We create chemistry

BASF UK Group Pension Scheme

Statement of Investment Principles (SIP)
Combined Defined Contribution Sections

Contents

Published: October 2024

1. Executive Summary

This document sets out the principles governing decisions about investments for the BASF UK Group Pension Scheme (the Scheme) to meet the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015
- Subsequent legislation

The Scheme is a hybrid scheme consisting of separate Defined Benefit (DB) and Defined Contribution (DC) benefits. This SIP details the principles that govern our decisions in relation to the DC investments, the principles regarding the DB investments are set out in a separate SIP (available on the Pension Website).

As a minimum, the Trustee will review this document triennially to ensure that it remains accurate. The SIP will be amended more frequently should any changes be made to the Scheme's investment arrangements or membership profile.

The Trustee’s investment powers are set out within the Scheme’s governing documentation and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these. The Trustee notes that, according to the law, they have ultimate power and responsibility for the investment arrangements.

In considering appropriate investments for the Scheme, the Trustee considers the written advice of a professional DC Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2. Investment Objectives and Risk

The objectives, risks, and other factors referenced in this SIP, are those that the Trustee determines to be financially material considerations in relation to the Scheme.

The Trustee believes that members have differing investment needs, and these may change during their working lives. Members may also have different attitudes to risk and ideally members should make their own investment decisions based on their individual circumstances. The Trustee regards their duty as making available a range of investment funds that enable members to tailor a strategy suitable to their own needs.

For members who do not wish to make their own investment choices, a default option is available. However, the Trustee recognises that this option cannot meet every individual member’s needs.

2.1 Investment Objectives

The Trustee’s primary aim is to ensure that we can meet their obligations to the members of the Scheme. This is achieved by the following:

- Offer a ‘Lifestyle’ (known as **LifePlan**) approach to investment, which is also adopted in the default strategy, and ensure that other investment strategy options allow members to plan for retirement
- Make available a range of investment funds which serve to meet the varying investment needs and risk tolerances of members (known as **FreePlan**)
- Provide information on the purpose of each investment option
- Encourage members to seek impartial financial advice from an appropriate party in determining the most suitable option (where required)

The Trustee regularly reviews the suitability of the options provided and, from time-to-time, may change managers or introduce additional investment portfolios as appropriate. The Trustee is satisfied that the diversity of assets by type, and the investment manager’s policies on investing in individual securities within each type, provide adequate diversification of investments.

2.2 Risk

The Trustee considers a range of potentially financially material factors to which the Scheme is exposed over the anticipated time horizon for which the assets will be held when designing the range of funds to offer to members. These factors are outlined in this SIP.

The Trustee believes that the appropriate time horizon within which to assess risk should be viewed at the member level. In considering the range of funds to offer to members, the Trustee acknowledges that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to take their benefits.

In designing the lifestyle strategies, the Trustee has taken the proximity to the target retirement date into account, and the associated financially material risks over the time horizon of these strategies.

The Trustee recognises additional risks, detailed below, along with appropriate mitigations.

Risk	Mitigation
Investment return over members' working lives does not keep pace with inflation and does not secure adequate retirement benefits	Make available multiple funds that are expected to match or beat price inflation over the long-term
Volatility associated with growth assets discourages members from further savings into the Scheme	Multiple funds available with varying degrees of volatility so that members can tailor their investments to their desired level of risk. Diversification of investments is also in place.
Investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of retirement benefits	Multiple lifestyle strategies available, which aim to provide automated de-risking for different types of potential retirement benefits
Investment vehicle under-performs the expectation of the Trustee	Use both active and passive management (tailored to the suitability of the style for the investment type), take professional advice, and monitor performance of the selected managers
Environmental, Social and Governance (ESG) risk (including climate change), have a financially material impact on investment returns	Management of ESG related risks is delegated to investment managers, with oversight from the Trustee. For example, the Trustee considers climate scenario analysis and metrics in relation to climate change and stewardship, in addition to ESG ratings supplied by the DC investment adviser.
Funds do not provide access for investment or withdrawal of monies when required	Select daily dealt and daily priced pooled funds to mitigate liquidity risk
Returns fluctuate with changes in exchange rates	Currency hedging is used within certain overseas developed market equity funds
Insufficient investment diversification	Ensure that fund range provides an adequately diversified distribution of assets and seek to maximise diversification levels within the default option (where possible)
Investment profile of the default option is unsuitable for the requirements of some members	Details of how the default is designed and how risk is managed are provided in the following section

We believe that the investment funds outlined in this Statement are appropriate for meeting the risks outlined above.

2.3 The Default Option

For members who do not wish to take an active role in investment decisions, the Trustee offers a default option (**Moderate Flexible Income LifePlan**) which includes arrangements to de-risk investments to an asset allocation designed to be appropriate for a member who intends to draw their benefits in a flexible way, known as drawdown. Currently, members need to transfer out of the Scheme to access flexi-access drawdown.

The aims of the current default option, and how the Trustee seeks to achieve these aims, are detailed below:

Aim	Commentary
Generate returns above inflation during the growth phase of the strategy whilst managing downside risk	The default strategy's growth phase structure invests in equities and other growth-seeking assets through diversified growth funds, managed using a combination of active and passive investment approaches. These investments are expected to provide growth with some downside protection and some protection against inflation erosion.
Provide a strategy that reduces investment risk for members as they approach retirement	As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over a 5-year period into a pooled multi-asset "Cautious" fund which offers diversification across a range of growth and defensive assets (this fund is managed using a combination of active and passive investment styles), and a pooled cash fund which is actively managed.
Offer asset diversity at retirement, broadly appropriate for an individual planning to draw their benefits flexibly over time, with an allowance for taking the maximum PCLS	Following the lifestyle switches referred to above, three months prior to the member's selected retirement date, 75% of the member's assets will have been switched to the pooled Cautious fund and 25% to the pooled cash fund.

Risk is considered in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns.

The Trustee considered analysed the membership profile and retirement experience within the Scheme to inform decisions regarding the default option. Based on this analysis, a default option that targets flexible withdrawal of benefits and with payment of a Pension Commencement Lump Sum (PCLS) is considered appropriate. Clear communications regarding the aims of the default and the access to alternatives is also produced. The default investment design does not restrict members to take their benefits in this format at retirement, it merely determines the investment strategy that will be in place pre-retirement.

The investment managers have responsibility for buying and selling the underlying assets in the default arrangement. All pooled funds used operate daily dealing cycles, and assets are invested on regulated markets. The investment managers consider ESG matters in exercising their delegated responsibilities.

Based upon the demographics of the membership and the Trustee's views of how the membership will behave at retirement, the Trustee believe that the current default option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme demographic, if sooner.

The following disclosures in other parts of this SIP also apply also to the default option:

- How risk is measured & managed, including risks around illiquidity and the realisation of investments (Section 2.2)
- ESG Considerations (Section 4)
- Investment Manager arrangements (Section 3)

2.4 Policy on Illiquid Assets

The Trustee considers illiquid assets to be assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund.

The Scheme's default investment option does not include any direct allocation to illiquid investments. The Scheme has indirect exposure to illiquid assets within the default option through its investment in multi-asset diversified growth funds, where the investment managers have the discretion to include modest allocations to less liquid assets in their strategy. At the total default strategy level, this is not expected to be more than 3% at any point of the lifestyle investment strategy and relates primarily to physical property investments within one of the underlying funds.

The Trustee is comfortable indirectly investing in a small proportion of the default option in illiquid assets, to gain access to the potential for higher returns and the benefits of diversification that illiquid assets can offer. While these benefits are recognised, the Trustee is also aware of the risks of investment in illiquid assets. Given the potential for valuations of illiquid assets to not reflect their true value at a given time as well as liquidity constraints, costs and charges for members, and investment platform compatibility, the Trustee considers direct investment into an illiquid asset fund as not currently appropriate, although this is kept under review and will be assessed through triennial reviews of the default investment option.

In selecting investments for the default option the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocations. For any investment, the Trustee carefully considers whether it provides value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation of the default investment strategy on at least a triennial basis, including the policy on illiquid assets.

2.5 Alternatives to the Default Option

To cater for the different risk appetites of members, the Trustee offers the following three Risk-Profiled funds:

Adventurous Fund	Moderate Fund	Cautious Fund
100% Global Equity	50% Diversified Growth Funds 50% Global Equity	32.5% Diversified Growth Funds 32.5% Global Equity 35.0% Bonds

The Diversified Growth Fund (DGF) allocations outlined above relate to funds which invest in a wide range of different types of assets (equities, property, infrastructure, bonds, cash, etc.). The amount invested in the different assets within a DGF can vary over time depending on the investment manager and their views.

The underlying components of the Risk-Profiled funds are reviewed periodically by the Trustee. The review relates to the appropriateness of the asset classes held, and the managers selected to manage the funds.

The Risk-Profiled funds can be accessed under the LifePlan and FreePlan structures. Further information on the LifePlan structures is outlined below.

Bearing in mind the level of investment knowledge of a typical member and the desire to keep the available fund range simple and understandable (while providing appropriate choice) the Trustee has made the following funds available to members under the FreePlan structure to provide flexibility for members who require it:

Asset Class	Manager Selected	Fund Name
Bonds	Legal & General	Pre-Retirement Annuity
Cash	Blackrock	Liquidity Environmentally Aware
Ethical	Legal & General	Ethical Global Equity Index
Shariah	HSBC Global Asset Management	Islamic Global Equity Index

2.6 Alternative Lifestyling

Under the LifePlan option, lifestyling is offered, which is adopted over a 5-year switching period. Members can select a growth phase fund from the three risk-profiled funds detailed above, along with a benefit option to target at retirement, from cash, annuity (guaranteed income) or income drawdown (flexible income).

As a member approaches their selected target retirement date, and if they are invested in the LifePlan, assets will gradually move into an asset allocation considered to be appropriate for their targeted retirement benefit.

The Moderate Flexible Income LifePlan option is the default arrangement for those members who do not wish to exercise choice and lifestyling is based on a target pension date of age 65 where no other choice is made.

The switching matrices which underlie the LifePlan profiles are shown in the **Investment Guide** (available on the Pension Website).

3. Investment Manager Arrangements

The fund range offered to members of the DC Section is accessed through **Mercer Workplace Savings (MWS)** on the platform provided by **Scottish Widows Limited (Scottish Widows)**. There is a direct (long-term) insurance contract between the Trustee and Scottish Widows. Pooled funds accessed through the platform are managed by a range of underlying investment managers.

Through the MWS service, on an ongoing basis, the Scheme accesses:

- Discounts on fund pricing relative to Scottish Widows' whole of market prices
- Service levels agreements over and above Scottish Widows' standard terms with financial penalties for non-compliance
- A formal commitment by Scottish Widows to maintain market leading status as an investment only platform provider (with MWS providing regular input into the proposition, including ensuring the availability of highly rated funds)
- Quantitative and qualitative quarterly investment performance reporting
- Escalation, monitoring and resolution of any servicing shortfalls

Scottish Widows and MWS are both regulated by the Financial Conduct Authority and the safe custody of the Scheme's assets is delegated to professional custodians, as appointed by the governing bodies of the respective pooled funds.

As the Trustee invests in pooled vehicles it accepts that there is no ability to specify the risk profile and return targets of the funds. However, appropriate mandates are selected to align with the investment strategy as documented in this SIP.

The Trustee recognises that it is the platform provider that has the contractual relationship with the investment managers. However, the Trustee takes appropriate legal and investment advice regarding the initial and ongoing suitability of the relevant investment vehicles. Additionally, the Trustee seeks to ensure that the Scheme's investment managers remain accountable to it. To that end, the DC Committee meets periodically with the investment managers and will engage in direct discussion with them as appropriate.

In selecting investment managers, the Trustee considers the requirements of each mandate and its investment guidelines. The investment managers are selected based on their capabilities and suitability to meet the Scheme's objectives. These selections are therefore also based on the managers' perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustee receives advice from its investment consultant in relation to forward-looking assessments of an investment manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the investment consultant's research assessment of the manager's idea generation, portfolio construction, implementation, and business management, in relation to the particular investment portfolio(s) that the Scheme invests in. For passively managed mandates, or those where outperformance is not the primary goal, the Trustee will seek guidance from the investment consultant in relation to their forward-looking assessment of the manager's ability to achieve the stated mandate objectives.

3.1 Evaluating Performance

The Scheme offers members both actively and passively managed funds. Performance targets are in place with the investment managers, and results are assessed against these targets. A fund will be reviewed following periods of sustained failure to meet the mandate objectives, and the Trustee has put in place quarterly monitoring to seek to manage this risk. The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

Investment managers are aware that their continued selection is based on their success in delivering the objectives of the mandate for which they have been selected to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

In monitoring investment managers, and when selecting new investment managers, the Trustee will aim to have in place managers whom they believe will engage directly with issuers of securities held to improve their financial and non-financial performances over the medium to long-term. To monitor investment managers' compliance with this expectation, the Trustee considers ESG research ratings from the investment consultant each quarter. Through these ratings, the Trustee assesses how each investment manager embeds ESG into its investment process and how each manager's investment philosophy aligns with the Trustee's policies.

The Trustee will meet with its investment managers when this is considered helpful and will consider manager meetings dedicated to discussion of ESG matters to focus governance time appropriately.

3.2 Time horizon and Duration of Appointments

The Trustee receives performance reports on a quarterly basis, which present performance information (where available) over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable benchmark, and against each fund's target performance (over the relevant time-period).

The funds used within the Scheme are open-ended with no set end date for the arrangement, and the Trustee is a long-term investor. Accordingly, it does not seek to change the investment arrangements on a frequent basis. The focus is therefore on long term performance, but the Trustee may review an investment manager's fund and consider terminating a mandate if:

- There are sustained periods of underperformance or failure to meet the mandate objectives
- There is deviation from the agreed mandate terms, or a breach of mandate investment guidelines
- There are changes to the investment process, personnel or business management of the investment manager that could lead to a loss of confidence in its ability to achieve the objectives set over the appropriate time horizon
- There is a change in the underlying objectives of the fund
- There is a significant change to the investment consultant's rating of the fund
- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or fund
- The Trustee decides there is a more suitable product in the market following a review of a manager's selection. This may be as a result, but not limited to, a more desirable risk/return profile, the opportunity set, potential developments in the investment industry and the fees being offered

If an investment manager's fund is not meeting the performance objectives, over a sustained period, and after consideration of all relevant factors, the Trustee may take the decision to terminate the investment manager in respect of the use of that fund.

3.3 Investment Manager Remuneration

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment Manager to retain their appointment (in full), by achieving their objectives, to continue to receive their fee.

As part of the annual Value for Members (VFM) assessment, the Trustee reviews all costs and charges borne by members of the Scheme. Investment managers are not remunerated based on portfolio turnover.

3.4 Portfolio Turnover Costs

The Trustee considers portfolio turnover costs as part of the transaction cost charges disclosures provided for the annual VFM assessment and the Chair's Statement.

The Trustee has not set portfolio turnover targets, the Trustee instead assess performance net of the impact of the costs of such activities.

4. Environmental, Social and Governance (ESG) Considerations

The Trustee believes that ESG issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies, and markets. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. The Trustee accordingly considers these issues in the context of anticipated time horizon over which the assets will be held.

The Trustee does not directly manage the Scheme's investments, and the investment managers have full discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. ESG considerations are however considered in the selection, retention, and realisation of investments in the following ways:

- The Trustee considers the ESG research ratings published by the investment consultant when monitoring investments. These ratings are also considered as part of the selection of investment funds.
- In meetings with the investment managers, where relevant, ESG issues are discussed, and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustee for mandates where this is appropriate.
- The investment managers are expected to evaluate ESG factors (including climate change considerations) where practical within the terms of their mandate and to exercise voting rights and stewardship obligations attached to the investments in accordance with their own corporate governance policies and current best practice (including the UK Corporate Governance Code and UK Stewardship Code).

The Trustee has set stewardship priorities as follows:

1) Climate change
2) Business ethics & transparency
3) Diversity, equity, and inclusion

The Trustee will report significant votes relating to these priorities annually, in the Scheme's Implementation Statement.

Members' views, when expressed, will be considered in relation to financial and non-financial matters. For example, member surveys have been carried out regarding investment choices, and members have a variety of methods by which they can make views known to the Trustee. This position is reviewed periodically.

In the context of non-financial considerations, an Ethical Fund option is available for members to invest. This fund is passively managed against an index which explicitly incorporates ethical considerations in the selection of its constituents. A Shariah-compliant option is also available for investors who wish to adhere to principles established by the Shariah (Islamic law as revealed in the Qur'an).

5. Realisation of Investments

The investment manager has responsibility for buying and selling the underlying assets.

All pooled funds used are daily dealt. As already mentioned, the day-to-day activities which the investment manager carries out for us are governed by the arrangements between them and Scottish Widows, which are reviewed from time-to-time to ensure that the operating instructions, guidelines, and restrictions remain appropriate.

6. Compliance with this statement

The Trustee, Scottish Widows, and the Investment Consultant each have duties to perform to ensure compliance with this SIP.

These are:

- The Trustee will review this Statement every Scheme year on the advice of the Investment Consultant and will record compliance with it at the relevant Trustee meeting.
- Scottish Widows will provide full information in respect of transactions in units in the underlying funds and valuations of the units held by the Scheme from time to time as required by the Trustee.
- The Investment Consultant will provide the advice needed to allow us to review and update this Statement annually (or more frequently if required).

Signed for and on behalf of BASF Pensions Trustee Limited

Signature:	*Diane Welsh*	*Melanie Newbould*
Name:	**Diane Welsh**	**Melanie Newbould**
Date:	**1 October 2024**	**1 October 2024**

Published: October 2024