

Lubrizon Retirement & Death Benefits Plan

Statement of Investment Principles

1. **Introduction**

The Trustees of the Lubrizon Retirement & Death Benefits Plan (hereinafter referred to as “the Plan”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, 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 Plan’s investments.

In preparing this statement, the Trustees have consulted with Lubrizon Ltd (“the Employer”) and obtained and considered written professional advice from Mercer Limited, (“the Investment Consultant”). The Trustees believe the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended).

2. **Process for Choosing Investments**

The Trustees have considered their investment and funding objectives together and in light of the strength of the Employer 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 Plan. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Plan 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).

3. **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 Plan.

The Trustees are required to invest the Plan’s assets in the best interest of the members, beneficiaries and the Employer and in the case of a potential conflict of interests in the sole interest of the members and beneficiaries.

Within this context the Trustees’ main objectives with regard to investment policy are:

- To make sure that the Trustees can meet the obligations which have been promised to the beneficiaries of the Plan by the Employer.

- To ensure consistency with the Plan's funding arrangements.
- To pay due regard to the Employer's interests on the size and incidence of employers' contribution payments.

Given the nature of the liabilities, the investment time horizon of the Plan 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 Plan's investment horizon significantly.

4. **Risk Management and Measurement**

There are various risks to which any pension plan is exposed, which the Trustees believe may be financially material to the Plan. The Trustees recognise that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover changes in the Plan's accrued and accruing liabilities especially over the short to medium term. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk. The Trustees' policy on risk management over the Plan's anticipated lifetime is set out below.

Key strategic investment risks that impact on Plan funding are as follows:

- **Market Risk** (including equities, property and exposure to other growth asset markets) – the risk that asset valuations fluctuate in an uncorrelated way with the value of the liabilities;
- **Interest Rate Risk** – the risk that changes in the value of the assets do not move in line with changes in the value placed on the Plan's liabilities in response to changes in interest rates;
- **Inflation Risk** – similar to interest rate risk but concerning inflation;
- **Credit Risk** – the risk that one party to a financial instrument will cause a financial loss to the Plan by failing to discharge an obligation.
- **Currency Risk** – the risk that foreign currency exposure causes asset valuations to fluctuate in an uncorrelated way with the value of the liabilities which are denominated in sterling.
- **Liquidity Risk** – the risk that the Plan doesn't have sufficient liquid assets to meet payments.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 12.

To manage investment risks the Trustees have established an investment policy designed to reduce risk, without damaging the Plan's long term return prospects, using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk ("VaR").

In particular:

- Market risk is managed via the strategic allocation to the various asset classes and by holding diversified portfolios (by individual holdings, sectors and market regions) that are complementary in terms of investment style.

- The Trustees have also developed a Liability Driven Investment (“LDI”) framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The LDI portfolio provides hedging of c. 80% of the interest rate and inflation risk arising from the Plan’s liabilities (calculated on a gilts + 0.5% p.a. basis), based on point in time modelling analysis conducted prior to implementation using market conditions as at 29 July 2022. Modelling is refreshed periodically to ensure that hedging characteristics of the LDI portfolio remain in line with the Trustees’ expectations. The Trustees recognise that the Plan’s LDI portfolio will not produce a perfect match for the liability exposures it is aiming to hedge. Furthermore, the Trustees recognise that there are different measures for calculating the liabilities that may not be closely matched by the LDI assets held.
- The Plan’s LDI portfolio is invested on a pooled fund basis. However, the underlying investments include derivative exposures that introduce other specific risks that are additional to the risks presented from investing in the equivalent physical asset. These include:
 - basis risk (the risk that the derivative invested in does not perfectly match the physical asset that the derivative has replaced);
 - roll risk (the risk that the terms available when the derivative is taken out are not available when the contract expires and is replaced);
 - recapitalisation risk (the risk that adverse price movements require payment of capital in order to maintain the position);
 - collateral and counterparty risk (the risk that the party with whom the LDI manager has contracted defaults and that any collateral is insufficient to make good any resulting loss);

These risks are mitigated through the specific arrangements that are implemented so that the likelihood of the risks is low and/or the impact of them is low.

- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds.
- Currency risk is managed through the total allocation to overseas markets and currency hedging a proportion of overseas currency exposures.
- Regarding liquidity risk, the Trustees believe that the majority of the Plan’s investments are realisable at short notice in most prevailing market conditions.

The Trustees recognise the following additional risks and take the following steps to manage risk:

- Risks may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the investment policy in place results in an adequately diversified portfolio;
- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. They recognise that the use of active management involves such a risk. Section 5 sets out the policy for mitigating this risk;
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that, in conjunction with overall asset allocation policy, the investments held by the Plan and the amount invested in

them are suitable. The managers are prevented from investing in asset classes outside of their mandates without the Trustees' prior consent;

- The Trustees receive regular reports from the Plan's managers and Mercer in its role as investment consultant for the Plan. The Trustees also meet with the Plan's investment managers periodically. Combined with discussion in regular Trustee meetings this allows the Trustees to check that nothing has occurred that would bring into question the continuing suitability of the current investments;
- The safe custody of the Plan's assets is delegated to professional custodians either directly or via the use of pooled vehicles.
- Across all of the Plan's investments, the Trustees are aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

Overall, the Trustees primarily measure and manage investment risk through the investment strategy (outlined in Section 6) and review the appropriateness of this strategy on a regular basis.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Employer and its willingness to contribute appropriately to the Plan. The financial strength of the Employer and its perceived commitment to the Plan is monitored and the Trustees will reduce investment risk relative to the liabilities should either of these deteriorate.

The degree of investment risk the Trustees are willing to take also depends on other circumstances, including the financial health of the Plan, the Plan's liability profile and investment time horizon. The Trustees will monitor these with a view to altering the investment objectives, risk tolerance and/or return target and asset mix, should there be a significant change in these factors.

5. **Portfolio Construction**

The Trustees have adopted the following principles subject to the overriding constraint that at the total Plan level the expected level of risk is consistent with that detailed in Sections 3 and 4 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 Plan 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 Plan'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 Plan, 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 Plan's investment on the operation of the Plan.
- 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 Plan are predominantly invested on regulated markets.
- The Trustees will not invest directly in the **Plan Employer** or associated companies, but acknowledge that indirect investment is possible as a result of the investment policies of the Plan's pooled investment managers. The Trustees 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 Trustee as part of the onboarding process for new investments.

6. Investment Strategy

The Trustees have agreed, based on expert advice, an investment strategy that is consistent with the Trustees' funding and investment objectives. The split of assets within each asset class (excluding any cash held separately to meet day to day cash flow requirements) is set out in the table below.

Asset Class	Management	Target %
Global Equities	Active & Passive	15.0
Absolute Return	Active	15.0
Property	Active	4.0
Multi-Asset Credit	Active	11.0
Total Growth		45.0
Liability Driven Investment ("LDI")*	Passive	40.0
Corporate Bonds	Buy & Maintain	15.0
Total Matching		55.0
Total		100.0

*The LDI mandate targets a hedge level of 80% of the interest rate and inflation risk arising from the Plan's liabilities calculated on a gilts + 0.5% p.a. basis.

The Trustees recognise that the actual allocation will deviate from this target due to market movements, in particular, movements in the value of the LDI mandate which are expected to move in a similar way to the Plan's liabilities.

From time to time the Trustees may also hold a proportion of the Plan's assets in a liquidity vehicle to aid efficient cashflow management. These allocations are not expected to be long-term in nature and therefore do not form part of the investment strategy outlined above.

The Trustees will monitor actual asset allocation on a quarterly basis. If this deviates from the target they will consider rebalancing back towards the target. In doing so they will take into account the size of deviation, current market conditions, including market volatility and potential trading costs.

7. 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.

8. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets, including selection, retention and realisation, to a number of investment managers across a range of mandates. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

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

The Trustees regularly review the continuing suitability of the Plan's investments, including the appointed managers. They do so via regular reports and periodic

presentations from the appointed managers with the assistance of the Plan’s appointed investment advisor. Any adjustment would be done with the aim of ensuring consistency with this Statement.

Section 14 sets out how the Trustees incentivise investment managers, where applicable, to operate in line with the Trustees’ objectives.

The Plan’s assets are split between those relating to the main Plan and those relating to Additional Voluntary Contributions (“AVCs”).

The Trustees have agreed to delegate the day-to-day management of the main Plan’s assets to six investment managers:

- **Legal & General Investment Management Ltd (“Legal & General”)**: passive global equities, Liability Driven Investment, corporate bonds and Sterling Liquidity (from time to time).
- **MFS Investment Management (“MFS”)**: active global equities
- **Ruffer LLP (“Ruffer”)**: active absolute return mandate
- **Columbia Threadneedle Investments (“Threadneedle”)**: active property
- **Wellington Management Company LLP (“Wellington”)**: active multi-asset credit

The investments are subject to the governing documents for each fund and to agreements between the managers and the Trustees. Individual mandates are set out below.

Legal & General Investment Management

Legal & General manage 62.5% of the Plan’s strategic asset allocation, which is invested in pooled fund vehicles.

Global Equity portfolio (c.7.5% of total assets)

Asset Class	Benchmark Index
Global Equity	RAFI Fundamental Global Reduced Carbon Pathway 3.5% - GBP Hedged Index

Corporate Bond portfolio (c.15.0% of total assets)

Asset Class	Benchmark Index
Buy and Maintain Credit	N/a The iBoxx Sterling Non-Gilt index can be used as a proxy benchmark for the Funds, however the funds are not managed to a specific benchmark.

LGIM aims to capture the additional yield available from investing in corporate rather than government bonds (the “credit risk premium”) and preserve value within a globally diversified portfolio of actively selected credit instruments. Any non-sterling based currency or interest rate exposure is expected to be hedged back to sterling. The key objectives of the funds are to avoid defaults and downgrades on credit instruments held.

The Trustees have elected to use a Buy & Maintain approach to managing the corporate bond investments. Whilst this is a form of active management, this is a low turnover approach, and hence has some similarities with passive management.

Liability Driven Investment portfolio (c.40.0% of total assets)

The strategic allocation of 40.0% of the Plan's total assets allocated to LDI consist of a number of underlying funds. The LDI mandate has been designed by the Trustees (based on professional advice) so as to aim to change in value in the same way as (i.e. to "hedge") a proportion of the Plan's liabilities in response to changes in interest rates and inflation. This is achieved by investing in pooled leveraged and unleveraged gilt funds made available through LGIM's fund range.

LGIM manage the LDI portfolio under an "enhanced service agreement" structure and are required to target and maintain the specified interest and inflation hedge ratios relative to the liability benchmark they are provided with. Under LGIM's enhanced service, the allocation to the underlying funds will be managed by LGIM in order to maintain the target hedge ratios. The Trustees expect to review liability hedging characteristics periodically to ensure the portfolio remains consistent with the Trustees' hedging objectives outlined in Section 4 and their overall objectives for the Plan.

The aim of LGIM's leveraged gilt funds is to provide leveraged exposure to changes in the value of the underlying reference gilts.

The LDI portfolio may at times contain a cash/liquidity vehicle, the LGIM Sterling Liquidity Fund (weekly dealt). In the normal course of events, the balance in the cash vehicle is not expected to be a large component of the LDI allocation, however this will be managed by LGIM in line with the Enhanced Service Agreement in order to ensure the LDI mandate retains sufficient liquidity.

Performance in each asset class is compared with the benchmark index stated in the tables above. Legal & General aim to achieve a return (before fees) in line with the benchmark index return.

In addition, the Trustees may from time to time decide to hold a proportion of the Plan's total assets in a daily dealt liquidity vehicle with Legal & General, to assist with short-term cash requirements and pending decisions on future investment policy.

There are signed Proposal and Supplemental Proposal Forms with Legal & General Assurance (Pensions Management) Limited. These lead to the issuance of insurance policies (Policy Document) rather than Investment Management Agreements.

The Agreement, Proposal Forms and Policy Document (the investment agreement) provide important protection for the Trustees and the Plan's members. They also set out the terms on which the assets are managed, including the investment brief, guidelines and restrictions under which the investment manager works.

MFS Investment Management

MFS manage 7.5% of the Plan's strategic asset allocation. The Trustees measure MFS against an outperformance target of 2.0% per annum above the MSCI World index return over rolling three year periods (before fees).

Policy documentation has been issued to the Trustees by MFS covering out the terms on which the assets are managed concerning the investment brief, guidelines and restrictions under which MFS work.

Ruffer LLP

Ruffer manage 15.0% of the Plan's strategic asset allocation in a pooled Absolute Return Fund. Ruffer's overall objective is firstly to preserve capital over rolling twelve month periods and secondly to grow the portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the portfolio in a reputable United Kingdom bank.

Depending on market conditions the portfolio is likely to contain a balance of fixed interest stocks and equities, with also an allocation of other risk investments, introduced in order to improve the overall return, but never to the extent of risking serious capital loss.

The Trustees, upon advice from their investment consultants Mercer, compare Ruffer's performance against an indicative benchmark of cash + 4.0% pa after fees over rolling five year periods.

The Trustees have entered into an Investment Management Agreement with Ruffer, which sets out the terms on which the assets are managed concerning the investment brief, guidelines and restrictions under which Ruffer work.

Columbia Threadneedle Investments

Threadneedle manage 4% of the Plan's strategic asset allocation in a pooled UK property fund. Threadneedle have an outperformance target of 1.0% pa per annum above the IPD All Balanced Property Funds Index on a rolling three year period (net of fees).

There are signed pooled fund application forms with Threadneedle Pensions Limited. These lead to the issuance of insurance policies (Policy Document) rather than Investment Management Agreements.

Wellington Management

Wellington manage 11% of the Plan's strategic asset allocation in a multi-asset credit fund. The Trustees, upon advice from their investment consultants Mercer, compare Wellington's performance against an indicative benchmark of cash + 4.0% p.a. after fees over rolling five year periods.

Documentation has been issued to the Trustees by Wellington covering the terms on which the assets are managed concerning the investment brief, guidelines and restrictions under which Wellington work.

9. Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of additional voluntary contributions ("AVCs") paid by members. AVCs include investment in with-profits and managed fund insurance policies and deposit arrangements issued by Utmost Life and Pensions Limited and Prudential. The arrangement with Prudential is open to new contributions. New joiners are not permitted to contribute to the other arrangements.

With the assistance of the Plan's consultants, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profiles of the funds remain consistent with their stated objectives.

10. **Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Plan'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.

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.

Subject to making efficient use of available cash and liquidity fund investments, day to day cashflow requirements are sourced from the Plan's invested assets in order to manage the asset allocation in line with the agreed target. The Trustees will consider the investment of large special contributions/disinvestments on a case by case basis. Monthly NDIP (Notional Dividend Income Payments) are also set-up with LGIM to fund some of the ongoing cash flows of the Plan. The Plan also receives income from other investments, in particular the Wellington Multi-Asset Credit Fund.

11. **Recapitalisation and Releveraging of LDI Funds**

Should the leveraged gilt funds held by LGIM require recapitalisation, this will be managed by LGIM under the Enhanced Service Agreement.

12. **ESG, Stewardship 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 Plan's assets are invested predominantly in pooled vehicles and the day-to-day management of the Plan'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. The Trustees engage with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. 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.

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 will also monitor investment manager engagement activity (such as voting) at least annually.

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.

13. **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 may review this policy in response to significant member demand.

14. **Investment Manager Arrangements**

Alignment of Investment Manager Objectives and Incentivisation

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the 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 expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

Where relevant, the Trustees specify the investment objectives and guidelines in an Investment Management Agreement ("IMA") and set these so that they are in line with the

Trustees' specific investment requirements. In relation to pooled investment vehicles, the Trustees accept that they have 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 relatively short notice.

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

Investment managers are therefore incentivised both to achieve the mandated objectives, 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 suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Performance Assessment and 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.

As well as assessing investment returns the Trustees will consider a range of other factors, with the assistance of the investment advisor, when assessing 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
- Operational controls
- The advisor's assessment of ongoing prospects based on their research ratings

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees may also be in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustees will consider introduction of performance related fees on a case by case basis where not in operation

and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from a) “ongoing” transactions within an investment manager’s portfolio and b) “cashflow” costs incurred when investing in or realising assets from a mandate.

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

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

15. Custodian and Advisors

Custody

For pooled 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 Plan 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.

Investment Consultant

Whilst the day-to-day management of the Plan’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.

16. Compliance with this Statement

The Trustees monitor compliance with this Statement annually.

17. Review of this Statement

The Trustees will review this Statement at least once every three 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.

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For and on behalf of the Trustees of the Lubrizol Retirement & Death Benefits Plan

Date