

Statement of Investment Principles – Solutia UK Pension Scheme (April 2023)

Introduction

- 1 This document is the Statement of Investment Principles (the 'SIP') made by the Trustee of the Solutia UK Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took advice from a suitably qualified firm and consulted Solutia UK Limited (the 'Company'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Investment objectives

- 3 The Trustee has the following investment objectives:
 - The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Company, the cost of current and future benefits which the Scheme provides, and to ensure the security, quality and profitability of the portfolio as a whole.
 - To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.
 - To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under the points above.

Investment strategy

- 4 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify risk exposures and to manage its investments effectively.
- 5 The investment strategy makes use of three key types of investments:
 - a range of instruments that provide a broad match to changes in liability values;
 - a portfolio of secure income assets; and
 - a diversified portfolio of return-seeking assets.
- 6 The Trustee appointed an investment manager to manage Scheme assets on a discretionary basis and to provide advisory services to the Trustee (the "Fiduciary Manager"). The balance within and between these investments will be determined from time-to-time at the discretion of

the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustee. The Fiduciary Manager's discretion is subject to guidelines set by the Trustee within the Fiduciary Management Agreement (the FMA). The Fiduciary Manager is required to act in accordance with the FMA, including the guidelines and any investment restrictions set out therein, and in doing so is expected to give effect so far as reasonably practicable to the principles contained in this Statement. This ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

- 7 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.
- 8 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.
- 9 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.
- 10 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible.

Investment managers

- 11 The Trustee has delegated investment manager selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within Guidelines set by the Trustee in the FMA (excluding funds within the Additional Voluntary Contribution (AVC) arrangement). The Trustee regularly considers and monitors the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that the Scheme's investment portfolio, in aggregate, 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 expects the Fiduciary Manager to check that the investment objectives and guidelines of pooled vehicles managed by investment managers are consistent with the Trustee's policies contained in this SIP.
- 12 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.
- 13 The Trustee and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.
- 14 The Trustee expects the Fiduciary Manager to appoint investment managers with an expectation of a long-term partnership with the Trustee, which encourages active ownership of the Scheme's assets. When assessing an investment manager's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment manager's appointment

based purely on short term performance but recognise that an investment manager may be terminated within a short timeframe due to other factors such as a significant change in their business structure or investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the Fiduciary Manager.

- 15 For most of the Scheme's investments, the Trustee expects the Fiduciary Manager to appoint investment managers with a medium to long time horizon, consistent with that of the Scheme. In particular areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.
- 16 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Scheme's investment managers. However, the Trustee and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of financially material factors including Environmental, Social and Governance (ESG) issues.
- 17 Consequently the Trustee (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out below) seeks to be an active long-term investor. The Trustee's focus is explicitly on financially material factors. The Trustee's policy at this time is not to take into account non-financial matters.
- 18 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations, but has identified climate and human and labour rights as two of the biggest ESG risks facing the Scheme, and consequently, these are key areas of focus for the Trustee. The Trustee assesses that ESG risks, and in particular climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. Whilst the Trustee's policy is to delegate a number of stewardship activities to the Fiduciary Manager and its investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee incorporates an assessment of how well the Fiduciary Manager and investment managers exercise these responsibilities as part of its overall assessment of their performance.
- 19 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. The Trustee expects the Fiduciary Manager to assess the alignment of each investment managers' approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustee expects the Fiduciary Manager to engage with the Scheme's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the investment managers' approach to sustainable investment (including engagement) on a periodic basis and engage with the investment manager to encourage further alignment as appropriate. Where an investment manager's processes are deemed insufficient by the Fiduciary Manager and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.

- 20 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.
- 21 The Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.
- 22 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager assesses the voting policies of the investment managers that it appoints on the Trustee's behalf, for consistency with the Trustee's policies and objectives, as appropriate. The Fiduciary Manager has also appointed Hermes EOS to undertake public policy engagement as well as company-level engagement on its behalf. EOS at Federated Hermes also assists the Trustee's equity managers with voting recommendations.
- 23 The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial investment and on an ongoing basis. Investment managers are generally 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. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Investment strategy for the AVC Arrangement

- 24 Members are offered an AVC policy for additional contributions on a defined contribution basis only.
- 25 The Company matches the employees' AVC payments by up to 3.5% of Basic Salary. This contribution is referred to as Shared Retirement Investment Scheme ("SRIP").

VCA	SRIP
1.0%	0.5%
2.0%	1.0%
3.0%	1.5%
4.0%	2.0%
5.0%	2.5%
6.0%	3.0%
7.0%	3.5%
More than 7.0%	3.5%

- 26 The Scheme's AVC arrangement provides benefits with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. The AVC arrangement operates on a defined contribution basis, so the value of a member's AVC Account will be determined by the following:
- i) The amount of AVCs paid by the member and any SRIP contributions paid by the Company; and
 - ii) The investment returns achieved on those contributions.
- 27 There is, therefore, no guarantee as to the level of retirement benefits which will be provided by the AVC Account. At retirement a member is able to use the AVC Account to purchase additional pension in the Scheme, subject to Company consent for Post 2009 AVC Accounts. The purchase of additional pension operates using the Scheme's conversion factors as below:
- i) Pre 2009 AVC Accounts are converted using guaranteed factors that are not subject to change;
 - ii) Post 2009 AVC Accounts are converted using variable factors. These are periodically reviewed in order to reflect prevailing financial conditions and therefore subject to change.
- 28 In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members. The Trustee has considered the long-term performance characteristics of various asset classes in terms of their expected returns and the variability of those returns.
- 29 Each member is responsible for specifying one or more of the available funds for investment of their account, having regard to their attitude to risk.
- 30 On receipt of advice, the Trustee decided to use the services of Prudential, Standard Life and Equitable Life as the AVC investment managers.

Other matters

- 31 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 32 The Trustee recognises a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager.

Solvency risk and mismatch risk:

- are measured through a qualitative and quantitative assessment of the expected development of the funding level.
- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

Investment Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Scheme to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Scheme over a specified period.
- 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 and through holding assets of appropriate liquidity.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme (carried out within some of the pooled investment vehicles) which reduces the impact of exchange rate movements on the Scheme's asset value.

Custodial risk:

- is addressed through investment in pooled vehicles, with the investment managers being responsible for selection of suitable custodians. In addition the Scheme's global custodian, is responsible for sweeping un-invested cash balances into pooled cash funds, which will be managed by an investment manager who, in line with other investment managers of pooled vehicles for the Scheme, is responsible for selecting the custodian for the cash funds.

Interest rate and inflation risk:

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives via pooled funds) that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing management and consideration of risks (such as derivatives risk) of this portfolio is undertaken by the Fiduciary Manager.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of country diversification within the policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Company and periodic independent covenant assessments.
- is managed through an agreed contribution and funding schedule.