

Sun Chemical Limited Pension Scheme ("the Scheme")

Statement of Investment Principles – SEPTEMBER 2019

1. Introduction

The Trustees of the Sun Chemical Limited Pension Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the SIP") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The SIP is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustees' investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this SIP takes full regard.

In preparing this SIP, the Trustees have consulted suitably qualified persons by obtaining written advice from Goldman Sachs Asset Management International ("GSAM") the "Fiduciary Manager", and KPMG, the "Investment Consultant". In addition, consultation has been undertaken with Sun Chemical Limited (the "Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustees' objectives.

2. Investment Strategy

The Trustees seek to manage the Scheme's assets in a responsible and prudent manner. They do so in the best interests of its members and beneficiaries; so as to protect the Scheme's assets and ensure that sufficient resources are available to meet its obligations as they come due. Responsibility for the setting and oversight of investment strategy lies with the Trustees, although they do so in consultation with the Scheme Sponsor. While the Trustees are comprised of diverse individuals who bring various expertise, background, and perspective, they have chosen to seek expert outside advice to assist in achieving the Scheme's investment objectives.

The Trustees take a long term perspective in developing an Investment Strategy. As such, they determine what they deem to be a suitable level of investment risk, by carefully considering the current funding level, Sponsor contributions, Employer Covenant, market conditions, and other factors.

The main tool the Trustees employ to manage the Scheme's investments is the Strategic Asset Allocation ("SAA"). The SAA is the basic guideline that determines in which asset classes the Scheme's assets will be invested, in what proportions and within what ranges. This decision is driven by the Trustee's risk tolerance, time horizon, and overall Scheme objectives. Although regularly reviewed, the SAA has a long term perspective and generally will not change significantly – but rather gradually, as the Scheme evolves over time.

The basic principle the Trustees have adopted in developing the SAA is to view the Scheme's assets in two primary categories: Growth Assets (which seek to achieve superior market returns); and Matching Assets (which seek to match the risk profile of the Scheme's liabilities and thereby manage funding level risk).

The Trustees understand that managing the Scheme's investments is a complex and full time task, and accordingly have sought the advice of outside experts to assist them in implementing the SAA. The Trustees hire a Fiduciary Manager who has been delegated the task of day-to-day management of the Scheme's investments (currently GSAM).

The Trustees and the Fiduciary Manager have agreed to a legally binding contract called the Investment Management Agreement ("IMA") which obligates the Fiduciary Manager to follow the SAA as determined by the Trustees. It spells out the guidelines under which the Fiduciary Manager must implement and execute the SAA.

The Trustees also hire an independent Investment Consultant (currently KPMG), who assists the Trustees in reviewing the performance and recommendations of the Fiduciary Manager. The Trustees also hire a Custodian (currently State Street Bank & Trust) who among other functions provides investment management reporting and compliance reporting which monitors the Fiduciary Manager's adherence to the IMA.

The Trustees recognise that investing in Growth Assets will bring increased risk of funding level volatility, but with the expectation of improvements in the Scheme's funding level through equity (and other Growth Asset) outperformance of the liabilities over the long term.

In order to manage this risk, the Trustees have adopted certain risk management tools (in addition to establishing the SAA, and seeking the advice of outside investment management experts). Key among these tools is the implementation of a "Glide Path".

A Glide Path is a dynamic, and pre-determined execution plan whereby the Trustees have delegated to the Fiduciary Manager the mandate to convert from Growth Assets to Matching Assets. This is only done when the Scheme's funding level improves over time, so as to "lock in" investment gains in the value of the Scheme's investment portfolio. The Trustees deem this approach appropriate because it is a proactive method of ensuring that the Scheme steadily moves toward a fully funded position as the overall funding level improves.

3. Investment Objectives

The Trustees' primary Investment Objectives are as follows:

- *To ensure that obligations to the beneficiaries of the Scheme can be met;*
- *For the Scheme to achieve a fully funded position on a de-risked funding basis, defined as being "gilts plus 0.50%" p.a., in line with the timing set out in the 2017 valuation recovery plan (subject to change) with a reasonable degree of confidence;*
- *To reduce the volatility in the funding level by managing un-hedged liability interest rate and inflation risk exposure;*

- *To monitor the progress in the funding level against pre-agreed Glide Path triggers and to capture improvements in the funding level, if they arise.*

4. **Process For Choosing Investments**

In hiring a Fiduciary Manager, the Trustees have delegated the responsibility for investment decision making to the Fiduciary Manager (in line with the agreed guidelines as specified within the IMA). As such, the Fiduciary Manager may utilise internal or external investment managers (or separate accounts) as agreed with the Trustees. Accordingly, the Fiduciary Manager has overall responsibility for hiring, firing and ongoing monitoring of the Scheme's investment managers. The Fiduciary Manager shall provide the Trustees with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.

As noted above, the Trustees have decided to implement a de-risking strategy (the "Glide Path") whereby the level of investment risk reduces as the Scheme's funding level improves. The Trustees have agreed on the way in which the investment risk should be reduced and have delegated the implementation of the de-risking strategy to the Fiduciary Manager. The Fiduciary Manager advises the Trustees on an appropriate benchmark for the SAA, and constructs portfolios of investment with the aim of outperforming the benchmark, within the targeted level of risk, through manager selection, and implementation of market views.

For the avoidance of doubt, once the funding level has moved through a pre-determined de-risking funding level trigger, the asset allocation will not be automatically "re-risked" should the funding level deteriorate again below that trigger. The Investment Strategy will be reviewed on (at least) an annual basis to ensure that the Glide Path triggers remain appropriate and amended if required.

The Fiduciary Manager shall report quarterly to the Trustees on any breaches to the range guidelines.

Finally, in considering the appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of GSAM as Fiduciary Manager, whom the Trustees believe 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).

5. **Risk Management and Measurement**

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

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme'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 Scheme's liabilities as well as producing more volatility in the Scheme's funding position.

- The Trustees have appointed the Fiduciary Manager to implement the asset allocation within parameters given to them by the Trustees. The asset allocation has initially been set so that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 3. As the funding level improves, investments will be switched from Growth Assets into Matching Assets with the aim of reducing investment risk. The Fiduciary Manager shall provide the Trustees with regular reports regarding the Scheme's asset allocation.
- Whilst moving towards the target funding level, the Trustees recognise that even if the Scheme's assets are invested in Matching Assets, there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between Matching Assets and actuarial liabilities.
- 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, The Fiduciary Manager aims to ensure that the implementation of the asset allocation policy results in an adequately diversified portfolio. Investment exposure is primarily obtained via pooled vehicles.
- There is a risk that the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active or passive investment managers involves such a risk. The Trustees acknowledge that the use of active management involves the additional risk that managers will underperform the market. However, for specific asset classes the Trustees believe that this risk is outweighed by the potential gains from successful active management. Passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in markets deemed efficient where the scope for added value is limited.
- To help diversify manager specific risk, the Fiduciary Manager has, where appropriate given the size of allocations, made multiple manager appointments within each asset class.
- Investment may be made in securities that are not traded on regulated markets and leveraged investments are also permitted where market exposure exceeds the capital deployed. The extent of such leveraged investment is strictly governed by the IMA and monitored closely by the Trustees. Recognising the risks (in particular liquidity and counterparty exposure) in such investments, they will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate improved diversification and efficient portfolio management. In any event, the Trustees will ensure that the assets of the Scheme are predominantly invested either directly or indirectly in investments traded on regulated markets and that the use of leverage is appropriately limited as agreed with the Fiduciary Manager.
- The Trustees have appointed State Street Bank and Trust Company ("State Street") as Custodian of the Scheme's assets.

- Should there be a material change in the Scheme's circumstances, the Trustees will advise the Fiduciary Manager who will review whether, and to what extent, the investment arrangements should be altered. In particular, they will determine whether the current de-risking strategy remains appropriate.

6. **Day-to-Day Management of the Assets**

The Trustees have delegated the day-to-day management of the Scheme's assets to the Fiduciary Manager, who in turn selects externally and internally managed funds in which to invest the Scheme's assets. The underlying investment managers have full discretion to buy and sell investments as described in the offering memorandum or prospectus of the relevant funds (or the investment management agreement in the case of separate accounts).

The Trustees have taken steps to satisfy themselves that the Fiduciary Manager is fit to manage the Scheme's investments, and has the appropriate knowledge and experience to choose and combine the underlying investments.

The Trustees regularly review the continuing suitability of the Scheme's investments including the Fiduciary Manager's ability to select, appoint, remove and monitor the investments managed by the appointed managers. GSAM, as current Fiduciary Manager, is authorised and regulated by the Financial Conduct Authority.

7. **Realisation of Investments**

The Fiduciary Manager and the underlying investment managers selected by them 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.

8. **Cash flow and cash flow management**

Cash flows, whether positive or negative, are used to move the Scheme's asset allocation to the individual underlying managers back towards the strategic allocation appropriate at that point in time given the level of de-risking that may have occurred.

9. **Rebalancing**

Rebalancing ranges have been set within the Growth and Matching portfolios to ensure the Scheme's assets remain invested in a manner which is consistent with SAA, and the commensurate guidelines within the IMA (and agreed by the Sponsor). In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced Growth portfolio weight, under the new de-risking band (i.e.: the "Glide Path").

10. **Responsible Investment and Corporate Governance**

Financially material considerations

The Trustee recognises that it has a legal duty to take account of financially material considerations over the appropriate time horizon of the investments, which may include environmental, social and corporate governance (ESG) factors (such as climate change), in the selection, retention and realisation of investments. The Trustee recognises that these ESG factors may, to varying degrees, impact investments and therefore funding outcomes and can therefore be financially material. The Trustee takes account of such factors over the period for which the Trustee expects Scheme investments to be required to fund future Scheme benefits.

The strategic asset allocation and the planned derisking within the Journey Plan reflect the Trustee's approach to managing the broad set of financially material factors applicable to the Scheme, over the appropriate time horizon.

The Trustee has delegated all day-to-day decisions about the Scheme's investments, including the selection, retention and realisation of investments and the selection and retention of investment managers, to GSAM. As part of its delegated responsibilities, the Trustee expects GSAM to consider financially material considerations (including ESG factors such as long-term risks posed by sustainability concerns, including climate change risks).

Financially material factors are taken into account when selecting investments and investment managers. As part of their delegated responsibilities, the Trustee expects the investment managers to consider financially material factors, which may include corporate governance, social, and environmental considerations (including ESG factors such as long-term risks posed by sustainability concerns, including climate change risks) in the selection, retention and realisation of investments.

GSAM's selection process for investment managers includes the consideration of ESG factors as part of the criteria which may be taken into consideration in their research and selection of investment managers and investments included in the portfolio.

The Trustee regularly engages with GSAM to monitor performance of the portfolio, including, where relevant, how it takes account of financially material factors.

Non-financial matters

The Trustee's current investment policy does not specifically take into account non-financial matters such as the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme.

Stewardship

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. The Trustee recognises that ultimately this protects the financial interests of the Scheme and its members and beneficiaries.

The Trustee does not engage with debt or equity issuers directly but has adopted a policy of delegating voting decisions to GSAM and investment managers. The Trustee believes it is appropriate for GSAM and investment managers to engage in stewardship activity with key stakeholders. Such stakeholders may include corporate management of debt or equity issuers, other holders of the debt or equity, or regulators and governance bodies (as appropriate to the Trustee's investments). As part of this, the Trustee expects GSAM and investment managers to discuss with these stakeholders matters concerning the relevant issuer of debt or equity, including corporate governance, performance, strategy and ESG factors.

The Trustee expects that investment managers will provide details of their stewardship policy and activities on a periodic basis and will monitor this with input from GSAM. GSAM will engage with the investment managers where necessary for more information.

11. **Additional Assets**

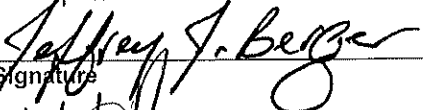
Under the terms of the Trust Deed the Trustees are responsible for the investment of AVCs paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability.

12. **Fee Structures**

The Fiduciary Manager levies a fee 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 appointed by the Fiduciary Manager levy fees based on a percentage of the value of the assets under management, and in some cases, also levy fees based on a percentage of performance in excess of a pre-defined benchmark.

13. **Review of this Statement of Investment Principles ("SIP")**

The Trustees will review this SIP at least once every 3 years and without delay after any significant change in investment policy. Any change to this Statement will only be made 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.


Signature

Jeffrey J. Berger
Print Name


Signature

MARGARET J. PEARCE
Print Name

23 - Sept - 2019
Date

For and on behalf of the Trustees of the Sun Chemical Limited Pension Scheme

