

JP McDougall & Company Limited Staff Pension & Life Assurance Scheme

Statement of Investment Principles – July 2021 (replaces September 2020)

1. Introduction

The Trustees of the JP McDougall & Company Limited Staff Pension & Life Assurance Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. A separate document detailing the specifics of the Scheme’s investment arrangements, the Investment Policy Implementation Document (“IPID”), has also been drawn up and is available on request.

As required under the Act the Trustees have consulted a suitably qualified person in having obtained written advice from Mercer Limited (“Mercer”). The Trustees believe the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended). The Trustees in preparing this Statement have also consulted the sponsoring Company, JP McDougall & Company Ltd (the “Sponsor”), in particular on the Trustees’ objectives, de-risking activity and on their policy on risk management.

In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Overall investment policy falls into two parts:

- The strategic management of the assets, which is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives as set out in Section 4.
- The day to day management of the assets, which is delegated to a professional investment manager and is described in Section 6.

2. Myners Compliance

The Trustees have considered each of the Myners principles for investment decision making for defined benefit schemes.

The Trustees are satisfied, taking into account the external expertise available, that they have sufficient expertise and appropriate training to evaluate critically the advice they receive.

The Trustees are satisfied that they have an appropriate set of skills and the right structures and processes to carry out their role effectively.

3. Process for Choosing Investments

The Trustees have considered their investment and funding objectives together and in light of the strength of the Sponsor covenant to ensure that the two are compatible and supportable. The Trustees have then constructed a portfolio of investments consistent with these objectives and which they hope will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

The Trustees take into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of the Investment Consultant 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).

4. Investment Objectives, Risk Management, Portfolio Construction and Investment Strategy

4.1 Investment Objectives

The objectives set out here, and the risks and other factors referenced are those that the Trustees determine to be financially material considerations in relation to the Scheme.

To guide them in their strategic management of the assets the Trustees have considered their objectives. The Trustees’ primary objective is to ensure that sufficient assets are available to pay out member’s benefits as and when they arise;

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme’s investment horizon significantly.

4.2 Risk Management

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees have considered the following risks involved in the investment of the assets of the Scheme which the Trustees recognise may be risks over the anticipated lifetime of the Scheme:

i. Credit risk:

- Is the risk that one party to a financial instrument will cause a financial loss to the Scheme by failing to discharge an obligation.
- Is measured by periodic asset-liability modelling, in particular, Value-at-Risk (“VaR”) which quantifies the potential losses to the Scheme, including those arising from credit losses.

- Is managed by investing predominantly in corporate bonds with an investment grade credit rating, and diversifying credit risk across issuers.

ii. Market risk:

- Is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.
- Is also measured by periodic VaR analysis which quantifies the potential losses to the Scheme, including those arising from changes in market prices.
- It is managed by investing in a diversified portfolio of assets and return drivers.

iii. Interest rate and inflation risk:

- Is the risk that changes in the value of the assets do not move in line with changes in the value placed on the Scheme's liabilities in response to changes in interest rates and inflation.
- Is measured by the level of interest rate and inflation sensitivity that is unhedged by the Scheme's assets.
- Is managed by investing in Liability Driven Investment ("LDI") assets which seek to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation.

iv. Manager Risk:

- Is the risk that the Scheme's investment managers underperform their target returns.
- Is measured by the expected deviation of the prospective risk and return, as set out in the manager(s)' objectives, relative to the investment policy.
- Is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager's investment process. The Trustees invest a large proportion of the Scheme's assets in passive funds hence minimising the risk of large deviations from benchmark.
- If the active strategies underperform their benchmark for three consecutive quarters, the Trustees will aim to carry out a detailed review of the strategies and invite the investment manager(s) to present.

v. Liquidity Risk:

- Is the risk that the Scheme does not have sufficient liquid assets to meet benefit payments.
- Is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

vi. Sponsor Risk:

- Is the risk that the Scheme Sponsor does not pay the financial obligations due to the Scheme.

- Is measured by the level of ability and willingness of the Sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- Is managed by regular business updates from the Sponsor and assessing the interaction between the Scheme and the Sponsor's business, as measured by a number of factors, including the creditworthiness of the Sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Sponsor.
- In addition, a financial guarantee is in place between the Scheme and the parent company of the Sponsor, Akzo Nobel NV, for any amount due in respect of contributions payable by the Sponsor. This guarantee is in place until at least 31 May 2026.
- The Trustees recognise the legal requirement to limit the investment in Sponsor Related investments to no more than 5% of total assets, in line with regulations.
- Given the size of the Sponsor and extended group within the context of the global markets the Scheme invests in, the Trustees consider risk relating to Sponsor related investment to be immaterial.

vii. Environmental, social and governance ("ESG") risks including climate change

- Is the risk that environmental, social and governance issues, including climate change, impact the market value or liquidity of the Scheme's assets or stewardship of investments.
- Is managed through diversification of investments across asset classes, sectors and issuers, and through regular reviews of the investment manager's processes for incorporating ESG and climate change considerations into their investment process.

4.3 Portfolio Construction

The Trustees have adopted the following principles subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Section 4.1 and 4.2, and subject to the Trust Deed & Rules:

- There is a role for both **active and passive management**. Passive management involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By employing both the Trustees aim to take advantage of active management where they believe it is likely to lead to outperformance net of fees, while using passive management in other areas or alongside active management to control overall manager risk and to manage overall fee levels.
- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the need for diversification, available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments. However, the Trustees anticipate investing primarily on a pooled basis.

- **Specialist mandates** are preferred over generalists because of the potential to access a higher level of expertise. However, the Trustees limit the number of directly appointed managers so as to manage their overall monitoring requirements. Also there should be some flexibility to move between asset classes notwithstanding the appointment of specialists.
- At the total Scheme level investments should be **broadly diversified** to ensure there is not a concentration of exposure to any one market or issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government bonds.
- The amount invested in **highly concentrated portfolios** will take into account the level of risk this represents taking into account the Scheme's assets overall.
- The Trustees recognise that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Given the long-term investment horizon of the Scheme, the Trustees believe that a degree of liquidity risk is acceptable because they expect to be rewarded for assuming it. The amount invested in illiquid investments, such as property or pooled property funds and private markets, will take into account the implications of not being able to readily liquidate a proportion of the Scheme's investment on the operation of the Scheme.
- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).
- Investment may be made in securities that are not traded on **regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees will not invest directly in the **Scheme Sponsor** or associated companies, but acknowledge that indirect investment is possible as a result of the investment policies of the Scheme's pooled investment managers. The Trustee will invest in such a way that indirect exposure will not exceed 5% of total assets.
- No investment is permitted by an appointed investment manager in the securities issued by the relevant **manager's company or any affiliated companies** (other than any such securities held within a pooled fund in which the Trustees invest).
- **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustees as part of the onboarding process for new investments.

4.4 Investment Strategy

The Trustees have determined a benchmark mix of asset types and ranges within which the investment managers may operate with discretion. The Trustees reached their strategic policy decision following advice and discussions with Mercer. These guidelines are set out below.

The overall benchmark allocation at the time of writing is as follows:

Asset Class	Strategic Allocation (%)
Global Equities	7.0
Diversified Growth	3.5
Multi-Asset Credit	3.5
Total Growth	14.0
Buy and Maintain Credit	45.3
LDI*	40.7
Total Matching	86.0
Total	100.0

* LDI includes leveraged and unleveraged gilt and index-linked gilt funds and allocations to a Sterling Liquidity Fund.

The Trustees believe that the resulting asset mix is currently appropriate for controlling the risks identified in Section 4.2.

5. Expected Return

The Trustees expect to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Plan's funding has been agreed. It is recognised that over the short-term performance may deviate significantly from the long-term target.

6. Day to Day Management of the Assets

6.1 Main Assets

The Trustees have delegated the day-to-day investment of all of the Scheme's assets to professional investment managers. The Trustees have taken steps to satisfy themselves that the investment managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently. Further detail on the investment managers is set out in the IPID.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which each of the appointed investment managers may operate.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed investment managers and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring consistency with this Statement.

Section 11 sets out how the Trustees incentivise investment managers, where applicable, to operate in line with the Trustees' objectives.

The Trustees are satisfied that the spread of assets by type and the investment manager's policy on investing in individual securities within each type provides adequate diversification of investments.

6.2 Additional Assets

Assets in respect of members' additional voluntary contributions are invested with Utmost and Clerical Medical Investment Group. Previously, assets were invested with the Halifax

Building Society, Equitable Life and Utmost. All assets invested with the Halifax have been disinvested, and the assets invested with Equitable Life have been transferred to Utmost, which some members retain funds with and continue to contribute to these funds. The range, suitability and performance of these vehicles and the status and service of their providers are reviewed from time to time with advice from Mercer.

7. Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.

The investment managers 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 and pooled fund prospectuses.

Given the terms of the investment management agreements, the managers have undertaken not to exceed the Trustees' investment powers as set out in the trust deed. As already mentioned, the day-to-day activities which the investment managers carry out are governed by the investment agreement, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

8. Custody

The assets are held in pooled funds. Whilst a custodian has been appointed for the safekeeping of the assets underlying the pooled funds, this is not the responsibility of the Trustee.

The Trustee has appointed The Bank of New York Mellon (International) Limited as custodian responsible for handling any movements between BlackRock pooled funds.

9. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustees believe that financially material factors, including environmental, social, and corporate governance (ESG) factors, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Plan's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme's assets are invested in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to investment managers, including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers'

performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Trustees engage with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence and will monitor investment manager engagement activity (such as voting) at least annually. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Notwithstanding the above, the Trustees recognise that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustees accept that the primary role of its passive manager(s) is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually and the Trustees are informed of any changes to ESG ratings usually on a quarterly basis. The Trustees will challenge managers who they believe are taking insufficient account of ESG considerations in implementing their mandates.

The Trustees have not set any investment restrictions on the appointed investment manager(s) in relation to particular products or activities, but may consider this in future.

The Trustees will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

10. Non-Financial Matters

"Non-financial matters" (where non-financial matters includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees would review this policy in response to significant member demand.

11. Investment Manager Arrangements

Aligning Investment Manager Appointments with the Trustees' Investment Strategy, including incentivisation of a suitably medium to long-term focus, and duration of appointments:

The investment managers are appointed based on perceived capabilities and, therefore, their perceived likelihood of achieving their expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

The Trustees seek qualified expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the appointed Investment Manager's

approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

The Trustees invest in multi-investor pooled investment vehicles and accept that they have little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustees' own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice.

For each appointment, retention is dependent on the Trustees having ongoing confidence that the investment manager will achieve its objective. The Trustees make this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

The investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees' policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitable long-term view when assessing the performance prospects of, and engaging with, the equity and debt issues in which they invest or seek to invest.

Performance Assessment & Fees

The Trustees receive reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment managers.

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs. The Trustees' focus is on long-term performance but may put a manager 'on watch' if there are short-term performance concerns.

As well as assessing investment returns, the Trustees will consider a range of other factors, with the assistance of their investment consultant, when assessing the investment managers, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Voting and engagement activity;
- Service standards;
- The investment consultant's assessment of ongoing prospects based on their research ratings.

The investment managers are remunerated by the way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment managers to retain

their appointment by achieving their stated objectives in order to continue to receive the associated fee. The Trustees will consider any performance related fees on a case by case basis and would also considered requesting fee reductions. The investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from (a) “ongoing” transactions within the investment managers’ portfolios and (b) “cashflow” costs incurred when investing or realising assets from a mandate.

The Trustees have not historically monitored the investment managers’ ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees will seek explicit reporting on ongoing costs for all appointed managers.

The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via their investment consultant.

12. Custodian and Advisers

Custody

For both pooled and segregated arrangements, the safekeeping of assets is performed on behalf of the investment managers by custodian banks specifically appointed to undertake this function, and whose appointment is reviewed at regular intervals.

Actuary

The actuary performs a valuation of the Scheme every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Company’s contribution rate.

Investment Consultant

Whilst the day-to-day management of the Scheme’s assets is delegated to a number of investment managers, all other investment decisions including strategic asset allocation are based on advice received from the investment consultant. Mercer Limited has been appointed for this purpose.

13. Fee Structure

The investment managers are paid a management fee based on the value of assets under management. More detail of these fees can be found in the managers’ investment agreements.

14. Compliance with this Statement

The Trustees will monitor compliance with this Statement regularly on the advice of Mercer.

15. Review of this Statement

The Trustees will review this Statement regularly, and in any event, in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsor which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and will be undertaken in consultation with the Company.

**For and on behalf of the Trustees of the J P McDougall
& Company Limited Staff Pension & Life Assurance Scheme**

Date