BASF UK Group Pension Scheme

Investment Policy Implementation Document (IPID)

Contents

Introduction

This Investment Policy Implementation Document (**IPID**) sets out details of the investment arrangements of the BASF UK Group Pension Scheme (the **Scheme**), based on the principles set out in the Statement of Investment Principles (**SIP**). The two documents are complementary and should be read in conjunction.

The Scheme is a hybrid scheme consisting of separate Defined Benefit and Defined Contribution benefits. The Scheme has three segregated sections, known as the BASF UK Group Section (**Group Section**), the BASF Performance Products Section (**BPP Section**) and the Chemetall Section (**Chemetall Section**). This IPID only covers the defined benefit assets of the Group Section, the BPP Section and the Chemetall Section.

This IPID has been prepared by the BASF Pensions Trustee Limited (**the Trustee**) considering written professional advice from LCP, the Scheme's investment adviser. The Trustee is responsible for ensuring the IPID reflects the current investment arrangements. The Trustee's legal fiduciary duties take precedence over the contents of this document.

Published: December 2022

Investment Strategy

The Trustee and each Section's relevant employer sponsor, seek to work collaboratively in the setting and review of the investment strategy. The Trustee will also work with BASF SE Asset Management where relevant, as agreed under the terms of the underpin agreement with BASF SE covering the Group and BPP Sections.

The Trustee has agreed to adopt a dynamic investment strategy, as set out in the Statement of Investment Principles.

The following has been agreed by the Trustee and the Company:

- the long-term investment goal is to achieve full funding on a gilts+0.25% pa basis (that is, assuming investment return equal to UK Government bonds plus 0.25% per annum)
- the time horizons for achieving the long-term funding target are by:
  - Group Section – 31 December 2026
  - BPP Section – 31 December 2031
  - Chemetall Section – 31 December 2031

The allocations, at the time of producing this IPID, for the Group and BPP Sections are set out below. For both the Group and BPP Sections, the strategy is for the private credit and buy and maintain credit mandates to run-off over time as income and capital is repaid. The residual split between the Insight Liability Driven Investment and Asset-Backed Securities mandates is at Insight's discretion with the aim of balancing collateral adequacy, liquidity risk and generating excess returns over investing capital in government bonds and cash.

Overall, the Trustee deems the current allocations as suitable for the Group and BPP Sections, but the Trustee acknowledges that the allocations are not expected to stay in line with the current mix over the years to come. For example, as the private credit mandates are in run off, the Trustee expects these to gradually reduce to nil.

Group Section

Manager	Asset Class	30 September 2022 Allocation	Active / Passive	Pooled / Segregated
Barings	Private Credit	9.1%	Active	Pooled
Insight	Buy & Maintain Credit	18.6%	Active	Segregated
Royal London	Buy & Maintain Credit	21.4%	Active	Segregated
Insight	Asset-Backed Securities	32.0%	Active	Pooled
Insight	Liability Driven Investment	18.5%	Active	Segregated
N/A	Cash	0.4%	N/A	N/A
Total		**100%**		

Within the Liability Driven Investment (**LDI**) portfolio, the Group Section has a target level of interest rate and inflation hedging that is 100% of the gilts+0.25% per annum liability measure.

BPP Section

Manager	Asset Class	30 September 2022 Allocation	Active / Passive	Pooled / Segregated
Barings	Private Credit	6.0%	Active	Pooled
ICG	Private Credit	6.1%	Active	Pooled
Insight	Buy & Maintain Credit	18.6%	Active	Segregated
Royal London	Buy & Maintain Credit	18.6%	Active	Segregated
Insight	Asset-Backed Securities	23.3%	Active	Pooled
Insight	Liability Driven Investment	26.6%	Active	Segregated
N/A	Cash	0.8%	N/A	N/A
Total		**100%**		

Within the LDI portfolio, the BPP Section has a target level of interest rate and inflation hedging that is 96% of the gilts+0.25% per annum liability measure.

Chemetall Section

The Chemetall Section is in the process of moving its assets towards new investment arrangements. For this reason, the Trustee has not provided the current allocations at the time of producing this IPID. However, after implementation of these new arrangements, the Chemetall Section's target strategic allocation will be as follows.

Manager	Asset Class	30 September 2022 Allocation	Active / Passive	Pooled / Segregated
LGIM	Global Multi-Factor Equity	40.0%	Passive	Pooled
Insight	Buy & Maintain Credit	6.0%	Active	Pooled
Insight	Asset-Backed Securities	9.0%	Active	Pooled
Insight	Liability Driven Investment / Cash	45.0%	Active	Pooled
Total		**100%**		

Within the LDI portfolio, the Chemetall Section has a target level of interest rate and inflation hedging that is 80% of the gilts+0.25% per annum liability measure.

Published: December 2022

Investment Triggers

To facilitate the de-risking/re-risking for each Section, three sets of **'triggers'** have been set by the Trustee. The trigger levels are set out in the tables below and are linked to either:

- the return required to reach the long-term funding target within the timescales described above (**required return triggers**); or
- the gilts+0.25% per annum funding level (**hedging triggers**).

At each regular IC meeting, the IC will consider actions to take should a trigger be met.

At the time of writing, the Chemetall Section required return trigger measure will only allow for deficit repair contributions due during or before October 2025. This will be kept under review from time to time.

Should any of the required return triggers be met due to the required return reducing, the Investment Committee (**IC**) will consider de-risking by modifying the strategic asset allocation in the most appropriate manner to reduce risk (generally by reducing the proportion invested in risk-seeking assets), whilst still aiming to generate the target expected return associated with each required return trigger.

Should any of the required return triggers be met due to the required return increasing, the Trustee will consider any recommendations made by the IC for increasing the expected return by modifying the strategic asset allocation in the most appropriate manner to increase the expected return in line with the following tables. The Trustee will consider the ability of the relevant employer to withstand any additional investment risk before making any changes to the investment strategy.

Should any of the hedging triggers be met as a result of the funding level increasing above a specified level the IC will consider de-risking by increasing the interest rate and inflation hedging ratios in line with the framework outlined in the following table.

BPP Section

Hedging Trigger Levels	
Gilts+0.25%pa liability funding level	**Target hedge ratio (relative to Insight's gilts+0.25%pa liability proxy benchmark)**
(current position)	96%
97.5%	97.5%
100%	100%

Chemetall Section

The Chemetall Section has established required return triggers and hedging triggers to be monitored and action considered at each IC meeting:

De-Risking Triggers		Re-Risking Triggers		Hedging Trigger Levels	
Target return required	**Target expected return***	**Target return required**	**Target expected return***	**Funding level**	**Target hedge ratio****
1.5%	1.8%	2.0%	2.3%	90%	90%
1.0%	1.3%	1.5%	1.8%	100%	100%
0.5%	0.8%	1.0%	1.3%		

**** per annum above gilts***
***** relative to gilts+0.25% per annum funding basis, allowing for present value of future contributions up until October 2025***

Investment Managers

The Trustee will work collaboratively with each Section's respective employer, and BASF SE Asset Management where relevant, when selecting the Scheme's investment managers. Details of the investment managers and their key objectives are set out in the following sub-sections.

L&G (Global Multi-Factor Equity)

The fund aims to match the return on the FTSE All-World ex CW Climate Balanced Factor Index within an acceptable level of tolerance.

Barings (Private Credit)

The funds provide lending directly to companies borrowing in private markets. The Manager's objective is to generate 7.5% - 8.5% pa (net of fees).

ICG (Private Credit)

The funds provide lending directly to companies borrowing in private markets. The Manager's objective is to generate 6% - 8% pa (net of fees).

Insight (Buy and Maintain Credit)

BPP and Group Sections

The Manager is expected to construct a segregated portfolio of bonds and ancillary instruments with overall duration of 7 to 11 years at completion of the initial investment, with the objective of taking prudent action in light of any material increase in the probability of default of any of its bond holdings.

Chemetall Section

The fund's objective is to seek to generate a return for investors by investing primarily in a portfolio of debt securities. The fund's performance is compared against a reference benchmark, which is the iBoxx Sterling Corporate and Collateralised ex-T1&UT2 Index.

Royal London (Buy and Maintain Credit)

The Manager is expected to construct a segregated portfolio of bonds and ancillary instruments with overall duration of 5 to 10 years at completion of the initial investment, with the objective of taking prudent action in light of any material increase in the probability of default of any of its bond holdings.

Insight (Asset-Backed Securities)

The fund's objective is to produce an interest rate based return, primarily through investment in a portfolio of asset backed securities and corporate floating rate notes. The fund's performance is compared against a reference benchmark, which is 1 month SONIA.

Insight (LDI)

The Trustee aims to hedge a proportion of each Section's exposure to interest rate and inflation risk, by investing in a mixture of bonds and leveraged LDI arrangements. This is kept under review with the objective of stabilising the funding level for each Section.

For all Sections, Insight has been given the discretion to systematically alter the allocation between gilts and swaps, to reduce the cost of hedging over time and target additional investment returns.

BPP and Group Sections
The LDI strategy is mainly implemented through segregated accounts with Insight. Each account is expected to provide a return which will assist the Trustee to proportionately match the impact of future changes in interest and inflation rates on the value of the liabilities.

Insight also has flexibility to allocate part of the underlying collateral within the account to other Insight pooled funds, including funds predominately invested in short-dated high-quality credit (including asset-backed securities), with the aim of improving overall collateral efficiency.

Chemetall Section
The Chemetall Section invests in Insight's LDI Enhanced Selection fund range. Each of the funds is designed to be used by those seeking to reduce investment risk directly relating to financial solvency and who will use any return to provide retirement benefits. The Longer Nominal Fund and the Longer Real Fund will seek to achieve their investment objectives by hedging a subset of the longer maturity liabilities of a typical UK pension scheme. The Shorter Nominal Fund and the Shorter Real Fund will seek to achieve their investment objectives by hedging a subset of the shorter maturity liabilities of a typical UK pension scheme.

Insight (Cash)
The money market fund's objective is to provide investors with stability of capital and income through investment in short term fixed income and variable rate securities. The fund's performance is compared against a reference benchmark, which is SONIA, with the fund seeking outperformance by 0.25% per annum (before tax, fees, and expenses).

Investment Restrictions
The investment managers have discretion over the investment of the Scheme's assets, subject to the restrictions set out in each of their respective investment management agreements and/or relevant governing documentation. The Trustee is satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities provide adequate diversification of investments.

Where permitted under their investment guidelines, the investment managers may invest in derivatives including futures, swaps, and options.

Other than to the extent that pooled funds are invested in listed securities issued by BASF SE or its associate companies, managers are not permitted to invest in such securities or to lend money to BASF SE or its associate companies.

Managers of segregated accounts are prohibited from investing in the following companies, which are involved in the production of cluster munitions. The list of prohibited companies will be updated annually.

- Hanwha Corporation Ltd
- Poongsan Holdings Corp
- Elbit Systems Ltd
- Poongsan Corp
- Bharat Dynamics Ltd
- Aryt Industries Ltd
- China North Industries Group Corp Ltd
- China Aerospace Science & Technology Group Corp
- LIG Nex1 Co Ltd
- Lockheed Martin Corp
- Anhui GreatWall Military Industry Co Ltd
- Northop Grumman Corp
- Solar Industries India Ltd
- Textron Inc

Custody

JP Morgan is responsible for the custody of all the Group and BPP Sections' assets, in particular as the direct sole custodian for segregated assets. It is also responsible for record-keeping for all the Group and BPP Sections' assets. For pooled or unitised funds across all three sections, the direct custodian of the underlying holdings is arranged by the relevant investment managers (with JP Morgan acting as the Trustee's custodian for the pooled fund units for the Group and BPP Sections).

IPID signed for and on behalf of BASF Pensions Trustee Limited:

Signed: J Myerson________________ Date: 14 December 2022

Signed: P Wormald________________ Date: 14 December 2022

IPID signed for and on behalf of BASF plc:

Signed: K Harper________________ Date: 14 December 2022

Signed: T Urwin________________ Date: 14 December 2022

Published: December 2022