The Dow Services UK Pension Plan

Statement of Investment Principles (the "Statement")

Scope of Statement

This Statement has been prepared in accordance with sections 35 and 36 of the Pensions Act 1995, as amended by sections 244 and 245 of the Pensions Act 2004, respectively, and the Occupational Pension Schemes (Investment) Regulations 2005.

This statement has been commissioned by Dow Services Trustees UK Limited (the "Trustee"), as Trustee of the Dow Services UK Pension Plan (the "Plan"). The Plan comprises two segregated sections – the Segregated Dow Section (DB Section and DC Section) and the Segregated DCL Section (DB). In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policies for each section but will delegate the responsibility for selection of specific investments to the appointed investment managers, which may include an insurance company or companies. The Investment Managers shall provide the skill and expertise necessary to manage the investments of each section of the Plan.

The Trustee will review this Statement and the Segregated Dow Section and Segregated DCL Section's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

The effective date of this Statement is 1 July 2023.

Consultations made and parties involved

The Trustee has consulted with the Company prior to writing this Statement and will take the Company's comments into account when it believes it is appropriate to do so. The Trustee will also consult with the Company on any revision to this statement.

The Trustee is responsible for the investment strategies of the Dow Section and Segregated DCL Section. It has obtained and considered written advice on the investment strategy appropriate for each Section. It has obtained advice on the preparation of this Statement from Aon Solutions UK Limited ("Aon") which is authorised and regulated by the Financial Conduct Authority.

A copy of this Statement is available to the members of the Plan via the website https://www.mydowpension.co.uk or on request.

The SIP is constructed as follows:

Part A – Applies to the Dow Section (Defined Benefits and Defined Contribution)

Part B – Applies to the DCL Section

Part C – Applies to both the Dow Section and DCL Section.

Full details for the current investment arrangements are contained in a separate document - the Summary of Investment Arrangements (the Summary).

Part A - Dow Section

The Dow Section provides various types of pension arrangement, including a Defined Contribution Section and Defined Benefits Section.

Defined Benefits Section

Objectives

The Trustee's objectives for the investment strategy of the DB assets of the Dow Section have been set with regard to the Long Term Funding Target as agreed between the Trustee and the Company.

The primary objective of the investment strategy is to ensure that the Plan’s assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Plan as they arise.

Over the long term, the Trustee aims to improve the funding level on an ongoing basis, and also relative to a long term funding target.

Risk

The Trustee recognises that the key risk to the Defined Benefits Section is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause deterioration in the Plan’s funding level and therefore contribute to funding risk. The key risks and measures taken to manage these are as follows:

- **Mismatching risk:** The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. This is measured through asset liability modelling, ongoing triennial actuarial valuations and ongoing monitoring and is managed through investment in liability matching assets.
- **Manager risk:** is measured by the expected deviation of the prospective return, as set out in the manager(s)’ objectives, relative to the investment policy. This is managed through the diversification of assets between managers and the ongoing monitoring of the manager(s)’ actual deviation of returns relative to the objective and factors supporting the manager(s)’ investment process.
- **Liquidity risk:** The risk of a shortfall of liquid assets to meet the immediate cashflow required by the Plan. This is managed by the Plan’s administrators who monitor the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- **Political risk:** The level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. This is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- **Currency risk:** The Trustee recognises the risk associated with currency exposure, but the Plan's exposure is limited and expected to decline further as the Trustee continues to reduce risk by aligning the Plan's assets with risk settlement insurance pricing over time.
- **Covenant risk:** The Trustee's willingness to take on investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute to the Dow Section. The strength of the Company and its perceived commitment to the Plan is monitored by the Trustee and the risk will be reviewed if either of these deteriorates.
- **Environmental, Social and Governance:** The Trustee recognises the risks that Environmental, Social and Governance ("ESG") may have on the Plan's investments. The Trustee delegates day to day investment decisions, including integration of financially material ESG risks and opportunities, including climate change, to its investment managers. In addition, the Trustee recognises that these factors encompass a broad range of matters that are to be considered in the context of evaluating and monitoring the long-term investment risks, in addition to traditional financial analysis as part of the investment process. In Part C we address specific ESG risks in the sections: Arrangements with Asset Managers, Stewardship – Voting and Engagement, Member Views and Non-Financial Factors and Cost Monitoring.
- **Cyber:** The Trustee recognises the importance of cyber security and the increasing risks in this area. It receives training in this area, where appropriate, to ensure that cyber risks are understood and mitigated.

Kind of investments

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Defined Benefits Section, its cashflow requirements, the funding level and the Trustee objectives. This is reviewed by the Trustee after each triennial actuarial valuation with the help of its advisers.

Investment management responsibility is delegated to the investment managers who were appointed by the Trustee. The Trustees' policy is to endeavour to secure the safety of the Plan's assets, and it has appointed a custodian for safe keeping of the assets. With regards to the review and selection of their investment manager, the Trustee takes expert advice.

The Trustee has taken advice from both the actuaries and the investment consultant to ensure that the range of funds is suitable and that the assets held in respect of the pension liabilities are appropriate. The Trustee will continue to monitor, and take advice on, the various options on an ongoing basis.

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. The majority of the assets held are realisable at short notice.

Investment Strategy and asset allocation

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position and the liability profile.

The Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of real (e.g. equities) and monetary (e.g. fixed interest) assets. It recognises that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Dow Section to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the employer.

When choosing the Plan's planned asset allocation strategy, the Trustee considered written advice from its Investment Advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes;
- The risks and rewards of a range of alternative asset allocation strategies;
- The suitability of each asset class; and
- The need for appropriate diversification.

The strategic asset allocation of the Dow Section is set after an assessment of all the major asset classes, including private equity and alternative asset classes, such as hedge funds and property, among others.

Defined Contribution Assets

Objectives

The Trustee's primary objective is to make a suitable range of liquid funds available to members which will generate income and capital growth which, together with new contributions from members and the Company, will provide a fund at retirement with which to access benefits. The Trustee seeks to ensure that it makes available a sufficient range of asset classes which the Trustee believes will enable members to invest in a manner which reflects their attitude to risk and proximity to retirement.

Risk

The Trustee recognises a number of additional risks involved in the investment of assets of the Defined Contribution section, including:

- **Inadequate long-term returns:** As members' benefits are directly dependent on the investment returns achieved, it is important that investment vehicles which can be expected to produce adequate real returns over the longer term are available. Historically, equities have produced the best real returns over the longer term.
- **Deterioration in investment conditions near retirement:** For a given amount of money the level of pension secured will depend upon investment conditions at retirement. A sharp deterioration in these conditions in the period just prior to retirement will have a substantial impact

on the benefits provided. The Trustee is satisfied that the range of funds offered will enable members to take the necessary steps to safeguard against this.

- **Lack of diversification:** Within each fund available to members, the holdings should be adequately diversified. To achieve this, the Trustee has selected funds which, by their nature, invest in a large number of holdings. There are also two separate balanced funds offering members the chance of diversifying whilst still providing potential for long-term growth.
- **Manager risk:** The Trustee believes that by offering both active and passive investment management options, members are given the opportunity to obtain outperformance by the managers, or to address the risk of underperformance by the managers, against the relevant market.
- **Risk from excessive charges:** If the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of members' accounts will be reduced unnecessarily. The Trustee, therefore, has looked closely at the terms and conditions offered by the investment managers and are satisfied that the level of charges will not unnecessarily reduce members' accounts.
- **Other risks:** There are a number of other risks that arise from certain investment activities. The investment managers may place controls on such activities, and these are set out in the policy documentation appropriate to each fund.
- **Environmental, Social and Governance:** The Trustee recognises the risks that Environmental, Social and Governance ("ESG") may have on the Plan's investments. The Trustee delegates day to day investment decisions, including integration of financially material ESG risks and opportunities, including climate change, to its investment managers. In addition, the Trustee recognises that these factors encompass a broad range of matters that are to be considered in the context of evaluating and monitoring the long-term investment risks, in addition to traditional financial analysis as part of the investment process. In Part C we address specific ESG risks in the sections: Arrangements with Asset Managers, Stewardship – Voting and Engagement, Member Views and Non-Financial Factors and Cost Monitoring.
- **Cyber:** The Trustee recognises the importance of cyber security and the increasing risks in this area. It receives training in this area, where appropriate, to ensure that cyber risks are understood and mitigated.

The Trustee undertakes to monitor these risks on a regular basis.

Kind of investments

The key source of financial risk (in relation to members meeting their objectives) normally arises from asset choice. The Trustee therefore retains responsibility for the investment fund options made available to the membership and takes expert advice as required from its professional advisers.

The Scheme provides an extensive list of investment options for members through which a number of different investment managers and funds can be accessed.

Members for whom the Trustee has no valid investment instruction will have their funds invested in the default arrangement.

Investment Strategy and asset allocation

The Trustee's policy is to provide suitable information for members so that they can make appropriate investment decisions. The range of funds was chosen by the Trustee after taking advice from its advisers. In choosing the Plan's investment options, it is the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.
- The suitability of each asset class for a defined contribution scheme.
- The need for appropriate diversification of asset classes.

The Trustee expects the long-term return on the investment options that invest predominantly in growth assets (e.g. equities, etc) to exceed price inflation and general salary growth.

The long-term returns on Bond and Cash funds are expected to be lower than returns on growth asset options however, these are expected to be less volatile.

For members who plan to invest in an annuity at retirement, investing in Bond funds as retirement approaches can help to mitigate the risk of annuity prices changing unfavourably relative to their underlying investments.

Cash funds aim to provide protection against changes in short-term capital values and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

Part B - DCL Section

Objectives

The primary objective of the investment strategy is to ensure that the Plan's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Plan as they arise.

During the fourth quarter of 2021 the Scheme invested in a Bulk Purchase Annuity Agreement ("Annuity Policy") with Rothesay Life. This policy insures the liabilities of the members of the DCL Section of the Plan. The policy is an asset of the DCL Section which will pay amounts to the Trustees to exactly match the benefit payments due. The Trustee received advice on the suitability of this contract from their Risk Settlement Consultants.

Risk

As the DCL Section's primary asset is a Bulk Purchase Annuity Agreement with Rothesay, the key risk to the Defined Benefit Section of the Plan is that of the insurer defaulting. The Trustee considered the credit strength of the insurer as part of its due diligence process. Having considered this, in addition to several other factors including the regulatory environment provided by the Financial Conduct Authority and The Prudential Regulation Authority and following advice from their Risk Settlement Consultants, the Trustee considered this to be an appropriate investment for the Plan.

Kind of investments

The primary asset of the Scheme is the bulk annuity policy. In addition, the Trustee holds cash and cash like assets and, as at the date of this statement is anticipating further cash amounts as the proceeds from illiquid asset sales instructed before the purchase of the bulk annuity.

Part C – Dow Section and DCL Section

The following sections apply to both the Segregated Dow Section and the Segregated DCL Section.

The Trustee has delegated the implementation of its investment strategy to the Dow Europe GmbH Portfolio Investment Team (“PIT”) via an Investment Management Agreement.

Aon has been selected as Investment Adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates.

Arrangements with Asset Managers

The Trustee recognises that arrangements with its fund managers are important to ensure that interests are aligned. The Trustee seeks to ensure that the fund managers are incentivised to operate in a manner that generates the best long-term results for the Plan and its beneficiaries.

The Trustee regularly monitors the investments to consider the extent to which the investment strategy and decisions of the fund managers are aligned with the Trustee’s policies. This includes monitoring the extent to which fund managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee's policy is to monitor the Annuity Policy with Rothesay on an annual basis.

The Trustee is supported in this monitoring activity by its investment adviser and the Portfolio Investment Group. The Trustee receives regular reports and verbal updates from the investment adviser and Portfolio Investment Group on various items including the investment strategy, performance, and positioning of the portfolio. The Trustee’s focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan objectives and assess the fund managers over the long-term. The Trustee also receives annual stewardship information on the monitoring and engagement activities carried out by its fund managers, which supports the Trustee in determining the extent to which the Trustee’s engagement policy has been followed throughout the year. The Trustee recognises that this monitoring activity is important to encourage fund managers to take appropriate steps to enhance the long-term value of assets through engagement activity.

Before appointment of a new fund manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee’s policies. Where necessary, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, then the Trustee will express its expectations to the fund managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the fund managers by other means (where necessary), and regular monitoring of fund managers' performance and investment strategy, is in most cases sufficient to incentivise the fund managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where fund managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the manager where this is deemed necessary.

There is typically no set duration for arrangements with fund managers, although the continued appointment of all fund managers will be reviewed periodically. For any closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase an annuity and has delegated the management of the collateral backing these policies to Rothesay for the DCL Section. The Trustee does not attempt to influence the ESG integration nor stewardship policies and practices of Rothesay in managing these assets. The responsibility for voting and engagement with managers is with Rothesay.

As part of its delegated responsibilities, the Trustee expects the Plan's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the long-term value of assets; and
- exercise the Trustee's voting rights in relation to the Plan's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser and Portfolio Investments Group with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee has delegated all voting and engagement activities to the Plan's investment managers. The Trustee accepts responsibility for how the managers steward assets on its behalf, including the casting of votes in line with each managers' individual voting policies.

Managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest). This engagement aims to ensure that robust active ownership behaviours, reflective of the Trustee’s active ownership policies, are being actioned.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Plan’s assets, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained.

On an annual basis, the Trustee reviews the stewardship policies and practices of all managers. The transparency provided by managers should include detailed examples of engagements covering engagement objectives, method of engagement, outcomes to date, escalation points and procedures as necessary. Prospective investment managers are also required to provide this information for the Trustee to review in advance of any new appointment.

If an incumbent manager is found to be falling short of reasonable standards relating to matters including performance, strategy, risks, social/environmental impact, corporate governance, capital structure, and conflicts of interest; the Trustee will consider, on a case by case basis, a broad range of methods (such as emails and meetings) to undertake to engage with the manager to seek improvements to respective processes to bring about the best long-term outcomes for the Plan. If, following engagement with the manager, it is the view of the Trustee that the degree of improvement remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

Member Views and Non-Financial Factors

At present the Trustee does not explicitly take into account the views of the Plan's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors) in scheme design or strategy.

Costs Monitoring

The Trustee monitors investment manager performance on a ‘net of all costs’ basis and believe this provides an incentive for the control of costs. However, the Trustee also undertakes regular and consistent monitoring of the costs in the belief that this will enhance the incentive to reduce any inefficiencies in the cost structure.

Cost Transparency

The Trustee expects all of the Plan’s investment managers to provide it with full cost transparency in line with industry standard templates. Prior to their appointment, the Trustee asks investment managers to confirm their adherence to providing this information.

The Trustee assesses the performance of its investment managers on a quarterly basis and the remuneration of their investment managers on an annual basis. On an annual basis, all of the investment managers are asked to provide details of the costs incurred in managing the Plan assets, using industry disclosure templates. These costs include portfolio turnover costs (transaction costs).

Where the disclosed costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with their investment strategy.

Portfolio Turnover

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency or concern with the relative value being received the mandate/asset class will be reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Plan's investment adviser and Portfolio Investment Group monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

Evaluation of Performance and Remuneration

The Trustee undertakes analysis of the Plan's costs and performance on at least a triennial basis by receiving benchmarking analysis comparing the Plan's specific costs and performance of the underlying managers relative to those of the wider market. This is in line with the Trustee's policies on reviewing the kinds of investments to be held.

The Trustee paid a premium to Rothesay when the Annuity Policy was initiated, and as a result there are no ongoing fees in respect of the policy (where the majority of the Plan's assets are held). The Trustee does not pay fees for the management of the collateral assets over which Rothesay has a fixed charge.

Governance

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity

- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee will review this Statement at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Company over any changes to the Statement.