via investment in a range of specialist pooled fund portfolios (Dublin-based “OEICS”) that are overseen and managed by appropriately regulated Mercer entities.
- Responsibility for the safe custody of the Plan’s pooled funds and the assets held within them is also delegated to Mercer. Mercer currently appoint State Street Custodial Services (Ireland) Limited (“State Street”) as the custodian.

- To assist the Trustees in monitoring the material financial risks above, Mercer provides the Trustees with regular reports that review all aspects of the Plan's investment strategy and its implementation. The Trustees also meet regularly with Mercer to discuss investment issues and Mercer's approach to assisting the Trustees in achieving its objectives.
- Whilst the Trustees retain direct responsibility for the Plan's key financial risk, namely the Plan's target split between Growth and Matching assets, there is a risk that the delegation of the management of the Plan's other financial risks to Mercer results in Mercer not using its delegations effectively. In general, the Trustees believe the delegation of a number of their investment responsibilities to a specialist third party is an effective use of the Trustees' resource as it enables the Trustees to focus their time and other resource on considering the most important investment issues from a risk and return perspective, thus enhancing the probability of achieving their investment objectives in a risk-controlled way.
- To assist the Trustees in monitoring the effectiveness of Mercer, the Trustees take steps to satisfy themselves that Mercer has the appropriate knowledge and experience to choose and combine underlying investment managers and ensure that Mercer is fit to manage the Plan's investments. As part of this monitoring the Trustees consider Mercer's performance against a balanced scorecard of investment objectives.

5. Investment Strategy

The Trustees currently implement an investment strategy that requires Mercer to invest 15% of the Plan's assets in the Growth portfolio with the balance of 85% invested in the Matching portfolio.

Via investment in Mercer's range of specialist pooled funds, the Trustees give Mercer full discretion when managing the Plan's Growth portfolio against an objective of generating an equity-like return of cash + 4-5%p.a. whilst achieving volatility in realised returns of c.70% of that of equities.

Also via investment in Mercer's range of specialist pooled funds, the Trustees give Mercer full discretion when managing the Matching portfolio, particularly with regard to the degree of liability hedging to be implemented – the level of hedging of funded liabilities is expected to be no lower than 90% however.

The expected return of the strategy is c. 1%p.a. in excess of the return on the portfolio of gilts that best matches the Plan's liabilities. The risk of the strategy is expected to be of the order of 4%p.a. That is, in two years out of every three, the return on the strategy is expected to be within +/-4% of the expected return (so within the range of -3% to 5% relative to the return on the portfolio of liability matching gilts).

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 constraints agreed between Mercer and the investment managers.

7. Realisation of Investments

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

8. Cashflow and cashflow management

Cashflows, positive and negative, are used to help maintain the Plan's overall asset allocation, and the allocation to managers within the Mercer pooled funds, in line with the targets set by Mercer.

Responsibility for ensuring the Plan's assets are sufficiently liquid to meet unexpected demands for cash generated by investments held by the Plan (e.g. collateral calls on derivative positions held by the Matching portfolio are delegated to Mercer).

9. Rebalancing

Responsibility for monitoring of the Plan's asset allocation on a day-to-day basis, and undertaking any de-risking and/or rebalancing activity as appropriate, is delegated to Mercer. When considering the effectiveness of any rebalancing actions from a risk control perspective, the Trustee expects Mercer to take into account the dealing costs associated with such activity.

10. Environmental, Social and Governance (ESG) – Trustees' Beliefs and Policies

The Trustees believe that good stewardship and the incorporation of environmental, social, and corporate governance (ESG) factors into their investment decision-making processes can have a material impact on the financial and non-financial performance of the Plan's assets over the medium and longer term. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustees' explicit consideration.

Given these beliefs, the ESG expertise and capabilities of Mercer are key considerations of the Trustees when reviewing Mercer's ongoing fiduciary management appointment.

The Trustees expect the third party investment managers appointed by Mercer, via Mercer Global Investments Europe (MGIE), to manage the Plan's assets to comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website.

To monitor whether the Plan's assets are being managed in line with the Trustees' beliefs and policies, the Trustees review the following reporting from Mercer on a regular basis:

- UK Stewardship Code Review: this annual review assesses each third party equity manager's compliance against the seven principles of the UK Stewardship Code.
- Stewardship Monitoring Report: these regular reports assess each third party equity asset manager's record of executing and disclosing voting activity, and the extent to which each manager is engaging with the underlying companies in which they invest.
- ESG ratings: these ratings for part of Mercer's quarterly reporting and provide an assessment of the degree to which Mercer believes ESG considerations have been embedded into a third party asset manager's investment philosophy and process.
- Carbon Footprint and Climate Scenario Modelling analysis: this analysis compares the carbon intensity of Mercer equity portfolios relative to appropriate benchmarks and considers the impact of differing climate change models on portfolio performance.

The Trustees have considered, and will continue to consider, including specific sustainability themed investment opportunities within their investment strategy.

MGIE sets the third party asset managers that it appoints investment restrictions in relation to particular products or activities. The Trustees review MGIE's exclusion policy on a regular basis.

Investment Restrictions - The Trustees have not set any investment restrictions on Mercer, MGIE or the third party asset managers in relation to particular products or activities but may consider this in the future where it is practicable to do so.

Member views - Plan member views are currently not taken into account in the selection, retention and realisation of investments

How the Trustees incentivise their asset managers to align their investment strategy and decisions with the Trustees' policies.

The Trustees have engaged Mercer as the Plan's overall asset manager and Mercer's remuneration for the discretionary services provided under the appointment is based on the value of the Plan's assets under Mercer's management.

Mercer manages the Plan's assets by way of investment in pooled funds (the Mercer Funds), which are multi-client collective investment schemes. The Trustees accept that they do not have the ability to determine the policies or arrangements of the asset manager of the Mercer Funds, Mercer Global Investments Europe (MGIE), puts in place for each Fund. However, the Trustees have made Mercer aware that they expect MGIE to manage assets in a manner, as far as is practicably possible, that is consistent with the Trustees' policies.

Should the Trustees consider that Mercer, MGIE or the third party asset managers, have failed to align their own policies with those of the Trustees, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustees incentivise their asset managers to, 1) make portfolio selection decisions based on assessments of medium to long term financial and non-financial performance of an issuer of debt/equity and, 2) engage with issuers to improve performance in the medium to long term.

The responsibility for making portfolio selection decisions based on assessments of the medium to long-term financial and non-financial performance of issuers of credit or equity investments are made by the third party asset managers that are appointed by MGIE to manage the Mercer Funds. The Trustees are aware that Mercer or MGIE do not make such investment decisions.

In appointing the third party asset managers, the Trustees expect that MGIE will select managers where it believes the managers will engage directly with issuers in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party asset managers' compliance with this expectation, the Trustees consider regular reports from Mercer that include an assessment of each third party manager's voting and engagement activity.

The Trustees use this monitoring to identify actions taken by the third party asset managers that appear out of line with the Trustees' policies. In doing so the Trustees seek to understand the reasons for a manager's actions and what, if appropriate, steps have been taken by MGIE and/or the manager to address the issue. Such steps could include a decision by MGIE to terminate a manager's appointment.

Should the Trustees consider that MGIE has failed to take appropriate steps to appoint third party asset managers that are consistent with the Trustees' policies, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustees approach to evaluating their asset managers' performances, and how they remunerate their asset managers, is aligned with the Trustees' policies.

All assets manager fees are predominantly based on a percentage of the value of assets under management. The Trustees monitor, and evaluate, the fees they pay for all asset management services on an ongoing basis. In doing so, the Trustees consider the degree to which asset manager performance and actions has been consistent with the Trustees' policies. The Trustees believe that their policies will improve the performance of the Plan's assets over time and thus the current fee arrangements, all other things remaining equal, align the interest of the third party asset managers with the Trustees.

In evaluating performance, the Trustees will consider both financial and non-financial issues based on reports produced by Mercer. From the reports, the Trustees expect to see evidence because of actions taken by Mercer, MGIE and the third party asset managers, of an improving trend in the stewardship and sustainability of the issuers of the assets held by the Plan. Such evidence could be improving compliance by the third party asset managers with the UK Stewardship Code Review or a Mercer Fund's reducing carbon footprint relative to its peers and/or a specified benchmark.

Should the Trustees' monitoring conclude that it sees no evidence of an improving trend in the stewardship and sustainability of the assets held in the Mercer Funds over time, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustees monitor portfolio turnover costs and how they defines and monitor portfolio turnover/turnover range targets.

The Trustees do not have an explicit target portfolio turnover range for the overall Plan's assets or individual Mercer Funds. However, overall performance is considered by the Trustees net of all transaction costs and MGIE consider portfolio turnover of the third party asset managers as part of its monitoring to ensure that such activity remains consistent with the managers' investment approaches.

For some Mercer Funds, the Trustees note that MGIE, where it believes it appropriate for the mandate, actively encourages the third party asset managers to adopt a "buy and maintain" investment approach by making long-term investments in the debt of issuers, thus reducing portfolio turnover and turnover costs.

The duration of the Trustees' arrangements with its asset managers.

There are no duration limits to the Trustees' arrangements with Mercer and MGIE and MGIE does not put in place duration limits for the third party asset managers it appoints to manage the assets of the Mercer Funds. The Trustees will continue to retain Mercer as long as it believes it is in the best interests of the Plan and expects MGIE to adopt the same approach when managing the Mercer Funds.

11. Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of AVCs

paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

12. Fee Structures

Mercer levies a fee (plus VAT where applicable) based on a percentage of the value of the

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 managers also levy fees based on a percentage of the value of the assets under management. Some of the underlying managers may also levy fees based on their performance.

Louisa Harrold

Louisa Harrold, Chair of Trustees

Signature

Print Name

18 December 2024

Date

For and on behalf of the Trustees of the Baxenden Chemicals Limited Family Security Plan