AkzoNobel Benefit Builder

Statement of Investment Principles

July 2020

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Section 1: Introduction

Plan details

1.1 This document describes the investment policy pursued by the Trustee Directors ("the Trustee") of AkzoNobel Benefit Builder ("the Plan").

1.2 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Plan operates on a defined contribution basis.

1.3 The Plan is a registered pension scheme under the Finance Act 2004.

1.4 A brief summary of the Plan's history is outlined in Appendix B.

Pensions Acts

1.5 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles adopted by the Trustee of the Plan.

1.6 Before preparing this document, the Trustee has consulted the Principal Employer and the Trustee will consult the Principal Employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.7 In drafting this document, the Trustee has sought advice from the Plan's investment consultant, Towers Watson Limited ("Willis Towers Watson"). Before preparing this document the Trustee has had regard to the requirements of Section 36 of the Pensions Act 1995, concerning diversification of investments and suitability of investments, and will consider those requirements in any review of this document or any change in their investment policy. The Trustee will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Financial Services and Markets Act 2000

1.8 In accordance with the Financial Services and Markets Act 2000, the Trustee will set the general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies.

Code of practice

1.9 The Regulator has launched a revised Code of Practice 13 (CoP13) which incorporates the new freedom and choice retirement flexibilities and new statutory minimum quality standards for all workplace DC schemes. CoP13 sets out the standards of conduct and practice that the Regulator expects trustee boards of occupational pension schemes providing money purchase benefits to comply with in fulfilling their legal duties in the pursuit of good member outcomes. This document has been drafted taking account of CoP13 and the DWP's minimum governance standards, and specifically the recommendations relating to the content of Statements of Investment Principles generally.

Compliance with this Statement

1.10 The Trustee will monitor compliance with this Statement annually.

Review of this Statement

1.11 The Trustee will review this Statement in response to any material change to any aspects of the Plan, its membership profile and the attitude to risk of the Trustee, which it judges to have a bearing on the stated investment policy.

1.12 This review will occur no less frequently than every three years. Any such review will be based on written expert investment advice and the Principal Employer will be consulted.

Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Trustee

2.2 The Plan Trustee's responsibilities include:

(i) Reviewing the content of this Statement of Investment Principles and modifying it if deemed appropriate, in consultation with the Investment Consultant and the Principal Employer.

(ii) Producing a Chair's Statement in line with the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

(iii) Developing a work plan for the Plan.

(iv) Appointing and monitoring the administrator of the Plan.

(v) Appointing and monitoring the advisors to the Plan.

(vi) Assessing their own performance and those of their advisors and delegates in fulfilling the requirements of the work plan.

(vii) Reporting to Plan members as appropriate on the content of and compliance with this statement.

(viii) Monitoring investment arrangements on an ongoing basis.

(ix) Communicating and providing reasonable assistance to help members make informed retirement savings decisions and monitor their progress.

2.3 In accordance with the Financial Services and Markets Act 2000, the Trustee sets the general investment policy, but has delegated the ongoing monitoring of the investment managers to the Investment Consultant. The Trustees monitor the investments each quarter, receiving investment updates from their investment consultant. A more detailed analysis is undertaken in one quarter in which each investment manager will attend the Trustee meeting.

Members

2.4 The individual member is responsible for:

(i) Investing in suitable investment funds from the range provided by the Plan.

(ii) Ensuring these investment choices are appropriate to their personal circumstances and needs.

(iii) Keeping the chosen investment choices under review, along with the choice of contribution levels payable, to ensure they continue to meet their personal circumstances and needs.

Underlying investment managers

2.5 The underlying investment managers' responsibilities include:

(i) At their discretion, but within the guidelines for each individual fund, implementing changes in the asset mix and selecting securities within each asset class.

(ii) Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Plan as and when they occur.

(iii) Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions and any changes to the processes applied to the portfolio.

(iv) The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Plan.

Investment Consultant

2.6 The Investment Consultant's responsibilities include:

(i) Participating with the Trustee in reviews of this Statement of Investment Principles.

(ii) Undertaking project work as required including transitions, implementations, strategy reviews and reviews of the underlying investment managers.

(iii) Advising the Trustee on:

- As requested, how any changes within the Plan’s membership profile may affect the manner in which the assets should be invested.
- How any changes in the underlying investment managers’ organisations could affect the interests of the Plan.
- How any changes in the investment environment could either present opportunities or problems for the Plan.

(iv) Undertaking trustee education on DC investment matters.

(v) Providing commentary on investment performance.

(vi) Providing general advice in respect of the Plan’s investment activities.

(vii) Providing views of the investment managers employed by the Plan.

DC Administrator

2.7 The Trustee has appointed Willis Towers Watson's Technology and Administration Solutions ("TAS") to provide administration services. The DC Administrator and platform providers' responsibilities include:

(i) Allocating the contributions paid by members to their individual accounts as soon as practicable after receipt

(ii) Providing the Trustee with quarterly statements

(iii) Ensuring that the Plan's funds are priced correctly to the extent this is within its power to influence

(iv) Providing regulatory and operational governance for the Plan's funds.

Section 3: Objective and investment strategy

3.1 The Plan is a defined contribution scheme and therefore members' benefits are solely dependent on the amount of money paid into their individual accounts and the performance of investments.

Investment Objective

3.2 The Trustee's objective is to make available to members a programme of investment via pooled funds which seeks to generate income and capital growth which, together with new contributions from members and the Principal Employer, will provide a fund at retirement with which to purchase a pension.

Investment Strategy

3.3 The Plan provides investment fund options sourced directly from the investment managers.

3.4 A full list of the range of funds offered is shown in Appendix A of this document. This includes the pre-determined default target date fund and the self-select fund range.

3.5 The Plan offers three pre-determined target date fund strategies. The aim of the strategies is for members to achieve a reasonable level of long-term growth on their investments over the majority of their working life. These strategies are offered via an array of BlackRock LifePath target date funds with varying vintage years, which automatically switch assets to manage investment risk as members approach their selected retirement age. Each LifePath fund will switch from an initial concentration in equities, to a more diversified asset allocation. At retirement the three LifePath strategies have different asset allocations and are invested in the below asset classes.

- LifePath Capital – cash
- LifePath Flexi – equities, commodities, property, fixed income and cash
- LifePath Retirement – fixed income and cash

3.6 Members who opt to invest in the self-select fund range can choose any of the funds in any combination they wish.

Default Option

3.7 The Trustee offers members the option to invest in the range of funds described in Appendix A entirely at their own discretion. If members fail to make a choice, the BlackRock LifePath Capital fund acts as a default with State Pension Age as the default target retirement age. The BlackRock LifePath Capital fund is designed to provide stable growth through the early years and gradually de-risk members as they near retirement. When members are within 10 years to retirement, the fund is designed to start moving to an asset allocation which is most suitable for members that intend to withdraw their benefits as a cash lump sum at retirement. Members are able to change their investment choice at any time if they do not believe this fund is appropriate for their needs.

3.8 The Trustee also considers the BlackRock World ex-UK Equity Index Fund to be a default arrangement as it may have received member assets on a non-consent basis following the removal of the MFS Global Equity Fund (as outlined in Appendix B).

3.9 The Trustee also considers the Cash Fund to be a default arrangement as member assets may be invested in this fund on a non-consent basis following the receipt of redemption proceeds from the sale of units in the Property Fund, as outlined in Appendix B. The Trustee also decided to redirect future contributions from the Property Fund to the Cash Fund following its decision to redeem all assets in the Property Fund in March 2020.

Expected Risk and Return

3.10 The investment options invest in the following asset classes and have the following risk and expected return characteristics:

(i) Equities – Expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be highly volatile in the short term.

(ii) Diversified assets – Expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be volatile in the short term although this is expected to be less than that of equities.

(iii) Property - allows members to gain exposure to an alternative asset class. By diversifying away from equities, the return seeking portion of the member's investment is less reliant on the equity risk premium and is expected to be less volatile than equities.

(iv) Bonds – Capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term. The value of bonds is expected to move broadly in line with the price of annuities, providing some protection to the 'purchasing power' of a member's account near retirement.

(v) Cash – Limited investment returns associated with low risk to capital values.

Additional Voluntary Contributions (AVCs)

3.11 The Plan provides a facility for members to pay AVCs into the Plan to enhance their benefits at retirement. Members have the choice of investing their AVCs in any of the self-select or target date fund strategy options. The Trustee's objective is to provide funds which offer a suitable long term return for members, consistent with members' investment needs as they approach retirement. The AVC investment options are the same as the main Plan investment options.

Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be it legislative, regulatory or considered best practice.

Choosing investments

4.1 The Trustee has appointed investment managers who are authorised under Financial Services and Markets Act 2000 to undertake investment business. After gaining (and reconfirming at least annually) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choices have been delegated to these investment managers, subject to defined tolerances relative to their respective benchmarks.

4.2 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

Financially material considerations

4.3 The Trustee takes account of financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.

4.4 The Trustee's policy is that day-to-day decisions relating to the selection, retention, and realisation of the Plan's assets is left to the discretion of the investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee explores these issues with its advisers to understand how the investment managers exercise these duties in practice.

4.5 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including engagement and voting policies where relevant.

4.6 The Trustee's policy at this time is not to take into account members' views on non-financial matters in the selection, retention and realisation of investments.

Rights attached to investments

4.7 The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments, to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.

4.8 The Trustee periodically reviews reports from investment managers to ensure that the policies outlined in sections 4.4, 4.5, and 4.7 are being met.

Liquidity and realisation of investments

4.9 Members' accounts are held in funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

Diversification

4.10 The Trustee believes that the provision of the self-select investment funds and the target date fund strategy meet the Plan's investment needs and that these funds provide adequate diversification of investments.

Suitability

4.11 The Trustee has taken advice from the Investment Consultant to ensure that the investment options specified above are suitable for the Plan. The Trustee continues to monitor, and take advice on, the various options on an ongoing basis.

Fee basis

4.12 Members bear the investment management charges on their investments. These fees are charged by adjustment to the unit prices within the funds, calculated daily on the value that day. The Trustee believes the charging structure is appropriate and in line with standard market practice.

4.13 The Trustee is aware of the importance of fees for members over long periods of time and therefore takes into account the level of fees when selecting funds and any fees generated when implementing changes to the underlying strategies, and seeks to negotiate improved terms where possible.

Section 5: Investment manager arrangements

Investment Manager Structure

5.1 Currently, the Plan offers members a range of self-select and target date fund strategies as listed in Appendix A of this document.

5.2 The Trustee's policy is to obtain ongoing advice on whether these funds continue to be satisfactory as required by the Pensions Act 1995, Section 36.

5.3 The investment managers have regard to:

(i) at their discretion, but within the guidelines for each individual fund, implementing changes in the asset mix and selecting securities within each asset class.

(ii) informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Plan as and when they occur.

5.4 The Trustee has delegated day-to-day management of the assets to the investment managers.

Performance Objectives

5.5 Whilst the Trustee is not involved in each investment managers' day-to-day method of operation and therefore cannot directly influence attainment of the performance target, it will regularly assess performance and review manager appointments. A set of measurable objectives has been developed for each investment manager, consistent with the achievement of the Plan's longer term objectives with an acceptable level of risk.

5.6 The investment managers set performance objectives and risk tolerances for each of the Plan's funds. The Trustee considers these investment performance objectives to be an appropriate measure to assess each fund's performance against.

5.7 The investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk level of the Plan or any part of it.

5.8 The Trustee recognises that the active managers' performance will be volatile and that they will not always achieve their target. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with their target, given the levels of risk adopted.

Fees

5.9 The Trustee has accepted the fees of the Plan's investment managers are at least in line with the manager's stated fee scale.

5.10 The Trustee will pay investment consulting fees to Willis Towers Watson based on time cost (or as agreed in advance for specific projects).

Arrangements with investment managers

5.11 Alignment between an investment manager's management of the Plan's assets and the Trustee's policies and objectives is a fundamental part of the appointment process of a new investment manager. As the Plan only invests in pooled investment funds, the Trustee cannot directly influence or incentivise investment managers to align their management of the funds with the Trustee's own policies and objectives. However, the Trustee will seek to ensure that the investment objectives and guidelines of any investment fund used are consistent with its own policies and objectives. The Trustee will also seek to understand the investment manager's approach to sustainable investment (including engagement).

5.12 The Trustee is responsible for monitoring the investment funds and managers. As part of this, the Trustee will provide investment managers with the most recent version of this Statement of Investment Principles (SIP) on a regular basis to ensure managers are aware of the Trustee's expectations regarding how the Plan's assets are being managed.

5.13 Should the Trustee's monitoring processes reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustee's policies, the Trustee will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible the Trustee may consider alternative options available in order to terminate and replace the manager.

5.14 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. For most of the Plan's investments, the Trustees expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

5.15 When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an investment manager's appointment based purely on short term performance. However, an investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

5.16 Investment managers are paid a fee expressed as a percentage of assets managed, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

5.17 The Trustee reviews the costs incurred in managing the Plan's assets on a regular basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that type of fund.

Section 6: Risk management

6.1 The Trustee recognises specific investment risks that can be managed by the range of investment options provided to members. These are:

(i) 'Inflation risk' - the risk that the investment return over members' working lives does not keep pace with inflation.

(ii) 'Conversion risk' - the risk that the investment strategy chosen near retirement is not suitable for the expected retirement benefits to be taken.

(iii) 'Shortfall' or 'opportunity cost' risk - the risk that members end up with insufficient funds at retirement with which to be financially independent.

(iv) 'Manager risk' - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed.

(v) 'Capital risk' - the risk of a fall in the value of the members' fund.

6.2 The funds offered through the Plan have been chosen, in part, to help members mitigate these risks.

The Trustee recognises a number of risks involved in the investment of the assets of the Plan:

1. Manager risk:

   (i) is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.

   (ii) is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment processes.

2. Liquidity risk:

   1. is measured by the amount of a pooled fund investment that can be redeemed by members over a specified period.

   2. is managed by typically offering members pooled funds that are readily redeemable in normal circumstances at reasonable prices.

3. Political risk:

   (i) is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

   (ii) is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4. Diversification risk:

   (i) is measured by observing the relative and absolute volatility of the investment options.

   (ii) is managed through the selection of broad based funds that show internal diversification, as well as by offering the membership a fund range which provides for reasonable diversification.

5. Currency risk:

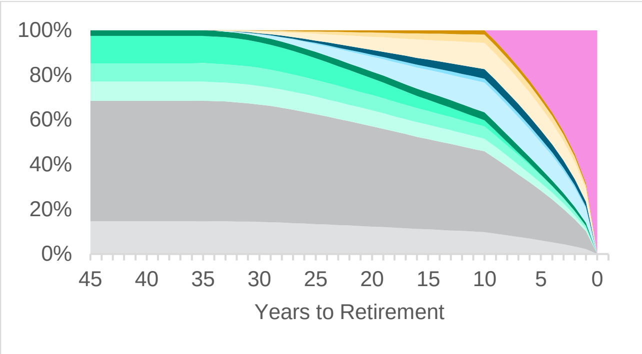
   (i) is measured by observing the difference between hedged and unhedged returns.

   (ii) is managed by providing the membership with a number of GBP based investment options and communicating those funds which invest overseas.

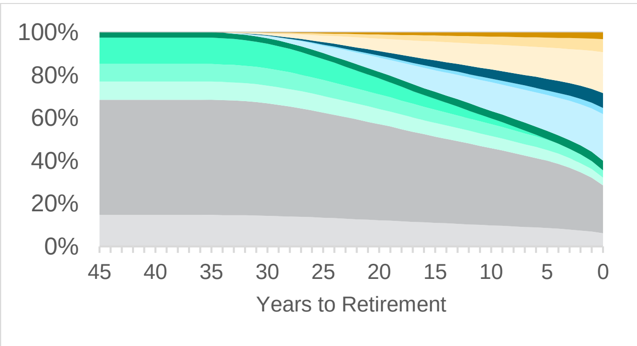
Appendix A: Fund range

There are three LifePath strategies which members may choose from. All LifePath strategies have an AMC of 0.16%. The asset allocation of these LifePath strategies is shown below:

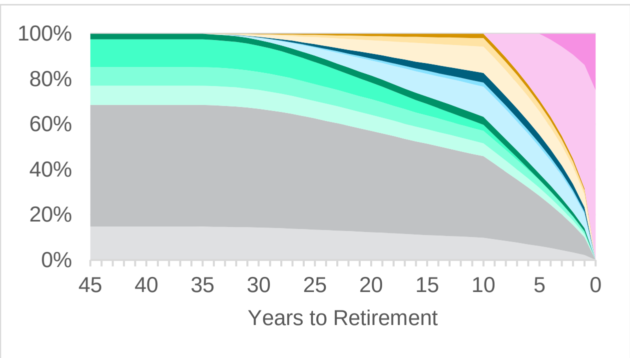
LifePath Capital:



LifePath Flexi:



LifePath Retirement:



Notes: O/S = overseas

Fund name	Investment manager	Performance target (before expenses)	Self-select fund range AMC
UK Equity Fund	BlackRock	To match the performance of the FTSE All-Share Index	0.08%
World ex UK Equity Fund	BlackRock	To match the performance of the FTSE Developed World ex-UK Index	0.20%
Corporate Bond Over 15 Years Index Fund	BlackRock	To match the performance of the iBoxx £ Non-Gilts Over 15 Years Index	0.08%
Over 15 Years Gilt Index Fund	BlackRock	To match the performance of the FTSE A Gilts Over 15 Years Index	0.08%
Over 5 Years Index-Linked Gilt Index Fund	BlackRock	To match the performance of the FTSE A Gilts Index-Linked Over 5 Year Index	0.08%
Cash Fund	BlackRock	To match the performance of 7-Day LIBID	0.10%
Aquila Life Market Advantage Fund	BlackRock	To achieve similar returns and take approximately 40% less risk than the diversified portfolio comparator (60% MSCI World GBP Hedged Index and 40% Barclays Capital Global Aggregate GBP Hedged Index) while experiencing lower downside exposure during extreme drawdowns	0.25%
Long Dated Corporate Bond Fund	M&G	To outperform by 0.8% pa the iBoxx £ Non-Gilts Over 15 Years Index	0.30%
Recovery Fund	M&G	To outperform by 1.5%-2.0% pa the FTSE All-Share Index	0.75%
Property Fund	M&G	To outperform by 0.5% pa the IPD UK Pooled Property Fund All Balanced Index	0.55%

Appendix B: Background

AkzoNobel Benefit Builder ('the Plan') is a defined contribution occupational pension scheme. Contributions into the Plan are paid by both AkzoNobel and by the member. In March 2006, the Company introduced a salary sacrifice arrangement. From this date, member contributions effectively ceased to be paid (although members may opt out of salary sacrifice arrangements). Employees who are members of the ICI Pension Fund or the ICI Specialty Chemicals Pension Fund are also eligible to make additional voluntary contributions to Benefit Builder.

The investment structure of the Plan was deliberately designed to start with a relatively straightforward structure and a limited range of options available to members. Following the advent of revised legislation in 2006 regarding pension provision, the Trustee, at the request of the Company, made available access to the Plan for members of the ICI Pension Fund and the ICI Specialty Chemicals Pension Fund as an AVC option.

In April 2006, four actively managed funds were added to the fund range and these are reviewed and refined from time to time, as appropriate.

From 1 January 2011, following consultation with members, the Plan's age-related contribution structure was simplified to a flat/matching basis. This follows AkzoNobel's wider harmonisation strategy which also included the introduction of members from the Company's other DC arrangement, the CPS, into the Plan from 1 February 2011. Former CPS members were permitted to transfer their accrued benefits to the Plan in June 2011.

April 2011 saw the introduction of a member administration fee of £50 per annum. This is deducted from members' accounts in two tranches of £25 in April and September each year. This charge was delayed for two years for existing deferred members of the Plan and applied in April 2013.

From April 2011, active members benefited from an additional Company contribution of £50 per annum.

During 2011, the Trustee undertook a detailed review of BlackRock's changes to the LifePath strategy which saw the introduction of a diversified growth phase as a transition between the equity concentrated accumulation phase and the bond focussed consolidation phase and a change in the underlying bonds which make up the consolidation phase. The BlackRock Aquila Market Advantage (ALMA) will be used in the diversified growth phase and is also made available to members as a stand-alone fund.

The Trustee Directors have engaged in an ongoing dialogue with BlackRock in relation to the design of the Plan's default investment option, LifePath, and will review its continued suitability on an ongoing basis.

A review of the Plan's investment strategy was undertaken in 2017. As a result of this review, it was agreed that the default investment strategy would be changed from LifePath Retirement to LifePath Capital, with all assets being transitioned in April 2018, with the exception of those members who had actively elected to remain in the current LifePath Retirement funds. In addition, the active MFS Global Equity Fund was removed from the Plan's range of investment options and all assets were transitioned to the passive BlackRock World ex-UK Equity Index Fund in April 2018.

In June 2019 the Trustee was informed that the M&G Property Fund had applied its deferral policy on redemptions. After taking advice from its advisors, in March 2020 the Trustee agreed to instruct a redemption of all units held in the M&G Property Fund and invest the proceeds in the Cash Fund as they are received. Members are able to switch their assets into other funds from the range of available options thereafter if they wish.