Statement of Investment Principles

The Croda Pension Scheme

Approved by:

***Croda Pension Trustees Ltd, Trustee of The Croda Pension Scheme 5* March 2024**

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1 Introduction

Pensions Acts

1.1 Under the Pensions Act 1995 (as updated by the Pensions Act 2004), trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by Croda Pension Trustees Limited ('the Trustee') of The Croda Pension Scheme ('the Scheme').

1.2 The Trustee has consulted the Company on the principles set out in this statement and will consult the Company on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme's investment consultants. The Trustee will review this document annually and, without delay, following a significant change in investment policy.

Financial Services and Markets Act 2000

1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme details

1.5 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries (Members).

1.6 Members of the Scheme were contracted-out of the State Second Pension (S2P) under the Pension Schemes Act 1993 for accrual prior to 6 April 2016.

1.7 Exempt approval has been granted by the Inland Revenue under Chapter 1 of part XIV of the Income and Corporation Taxes Act 1988.

1.8 The Trustee has decided that, with the exception of the Chairman of the Trustee and any independent Trustee Directors, Trustee Directors will not be remunerated for their responsibilities.

2 Division of Responsibilities

The Trustee

2.1 The Trustee’s responsibilities include:

a. Reviewing regularly the content of this statement in conjunction with the investment consultants and the Scheme Actuary, and modifying it if deemed appropriate.

b. Reviewing the investment policy following the results of each actuarial review and/or asset liability modelling exercise, or other significant event.

c. Appointing (and dismissing) investment manager(s).

d. Consulting with the Company when considering amendment to investment policy.

e. Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

Investment Committee

2.2 The Trustee has appointed an Investment Committee comprising a number of Trustee Directors, whose responsibilities include:

a. Monitoring the investment managers.

b. Monitoring the investment strategy versus the risk budget.

c. Notifying the Trustee Board on changes to the investment strategy or investment managers.

Decisions relating to changes to the investment strategy or investment managers are made by the Investment Committee.

Investment Managers

2.3 Each investment manager's responsibilities include:

a. Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.

b. 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.

c. Informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme as soon as practicable.

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

Investment Consultant

2.4 The investment consultant's responsibilities include:

a. Participating with the Trustee in reviews of this statement.

b. Advising the Trustee and Investment Committee, as requested:

- through consultation with the Scheme Actuary on how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested
- on how any changes at the investment manager(s) could affect the interests of the Scheme
- on how any changes in the investment environment could either present opportunities or problems for the Scheme.

c. Undertaking project work as requested, including:

- reviews of asset allocation policy
- reviews of the investment managers.

d. Advising on the selection of new managers and/or custodians.

Scheme Actuary

2.5 The Scheme Actuary's responsibilities include:

a. Liaising with the investment consultant on the suitability of the Scheme's investment policy given the financial characteristics of the Scheme.

b. Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall.

c. Performing the triennial (or more frequently as required) valuations and advising on appropriate contribution levels.

d. Provision and regular review of commutation factors and transfer values.

3 Objectives and Long Term Policy

3.1 **Objectives**

a. To maintain a portfolio of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of current and future benefits which the Scheme provides.

b. To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter term basis.

c. To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under (b).

Investment Policy

3.2 A full valuation of the Scheme will be performed every three years, using asset return assumptions developed and approved by the Scheme Actuary. The Trustee will reconsider the asset allocation of the Scheme in the light of this valuation, and at other times as deemed necessary.

3.3 Based on the most recent valuation of the Scheme, dated 30 September 2020, and risk budgeting analysis conducted as at 31 March 2023, the Trustee considers the strategic asset allocation benchmark set out below to be appropriate for the purposes of meeting the objectives. The strategic asset allocation was revised in July 2023 as part of an investment strategy review. The trustee agreed to remove the previous allocation to emerging market equities, restructure the makeup of the private market assets (through the sale of the Scheme's investment in European property and reduction in allocation to UK property) and introduce a 10% allocation to investment grade credit. This was a result of the Scheme's improved funding position and a desire to improve the liquidity of the portfolio.

The expected return assumptions are provided in Appendix B.

Asset Class	Benchmark weight	Permitted range
Return Seeking	**34.0%**	**+/- 15.0%**
Adaptive Capped weighted passive equities – ESG overlay	*5.0%*	*+/- 2.5%*
RAFI Global Equities	*5.0%*	*+/- 2.5%*
Private Markets	*24.0%*	*+/- 10%*
Liability Matching	**66.0%**	**+/- 15.0%**
Investment grade credit	*10.0%*	*+/- 5%*
LDI Bespoke fund of one	*54.0%*	*+/- 10%*
Cash	*2.0%*	*n/a*

3.4 The Trustee considers that an asset allocation policy for the Scheme which corresponds to this benchmark will ensure that the assets of the Scheme include suitable investments, that those assets are appropriately diversified and that there is a reasonable expectation of meeting the objectives in 3.1.

3.5 "Private Markets" refer to illiquid assets which are not listed on a public exchange, examples of these would typically be real assets such as property, infrastructure and secure income assets. Secure income assets are assets that provide long-term, inflation-linked cashflows via real assets such as property and infrastructure; the cashflows are secure due to the strength of the counterparties and/or collateralization. The investments in Private Markets are being achieved over a period of time as opportunities are identified by the investment managers. The assets earmarked for these investments are held in cash.

3.6 Divergence from the asset allocation benchmark will occur from time to time due to market movements and the Trustee will review such divergence from time to time to ensure that the asset allocation remains suitable for the Scheme.

Additional Voluntary Contributions (AVCs)

3.7 The Scheme provides a facility for members to pay AVCs to enhance their benefits at retirement. The payments under AVCs can be invested with the main Scheme assets although members are offered alternative Standard Life funds in which to invest their AVC payments. There are also legacy with-profit AVC arrangements with Utmost (formerly Equitable Life), which members no longer pay into. The Trustee's objective is to provide alternative funds which will provide long term returns consistent with members' reasonable expectations. The Trustee also regularly monitors the AVC arrangements to ensure that they remain appropriate.

Financially material considerations

3.8 The Trustee considers that financially material considerations, including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks. The Trustee also considers that these factors can have a material impact on investment risk and return outcomes, over a time horizon which is the length of time that members' retirement benefits require to be funded by the investments in the Scheme.

3.9 The Trustee recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

3.10 The Trustee considers ESG issues (including climate change), within portfolio construction and manager selection decisions. The Trustee believes that sustainable investment is more impactful in the equity and private markets allocations and looks to explicitly reflect this in asset selection (for example by investing in an Adaptive capped weighted passive equity fund with an ESG overlay).

3.11 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). As such, the Trustee recognises that its ability to directly influence the actions of investee companies is limited.

3.12 Consequently, the Trustee expects the Scheme's investment managers to take ESG factors, including climate change, into account when exercising the rights attaching to the Scheme's investments, and in setting their policies in relation to the selection, retention and realisation of investments. The Scheme's investment consultant considers the managers' approach to ESG issues (including climate change) when recommending them to the Trustee upon selection. In addition, ESG issues (including climate change) will be considered by the Scheme's investment consultant as part of its ongoing review process of the investment managers that the Trustee has appointed.

3.13 In March 2022, the Trustee agreed the Statement of Sustainable Investing Beliefs, which is held as a separate document and is considered alongside Trustee policies. The Trustee will periodically review the areas where the beliefs and portfolios are misaligned and agree to further review these areas.

Member views – non financial matters

3.14 The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life, are not taken into account in the selection, retention and realisation of investments within the Scheme. The Trustee will, however, review their policy on non-financial matters from time to time, as appropriate.

Stewardship – voting and engagement

3.15 The Trustee considers that good stewardship helps create and preserve value for companies and markets as a whole. The Trustee's policy in relation to the exercise of rights attaching to investments, and undertaking engagement activities in respect of investments, is that the Trustee wishes to encourage best practice in terms of stewardship.

3.16 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers (on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value).

3.17 The Trustee expects managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.

3.18 For most of the Scheme's investments, the Trustee 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. The Trustee invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

3.19 The Trustee recognises (for the reasons outlined above) that its ability to directly influence stewardship matters is limited. The Trustee therefore expects its investment managers to discharge their responsibilities in respect of investee companies in accordance with their own corporate governance policies and current best practice, including (1) the UK Stewardship Code (which aims to protect and enhance shareholder value by enhancing the quality of engagement between investors and companies by setting out good practice); and (2) the UK Corporate Governance Code.

Monitoring

3.20 On behalf of the Trustee, the Investment Committee considers the corporate governance policies of the Scheme's equity investment managers in the context of the UK Stewardship Code and the UK Corporate Governance Code on a regular basis. The Trustee expects the investment managers to comply with the approaches set out in these policies.

3.21 The Trustee has delegated the detailed monitoring of the Scheme's investment managers to its investment consultant.

3.22 The investment consultant will provide the Trustee with reporting on a regular basis, and at least annually, on ESG integration progress, stewardship, and monitoring results. The Trustee will engage with the investment consultant to request additional information where necessary.

3.23 The Trustee is taking the following additional steps in relation to the monitoring and assessment of ESG related risks and opportunities:

3.20.1 The Trustee will have periodic training on responsible investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.

3.20.2 Should the Scheme look to appoint a new investment manager, where relevant and appropriate, the Trustee will request information regarding each investment manager's responsible investment policy and details of how they integrate ESG into their investment decision making process as part of the selection process.

Diversification

3.24 The choice of strategic asset allocation benchmark and investment managers (see Section 4) are designed to ensure that Scheme's investments are adequately diversified.

Suitability

3.25 The Trustee has taken advice from the Scheme Actuary and investment consultant to ensure that the investment policy is suitable for the Scheme, given its liability profile and financial position.

Realisation of investments

3.26 The Scheme's administrator assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.

4 Investment Manager Arrangements

Investment manager structure

4.1 The assets are divided between a number of investment managers to reduce the risks associated with one investment manager having responsibility for all of the Scheme's assets.

4.2 The following investment managers are employed by the Trustee to manage the assets of the Scheme:

- Legal & General Investment Management
  - To manage a passive adaptive capped ESG equity portfolio
  - To manage a fundamentally weighted equity portfolio
  - To manage a bespoke pooled fund of one investment grade credit portfolio
  - To manage a LDI bespoke pooled fund of one portfolio
  - To manage two liquidity funds in Sterling and Euros
- Patrizia Hanover Real Estate Investment Management Limited
  - To manage an active UK property portfolio
- Innisfree Limited
  - To manage an active infrastructure portfolio
- Equitix Investment Management Limited
  - To manage an active infrastructure portfolio
- Alpha Real Capital
  - To manage an active infrastructure portfolio
- Greencoat Capital
  - To manage an active infrastructure portfolio
- SUSI Partners
  - To manage an active global infrastructure portfolio
- Hartelt Fund Management B.V.
  - To manage an active Dutch healthcare property portfolio

The individual manager benchmarks are set out in Appendix A.

4.3 The investment managers have regard to the-

- Need for diversification of investments, so far as appropriate to the circumstances of the Scheme; and

- Suitability to the Scheme of both the asset classes proposed, and also the particular assets proposed within those classes.

The investment managers may use pooled vehicles to help with diversification.

The Trustee has considered the merits of a wide range of alternative investments and has concluded that private markets are currently the most suitable for inclusion in the asset allocation strategy of the Scheme. The Trustee has considered the guidelines and restrictions of each of the pooled funds in which the Scheme invests and is comfortable with them.

Performance objectives

4.4 Whilst the Trustee is not involved in the investment manager's day to day method of operation and therefore cannot directly influence attainment of the performance target, it will regularly assess performance and review appointments. Managers have been selected on the basis of measurable objectives that are aligned with the Scheme's longer-term objectives.

4.5 The Scheme uses many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee’s policies, where relevant to the mandate.

4.6 To maintain alignment, investment managers are provided with the most recent version of the Scheme’s Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

4.7 Should the Trustee’s monitoring process reveal that a manager’s portfolio is not? aligned with the Trustee’s policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the ESG characteristics of the portfolio and manager’s engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

4.8 The investment managers’ objectives are outlined below:

- Legal & General Investment Management
    - To track the return of the market index for each of the underlying asset classes

    - To manage a portfolio of investment grade credit assets to provide long term stable cashflows to the Scheme, limiting any defaults.
    - To manage a portfolio of assets with a target hedge of 90% of the movements in the values of the Scheme's liabilities to changes in interest rates and inflation.
- Patrizia Hanover Real Estate Investment Management Limited
    - To outperform the return on the IPD Balanced PUT Index
- Macquarie Investment Management (UK) Limited
    - To make equity and equity related investments in a diversified portfolio of infrastructure and related assets in current EU member states, Norway, Switzerland and other countries with a set accession date to the EU
    - To target mid-teen IRR (post project-level tax and management fees) and cash yield of 7-9% after the commitment period
- Innisfree Limited
    - To optimise returns from project investments through active management so as to deliver long term net IRRs to investors of 10% - 12% in the base case and 12% - 15%+ in the upside case
- Equitix Investment Management Limited
    - To optimise returns from project investments through active management so as to deliver long term gross IRRs to investors of 11% and a steady cash yield.
- Alpha Real Capital
    - To achieve a target return greater than or equal to long-dated UK Index-Linked Gilts + 2% per annum over a 5 year rolling period
- Greencoat Capital
    - To achieve a gross IRR of 7% pa by optimising the cashflow streams of solar energy assets
- SUSI Partners
    - To target a net IRR of 10%, with regular distributions to the investors and returns that are largely uncorrelated with the public markets
- Hartelt Fund Management B.V.
    - To achieve Dutch CPI + 5% p.a. net of fees, costs, and expenses over rolling 3 year periods with a net distribution yield of 5.0% p.a. net once the fund has stabilised.

4.9 The Trustee does not consider it appropriate to set a specific risk (or underperformance) limit for the active managers.

4.10 These objectives have been developed to be consistent with the achievement of the Scheme's longer term objectives and an acceptable level of risk.

4.11 These investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.

4.12 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 the target given the levels of risks adopted.

Fee structures

4.13 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

4.14 The Trustee reviews the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

4.15 Advisors' fees are paid on either an hourly or a project basis.

Soft commission

4.16 The Scheme's investment managers do not enter into commission arrangements with brokers.

Choosing investments

4.17 The Trustee has appointed investment managers that are authorised under the Financial Services and Markets Act 2000 to undertake investment business. After gaining (and reconfirming at least once a year) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.

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

Manager monitoring

4.19 The Trustee uses the services of the Scheme's investment consultant to measure the managers' performance relative to the benchmark returns.

The appointment of the investment managers will be reviewed by the Trustee based on the results of their monitoring of performance and investment process and of the managers' compliance with the requirements of the Pensions Act 1995 concerning diversification and suitability where relevant.

4.20 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However a 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, that has an adverse impact on the management of the investment strategy. Examples of potential changes that the Trustee may consider include, but are not limited to, takeovers, operational concerns or high investment team turnover.

5 Risk management

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

Solvency risk and mismatching risk

- addressed through the choice of the benchmark asset allocation set and through ongoing triennial actuarial valuations.
- managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Manager risk

- managed through diversification among a number of investment managers and by monitoring each manager’s actual deviation of returns relative to the objectives and factors supporting the managers’ investment processes.

Liquidity risk

- the Scheme’s administrators monitor the level of cash held in order to limit the impact of the cash flow requirements on the investment policy

Currency risk

- addressed through diversification of holdings and monitoring of the asset allocation, and, in the case of overseas bond investments, through hedging of the risk using currency forward contracts.

Climate & ESG Risk

- the extent to which sustainability factors, particularly climate change, may have a detrimental impact on the Scheme’s ability to meet its long-term objectives.
- managed by the investment manager embedding sustainability factors into their decision making process and being able to evidence that to the Trustee.

Custodian risk

- managed by the investment managers, who are responsible for the safe custody of the assets in their pooled funds.

Sponsor risk

- addressed through ongoing assessment and consideration of the Company’s covenant.

Political risk

- the risk of an adverse influence on investment values from political intervention is reduced by the diversification of the assets across many countries.
- 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.

- managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Corporate governance risk

- measured by the level of concentration in the individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure.
- managed by adopting a diversified investment policy, both geographically between markets and within each market.

5.2 The Trustee continues to monitor these risks.

A. Benchmark details for investment managers

The benchmarks for the managers are detailed as follows:

Legal & General – Passive adaptive capped ESG equity portfolio		
MSCI ACWI Adaptive Capped ESG Index Fund	100%	MSCI Adaptive Capped ESG Index

Legal & General – Fundamentally weighted equity portfolio		
RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund	100%	RAFI Fundamental Global Reduced Carbon Pathway 3.5% Index

Legal & General – Investment grade credit bespoke pooled Fund of one portfolio
The investment grade credit pooled fund portfolio will invest in UK and overseas investment grade corporate bonds

Legal & General – LDI bespoke pooled Fund of one portfolio
The LDI pooled fund portfolio will be a combination of Leveraged gilt and swaps funds and single stock gilt funds

Patrizia Hanover Real Estate Investment Management Limited – property portfolio		
Property	100%	IPD Balanced PUT Index

Innisfree Limited – infrastructure portfolio		
Infrastructure	100%	Absolute Return

Equitix Investment Management Limited – UK infrastructure portfolio		
Infrastructure	100%	Absolute Return

Alpha Real Capital – infrastructure portfolio		
Infrastructure	100%	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index plus 2.0% pa

SUSI Partners – Global energy transition infrastructure portfolio		
Energy infrastructure	100%	Absolute Return

Greencoat Capital – renewable energy portfolio		
Energy infrastructure	100%	Absolute Return

Hartelt Fund Management B.V.		
Healthcare Property	100%	Dutch CPI + 5%

B. Expected return assumptions

The table below sets out the expected return assumptions used in the risk budgeting analysis conducted as at 31 March 2023

Asset Class	**Expected return* % pa**
UK equities	4.4
Overseas equities	5.1
Private Markets**	3.3 to 4.3
Long dated corporate bonds	2.0
Long dated fixed interest gilts	1.7
Long dated index-linked gilts	1.0

*10 year median real return as at 31 March 2023

**Expected returns from Private Markets refer to the range of returns expected from real assets which include Property, Infrastructure, and Secure Income Assets