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Innospec Limited Pension Plan Implementation Report

31 December 2021

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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 https://innospec.com/wp-content/uploads/2021/08/SIP_uk.pdf SIP_uk.pdf (innospec.com)

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 the investment mandate
- voting behaviour covering the reporting year up to 31 December 2021 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 carried out the sale of the Plan's Pantheon private equity holdings. Axon Partners were appointed as brokers to oversee and manage the sale of the assets and subsequently, the Plan's private equity holdings were sold to Aberdeen Standard Investments (now "Abrdn").
- The Trustees agreed to implement an insurance buy-in of the remaining liabilities and steps were taken to begin the process. The insurance transaction took place in May 2022.

Implementation Statement

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

Signed	Stephen Cook
Position	Trustee
Date	25.05.2022

Managing risks and policy actions DB

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/buy-out basis.	The Plan's LDI mandate provides protection against interest rate and inflation risk. The Plan's LDI holdings were reviewed over the reporting period in light of changes to the Plan's membership since the last retool. This was to ensure that the hedging strategy continued to provide sufficient protection against adverse interest rate and inflation movements.
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 Plan's Pantheon holdings were liquidated over the reporting period in anticipation of the Plan's upcoming buy-out.
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.	No actions to report – 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	No actions to report – the Plan's credit mandates are diversified by sector, geography and manager.

		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 Scheme's investments.	To appoint managers who account for ESG factors as part of their investment process. The Trustees monitor the managers in this regard on an ongoing basis.	No actions to report – given the proximity of Plan's journey plan to buy-out, the Trustees have maintained their current approach to ESG factors.
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.	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

The only change made to the Plan's Statement of Investment Principles over the reporting period up to 31 December 2021 was an amendment to appendix D whereby the references to Senior Manager arrangements within the Scheme was removed.

The SIP is in the process of being updated to reflect the liability buy in which took place in May 2022.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy with regards 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 believe that the Plan's ESG policies are appropriate although may look to update these should they no longer be fit for purpose ahead of the Plan's upcoming buy-out.

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	• 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.	• The manager has not acted in accordance with the Trustees' policies and frameworks.

ESG summary and actions with the investment managers

Due to the proximity of the Plan's journey plan to buy-out, the Trustees have not 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 2021.

Fund name	Engagement summary	Commentary
Insight Buy & Maintain Fund	Total engagements: 68 Environmental: 10 Social: 11 Governance: 23 Financial: 24 Number of entities Engaged with: 59	Examples of significant engagements include: **Barclays** – Insight engaged with Barclays in relation to Social (conduct, culture and ethics) and Environmental issues. While sustainability is clearly on the agenda at Barclays, Insight found Barclays is taking a different approach to peers – not exiting business or reducing financing to carbon industries but trying to work with them to reduce emissions. The effectiveness of this will be harder to observe externally and the targets it has set so far look largely in line with what its competitors are already doing. Barclays also took measures to improve the culture and Insight is expected to review this on an ongoing basis as it will require time for any changes to take effect.
Insight LDI Fund	Total engagements: 22 Environmental, Social and Governance issues: 0 Social: 22	**The DWP, IA and PLSA** – Insight took part in the DWP's consultation on climate related reporting. The consultation extends

	Governance: 0	the existing DWP rules surrounding: • portfolio alignment metrics measuring how much a portfolio is aligned to the Paris Climate Agreement • further stewardship obligations for pension scheme. Insight was generally supportive of the proposals but suggested implementation be pushed back from October 2022 to October 2023. Insight confirmed that it had successfully influenced its point of view with IA and PLSA.
LGIM Infrastructure Equity Fund	No data available.	LGIM was unable to provide engagement data in relation to the Plan's infrastructure equity mandate for the 12 months to 31 December 2021.
BlackRock Buy & Maintain	No data available.	BlackRock was unable to provide engagement data in relation to the Plan's buy & maintain credit mandate for the 12 months to 31 December 2021.

Voting (for equity/multi asset 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 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Commentary
LGIM Infrastructure Equity Fund	Votable Proposals: 1036 Proposals Voted: 1036 For votes: 865 Against votes: 169 Abstain votes: 2	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. 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. To ensure proxy provider votes are in accordance with LGIM's position on ESG, LGIM has 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 it believes all companies globally should observe, irrespective of local regulation or practice.

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