



Innospec Limited Pension Plan Implementation Report

31 December 2020

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and Pension Schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that Pension Schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Plan updated its SIP in to in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address www.innospecinc.com/about-us/corporate-governance/innospec-limited-pension-plan-uk-only. Changes to the SIP are detailed on the following page.

Implementation Report

This implementation report is to provide evidence that the Plan continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Plan has taken to manage financially material risks and implement the key policies in its SIP;
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Plan has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in which they invest;
- voting behaviour covering the reporting year up to 31 December 2020 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf.

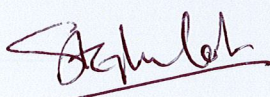
Summary of key actions undertaken over the Plan reporting year

- The Trustees considered implementing an asset backed securities mandate to increase the yield of the portfolio for a similar, or potentially lower level of risk, in October 2020. The Trustees decided that the additional yield that was expected to be earned on the asset backed securities mandate wasn't sufficient enough to warrant a move given the likely transaction costs and the timescales for the Plan to meet its long term funding target
- The Trustees agreed to investigate the potential sale of the Plan's private equity portfolio, held with Pantheon, on the secondary market. The first step in this process was to appoint a specialist broker to manage the sale on behalf of the Plan. The Trustees compared a number of different brokers across a range of metrics such as: experience, team size, expected sale price, brokerage fee and time to complete the transaction. This project is currently underway.

Implementation Statement

This report demonstrates that the Innospec Limited Pension Plan has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed



STEPHEN COOK

Position

TRUSTEE

Date

19.5.21

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Plan's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.100% of interest rate risk and c.85% of inflation risk on the journey plan basis.	No actions to report – the Plan's LDI mandate provides protection against interest rate and inflation risk.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	The Plan maintains a sufficient allocation to daily traded assets to meet cashflow needs. The Trustees agreed to explore the sale of assets held with Pantheon, via a secondary market broker to increase liquidity across the portfolio.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Plan allocates c.70% of Plan assets to buy and maintain credit mandates. This allocation is held across two investment managers to aid diversification, given their different investment approaches.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.	No actions to report – the Plan's credit mandates are diversified by sector, geography and sub-asset class.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the	To appoint managers who account for ESG factors as part of their investment process.	ESG actions undertaken: <ul style="list-style-type: none"> The Trustees' policy on managing ESG related risks was reviewed by the Trustees as part of

	performance of the Plan's investments.	The Trustees monitor the managers in this regard on an ongoing basis.	<p>the SIP and IID update in September 2020.</p> <ul style="list-style-type: none"> The Trustees intend to review their ESG policies in 2021. <p>More details of the ESG policy and how it was implemented are presented later in this report.</p>
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Overseas currency risk within the buy and maintain mandates is approximately 50% and is hedged back to GBP. The listed equity infrastructure is invested in a GBP share class. Currency hedging does not occur within the Pantheon mandate.	No actions to report.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No actions to report.

Changes to the SIP

Policies added to the SIP

Date updated: September 2020

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.

- The majority of the Plan's assets are invested in segregated arrangements with investment managers, thereby allowing the managers to align their strategy with the Trustees' policies. This is reviewed on an ongoing basis.
- The Trustees also invest in pooled funds which are aligned to the strategic objective. It is recognised that due to the nature of pooled funds, there is not scope for these funds to be specifically tailored to the Trustees' policies.
- The mandate with Pantheon is subject to a performance related fee.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of the implementation statement for the Trustee Report & Accounts. This will be first included for the accounts dated 31 December 2020. By doing this, it indirectly incentivises the investment managers to make decisions based on non-financial information.
- When the Trustees receive updates from the investment managers, they request an update on how ESG factors are being incorporated into the investment process and ultimately security selection.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

- The Trustees review the performance of the investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Investment manager fees are reviewed periodically to make sure that they remain competitive.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
- The Trustees monitor portfolio turnover costs indirectly as part of its ongoing monitoring of the Plan's assets and investment managers.
- Where relevant, portfolio turnover costs are considered periodically, particularly for the buy and maintain mandates. Whilst the Trustees expect there to be low turnover due to the nature of the mandates, they

recognise that this will sometimes be necessary to protect the Plan from downgrades and possible defaults.

The duration of the Plan's arrangements with the investment managers

- The Trustees are aware of the duration of the Plan's arrangements with each of its investment managers (e.g. as part of ongoing monitoring). Ultimately, however, the duration of each arrangement is determined by its suitability and contribution to meeting the Plan's overall investment objectives.
 - It is also considered in the context of the type of pooled fund the Plan invests in.
 - For open ended funds, the duration is flexible, and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
 - For closed ended funds, or funds with a lock-in period, the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and the Plan's liquidity requirements.
-

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy with regarding to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented, while the rest of this statement details our view of the Plan's investment managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Plan's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Plan's ESG policies and engagements periodically to ensure they remain fit for purpose. The Trustees also may look to adopt a set of ESG beliefs later in 2021, depending on the proximity of the Plan to meeting its long term funding target.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none">• The Plan's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis.• The Plan's investment managers provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.• The Trustees receive information from their investment advisers on the investment managers' approaches to engagement.	<ul style="list-style-type: none">• The manager has not acted in accordance with the Trustees' policies and frameworks.

ESG summary and engagement with the investment managers

Due to the Plan's ongoing strategy work, the Trustees have not yet completed an Impact Assessment.

We will provide this information in the future if the Trustees decide to carry out an Impact Assessment.

Engagement

As the Plan invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 month period to 31 December 2020.

Fund name	Engagement summary	Commentary
Insight Buy & Maintain Fund	<p>Total engagements: 68 discussing 214 topics</p> <p>Climate change: 17 Environmental issues: 18 Social issues: 21 Governance issues: 41 Other: 117</p>	<p>Examples of significant engagements include:</p> <p>Volkswagen – Insight engaged with Volkswagen over corporate governance concerns related to the VW controversy on diesel emissions. Insight saw improvement in VW's corporate culture and the company has settled lawsuits related to the scandal with customers in Germany, Canada and Chile in 2020.</p> <p>Enel – Insight vetted the nominations list for the appointment of a climate expert on Enel's board.</p>
Insight LDI Fund	<p>Total engagements: 13</p> <p>Social issues: 1 Governance issues: 11 Environmental, Social and Governance issues: 1</p>	<p>Examples of significant engagements include:</p> <p>Clearing houses and various cash investors – Insight worked with a range of possible partners to explore how to increase the diversity of sources of funding, in the form of gilt repurchase transactions and developed approaches for pension funds to access these sources for the first time.</p> <p>HMT (UK government), Bank of England, The Pensions Regulator, Financial Conduct Authority – Since Brexit, the UK has left the EU stakeholder group discussions. Insight is currently engaging with the UK government and key stakeholders to set up a new group in the UK to drive forward discussions on creating a long-term solution for UK pension funds for the issue of EMIR central clearing. As a result of the engagement, HMT have agreed privately to set up a stakeholder group formally after the Brexit transition</p>

		period and are having informal discussions with Insight on this.
BlackRock Buy & Maintain	No data available.	BlackRock were unable to provide engagement data in relation to the Plan's buy & maintain credit mandate for the 12 months to 31 December 2020. The Plan's investment advisor, Isio, will continue to engage with BlackRock so that data is available in the future.
LGIM Infrastructure Equity Fund	No data available	LGIM were unable to provide engagement data in relation to the Plan's infrastructure equity mandate for the 12 months to 31 December 2020. Isio will continue to engage with LGIM so that data is available in the future.
Pantheon Private Equity Funds	No data available.	Pantheon stated that they do not participate in engagement activity as a private equity fund of funds manager. Isio will continue to engage with Pantheon so that data is available in the future.

Voting (for equity funds only)

As the Plan invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Commentary
LGIM Infrastructure Equity Fund	<p>Votable Proposals : 1132</p> <p>Proposals Voted : 1131</p> <p>For votes : 959</p> <p>Against votes : 172</p> <p>Abstain votes : 0</p> <p>Withhold votes : 1</p>	<p>All voting decisions are made by LGIM's Investment Stewardship team and in accordance with LGIM's relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually.</p> <p>LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and LGIM do not outsource any part of the strategic decisions.</p> <p>To ensure proxy provider votes are in accordance with LGIM's position on ESG, LGIM have put in place a custom voting policy with specific voting instructions applicable to all markets globally. The policy reflects LGIM's consideration of minimum best practice standards which they believe all companies globally should observe, irrespective of local regulation or practice.</p>
Pantheon Private Equity Funds	No data available.	Pantheon stated that they do not participate in voting activity as a private equity fund of fund manager

