Innospec Limited Pension Plan

Statement of Investment Principles ("SIP")

Purpose of this Statement

This SIP has been prepared by the Trustees of the Innospec Limited Pension Plan (the "Plan"). It sets out the principles governing the Trustees' decisions to invest the assets of the Plan.

The Trustees have taken the Myners' Principles into consideration when making decisions about the Plan's investment arrangements.

Further details on the Plan's investment arrangements are set out in the Investment Implementation Document ("IID").

Investment objectives

The Trustees invest the assets of the Plan with the aim of ensuring that all members' accrued benefits can be paid. The Plan's funding target is specified in the Statement of Funding Principles and the Plan's funding position will be reviewed on an ongoing basis to assess the position relative to this funding target and whether the investment policy remains appropriate to the Plan's circumstances.

As shown in the below table, the Plan's present investment objective is to achieve a return of around 1.8% per annum above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Fund's liabilities).

Asset Class	Proportion (%)	Expected Return (relative to fixed interest gilts)(1) %
Buy and Maintain Credit	70.0	1.3
Listed Infrastructure	5.0	4.5
Private Equity	9.0(2)	7.0
Liability Driven Investment ("LDI")	16.0	0.0
Total	**100.0**	**1.8**

(1) 10 year assumptions as at 31 December 2017 relative to Bank of England 10 year gilts (net of management fees).
(2) Allocation to private equity expected to reduce over time as capital is distributed.

The maturity and strong funding position of the Plan means that there is a focus on structuring the investment portfolio to provide a close match for benefit payments as they fall due.

The strong funding position has also led to the Trustees agreeing to target full funding on a buy-out basis.

Investment strategy

The Plan's investment strategy was derived from careful consideration of the nature and duration of the Plan's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Plan, and also the strength of the Sponsor's covenant. The Trustees considered the merits of a range of asset classes, including various "alternative assets".

The Trustees recognise that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities and by investing in a suitably diversified portfolio of assets. The risk is also managed by investing in assets which hedge a significant proportion of the interest rates and inflation risk inherent in the liabilities through the use of Buy and Maintain Credit and Liability Driven Investment mandates.

The assets of the Plan consist predominantly of investments which are traded on regulated markets.

Investment management arrangements

The Trustees have appointed various Investment Managers to manage the assets of the Plan – their mandates are listed in the IID. All of the Investment Managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the Investment Managers via a written agreement. The delegation includes decisions about:

- Realisation of investments;
- Social, environmental, ethical considerations in selection, retention and realisation of investments; and
- The exercise of rights (including voting rights) attaching to the investments.

The Trustees take Investment Managers' policies with respect to the above into account when selecting and monitoring managers. The Trustees also take into account the performance targets the Investment Managers are evaluated against. The Investment Managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The Investment Managers' remuneration is based upon a percentage value of the assets under management. The Plans' private equity mandate is also subject to a performance related fee element. The fees have been negotiated to be competitive and are reviewed on an ongoing basis.

The Trustees have appointed Northern Trust as the custodian to operate alongside the investment managers in place. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as payment of drawdowns to the private equity manager.

Investment Manager Monitoring and Engagement

The Trustees review and engage with the Plan's Investment Managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with Investment Managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement. The Trustees determine that:
Performance, Strategy and Risk	• The Trustees receive a quarterly investment dashboard which details information on the Plan's buy and maintain mandates. This dashboard is considered at the relevant Investment Committee/Trustee meeting. • An on-site meeting with the Plan's private equity manager, Pantheon, takes place annually or less frequently if there are no significant developments. • The Trustees receive investment performance reports from each of the Plan's Investment Managers. • The Trustees will monitor overall risks within wider strategy reviews as required, upon advice from appointed Investment Advisors.	• Significant changes may be required to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. • Underperformance relative to the performance objective over the period that this objective applies (particularly if there are any defaults in the buy and maintain mandates).
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustees' Investment Managers provide annual 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.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policy is not in line with Trustee's policy in this area.

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees may review the relevant investment manager's appointment.

Employer-related investments

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Plans (Investment) Regulations 2005, except where the Plan invests in collective investment schemes that may hold employer-related investments. In this case the total exposure to employer-related investments will not exceed 5% of the Plan's total value.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

Governance

The Trustees of the Plan make all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, Isio Group Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The Investment Adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Plan.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Plans (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the Sponsor and took appropriate written advice. The Statement is reviewed at least every three years, and without undue delay after any significant change in the investment arrangements.

Date: 30 April 2021

Appendix A – Investment Beliefs

1. Investment strategy is the most important decision and should be based on clear objectives

Our long term goal is to generate returns required to fund our members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are our central considerations.

Our strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

2 There's more to robust portfolio construction than diversification alone

Excessive diversification can introduce inefficiency, cost and fail to protect our portfolio in a downturn.

Pay-off profile of assets: We tailor the expected payoff profile of the Plan's investments around our required objectives.

***Excess liquidity of the Plan*:** We utilise excess liquidity in order to access any illiquidity premium (when illiquidity is rewarded), taking into consideration known cash flow requirements and the need for flexibility.

***True diversification*:** We optimise true diversification of underlying risk drivers.

3 We aim to select the most appropriate opportunities in the market

A strategy that buys the right asset, at a fair price, will serve us better than buying the wrong asset at a cheap price.

We consider the most appropriate potential market opportunities in order to help us achieve our long-term objective.

4 A long term mind-set can be used to enhance returns

As a long term investor we pursue incremental growth that rewards adherence to our strategic plan, rather pursuing short term opportunities rewarding speculation.

We will mitigate or manage risks that we are not rewarded for.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

5 Excessive costs will erode performance

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

6 Good governance improves our decision making

We continuously strive to enhance our knowledge of the investment opportunities and risks facing the Plan.

We monitor the performance of our strategy and investment managers to improve our decision making.

7 Our investment process reflects our beliefs on responsibly investing.

We recognise that positive ESG factors can have a positive influence on the long term stability and returns of investments. However, mandates are selected with the purpose of maximising the chance of achieving the return objectives as set out in their mandates, which in combination aim to optimise the chance of achieving the Plan’s overall strategic objective.

The extent to which ESG and ethical considerations are taken into account in these decisions is delegated to the investment managers, acting within the guidelines and objectives set by the Trustees where practically possible.

Appendix B – Risks

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets/sectors.
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	• When developing the Plan's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, these are summarised below:

Risk	Definition	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.
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.

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.
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.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.	To appoint managers who account for ESG factors as part of their investment process. The Trustees monitor the mangers in this regard on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Currency risk is hedged within the buy and maintain mandates and the listed equity infrastructure. Currency hedging does not occur within the Pantheon mandate.
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.

Appendix C

The Trustees have the following policies in relation to the investment management arrangements for the Plan:

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 Trustees' 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	• The investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

<table>
<tr><td>portfolio turnover or turnover range.</td><td>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.</td></tr>
<tr><td>The duration of the Plan’s arrangements with the investment managers.</td><td>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 Trustee’s objectives and the Plan’s liquidity requirements.</td></tr>
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Appendix D

AVC arrangements

The AVC arrangement was previously available to all members but is now closed to future contributions. Therefore the principles set out in this section only relate to accrued funds within the Plan.

Investment Objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances.

The following encapsulates the Trustees' objectives:

- To make available a range of investment funds that should enable members to tailor their own investment strategy to meet their own personal and financial circumstances.
- Offer funds which facilitate diversification and long term capital growth (i.e. in excess of price and wage inflation) so that the value of members' assets can be maximised.
- Offer funds that enable members to choose to reduce risk in their investments as they approach retirement. Specifically, make available investments that provide protection for members' accumulated assets against sudden (and sustained) reductions in capital values or in the amount of pension that can be purchased.
- To restrict the number of funds to avoid unnecessarily complicating members' investment decisions.

The Trustees are responsible for deciding the range of funds to offer, but has no influence on how the investment managers choose the underlying investments within the funds as the assets are pooled with many other investors to obtain economies of scale. The Trustees may take investment advice from time to time as deemed necessary regarding the suitability of the relevant investment options.

The Trustees regularly obtain professional advice and through the Investment Sub-Committee monitors and reviews the suitability of the funds provided. The Trustees receive recommendations from the Investment Committee and from time to time may change the managers or investment options.

Risk

The Trustees have considered risk from a number of perspectives. These are:

- **Market risk.** The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested.
- **Risk of erosion by inflation.** If investment returns lag inflation over the period of membership, the real (i.e. post inflation) value of the members' individual accounts will decrease.
- **Annuity pricing risk.** This refers to the risk of a downturn in markets in the period leading up to retirement resulting in a reduction in the amount of pension that can be

purchased (this risk is only relevant to those members who choose to purchase annuities with any part of their DC funds on retirement).

- **Liquidity risk.** Members must be able to access their DC funds as and when their retirement benefits become due.
- **ESG risk.** ESG factor decisions are delegated to the investment managers. Noting that previously there has been limited scope to account for these factors within passive/index-tracking funds.

The Trustees have considered these risks when setting the Investment Strategy and ultimately when choosing the funds to make available to members as detailed in the following section.

Investment strategy

Range of Funds

The Trustees believe, having taken advice, that it is appropriate to offer a range of investment funds to allow members to tailor their own investment strategy. Where possible the Trustees would prefer to offer passive funds in order to minimise costs and charges to members.

- The Trustees have decided to adopt a range of pooled funds defined by their risk/return characteristics to facilitate members choosing fund options which are broadly appropriate to their needs.

The Trustees have decided to offer the following funds to members:

AVC funds:

- Global Equity Fixed Weights 60:40 Index
- Managed (mixed investments including c.40-85% equities)
- Cash
- Over 15 Years Gilts Index

Day-to-day management of the assets for these arrangements is at the discretion of the managers of the pooled funds.

Members should not make investment decisions on the basis of this document.

Ongoing Review

The Trustees and Investment Sub Committee will review the appropriateness of the investment strategy periodically.