BASF UK Group Pension Scheme

Pension Investment Guide

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BASF UK Group Pension Scheme
Investment Guide — Planning Your Journey

Welcome

This guide gives you information to help you make decisions about how you would like to invest your DC Account. Whether you are a new member of the Scheme and are starting your investment journey, or have saved with us for years, it is worth reading this guide and reviewing your options to get the most from your savings.

Your investment choice is important

Contributions paid into your DC Account are invested with a view to increasing their value. Taking the right route is important because the better your investments perform, the more money will be in your DC Account to provide your benefits when you retire. As this is such an important decision and maybe one you have not had to make before, we have produced this guide to help you understand:

- How investments work
- The options available to you and why you might choose them

Types of Investments

The Scheme provides a range of funds that include different investment types (known as asset classes) within each fund.

The investments in each fund are managed by the investment manager. The fund factsheets on the **Pension Website** are updated regularly and provide details of the current asset allocation.

There are four main types of asset class used in the DC Section of the Scheme:

- Equities
- Diversified Growth Funds
- Bonds
- Cash

Equities

Are shares in a company, usually categorised as:

- Developed Market Equities (UK, US, etc.)
- Emerging Market Equities (India, Brazil, etc.)

Returns from equities come from dividends paid to shareholders through reserves/profits, as well as growth in the share price.

Diversified Growth Funds

Invest in a variety of assets such as equities, property, infrastructure, bonds, and cash. The amount invested in each asset tends to change over time, depending on the investment manager and the markets at any point in time.

Investment returns will be received in a number of ways due to the variety of assets.

Bonds

There are two main types of bonds:

- Corporate Bonds (issued by companies)
- Government Bonds (issued by governments)

Bonds are effectively loans that promise to pay back the original money loaned on a specific date. Interest is paid until the loan is repaid. The interest received could be fixed or linked to inflation.

Cash

Cash actually includes a range of money market assets, including deposits and short term loans. These investments may have a fixed or variable rate.

Investment returns are received as interest on the capital invested.

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Investment Guide — Planning Your Journey

Types of Risk

When planning how you want to invest your DC Account, there are three main types of risk that you should consider.

Investment Risk

The value of an investment can rise and fall. Funds with a low investment risk are usually more stable, but they may not grow as fast as some of the other funds. Funds with a higher investment risk are likely to go up and down in value, but they usually offer the greatest potential for growth in the long term.

In addition, where funds make investments in overseas markets, the value of these investments is affected by changes in currency exchange rates. Some of the BASF investment funds use currency hedging to manage the risk. The fund factsheets confirm where currency hedging is used within each investment fund option.

Inflation Risk

This risk applies to investments that may not grow enough to keep up with increases in the cost of living. For example, cash returns are less likely to keep up with inflation.

Benefit Conversion Risk

You can use your DC Account at retirement in different ways:

Cash lump sum

Guaranteed income (annuity)

Flexible income (drawdown)

You can also take a mixture of these options

Benefit conversion risk varies depending on which form of benefit you use your DC Account for and it can be reduced by investing in the funds that most closely match the value and characteristics of the benefits you intend to take at retirement.

There are LifePlan options available that help you manage benefit conversion risk without having to select all your own funds.

How you intend to use your DC Account at retirement should affect the way that you invest it in the last few years before your retirement so it is important that you carefully consider your plans.

For example:

- If you wish to take some or all of your DC Account as cash, benefit conversion risk can be potentially reduced by investing in cash funds.
- If you wish to use some or all of your DC Account to secure a guaranteed income (annuity) at retirement, this risk can potentially be reduced by investing in bonds.
- If you wish to use some or all of your DC Account as a flexible income at retirement, benefit conversion risk is a bit more complex. In this case you may want to protect the value of any cash you plan to withdraw at retirement whilst also aiming to reduce the risk that your longer term savings fail to keep pace with inflation (inflation risk). In practice this often means staying invested in some ‘growth’ investments but taking a lower risk approach overall than when you are further from retirement.

Investment Asset Classes and their Risks

Understanding the investment risk for different asset classes is key when deciding where to invest your money.

Each asset class is explained in more detail below to help you understand the pros and cons and which funds use each asset class.

Equities

Pros
- Potential for higher returns over the long term
- Provides potential for capital growth

Cons
- Returns prone to significant variability over shorter periods
- May be more suitable for members who are some way off retiring, as the value of the fund may fall in the short term

Cash

Pros
- High level of capital security

Cons
- Investment returns may not keep up with inflation

Diversified Growth Funds

Pros
- Potential for medium to high returns over the long term
- Reduces risk by investing in a wide range of assets
- Provides potential for capital growth

Cons
- Similar risks to equities, albeit to a lesser degree
- Can carry more expensive charges
- May not perform as well as equities over some periods when equities do very well
- As these funds place a bit more reliance on the investment manager to make good decisions, there is more risk in relation to the investment manager

Bonds

Pros
- Annuity prices go up and down in line with bond values, so can protect against changes in the cost of purchasing your (Guaranteed Income) annuity
- Low risk that the government or company who issue the bonds won't be able to meet the interest payments or pay back the original capital

Cons
- Can be volatile and are sensitive to interest rate changes
- Lower expected long term investment returns than equities
- Low risk of default. Capital may not be repaid on maturity, and/or interest payments may not be met

Current Available Funds	Equities	DGFs	Bonds	Cash
Adventurous	✓	×	×	×
Moderate	✓	✓	×	×
Cautious	✓	✓	✓	×
Ethical	✓	×	×	×
Islamic	✓	×	×	×
Pre-Retirement Annuity	×	×	✓	×
Liquid Environmentally-Aware (LEAF)	×	×	×	✓

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Investment Guide — Choosing your route

Your decisions matter...

When making choices, you might want to consider:

- Your current commitments
- How much you want to contribute
- Other savings you may have
- When you want to retire
- The lifestyle you want to have

To help you think about how the information in this guide relates to you, we have created four example profiles. We will refer to them in the following pages to help explain the choices you have available to you.

Lucy	
Age	23
Target Retirement Age	68
Risk Tolerance	High
Phase	Growth

Sandeep	
Age	35
Target Retirement Age	65
Risk Tolerance	Medium
Phase	Growth

Asha	
Age	48
Target Retirement Age	65
Risk Tolerance	Medium/Low
Phase	Growth

William	
Age	57
Target Retirement Age	62
Risk Tolerance	Medium
Phase	Consolidation

When to retire?

The age you plan to access the savings in your DC Account is automatically set to age 65, unless you select otherwise. In LifePlan this is called your Target Retirement Date (TRD) and will be used to automatically transfer your funds to reduce your exposure to risk as you approach retirement.

Growth or Consolidation?

Growth Phase

Typically, the further you are from retirement, the more risk you may be prepared to take in order to aim for long term growth.

If you are in the growth phase, you generally want to maximise your DC Account by investing in funds that will target returns higher than inflation. These tend to have higher investment risk, as they seek long term growth.

The fund your DC Account is invested in will depend on your risk tolerance.

Consolidation Phase

As you get closer to retirement, the less investment risk you generally want to take in order to try to protect the savings you've built up.

The aim of the consolidation phase is to gradually reduce investment and benefit conversion risk during the last few years before your TRD.

There are LifePlan options that reduce investment risk for you automatically, but if you opt for FreePlan funds you'll need to manage this yourself.

Understanding your Risk Tolerance?

When choosing where to invest your DC Account, it's important to understand your risk tolerance.

To help understand your risk tolerance, we have included a short risk quiz in the appendix.

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FreePlan

If you want to be very 'hands on' you might choose the FreePlan route. This gives you the most flexibility and control over your investments.

Under FreePlan, you can choose your own investment funds. You can choose to invest in any one or more of the funds on offer. Your DC Account will be invested in accordance with your instructions and only changed if you decide to do so. Changes are made online using the **Pension Portal**.

FreePlan may suit you if:

- You want flexibility and make your own investment choices
- You are happy to grow your DC Account without worrying about how you would like to use it at retirement
- You want to split your DC Account between any of the funds available
- You want to tailor your choices to suit your personal circumstances and how much risk you want to take

Fund name	Objective & assets	Investment risk
Growth Funds		
Adventurous	Achieve high levels of growth over the long-term, by investing in equities, but has the potential to hold other investment types. It is likely to deliver high levels of variability of returns, particularly in the short-term.	High
Moderate	Achieve medium to high growth over the long-term by accessing a mix of growth assets, including equities, as well as some potential allocation to bonds.	Medium/High
Cautious	Achieve low to medium growth over the long-term by accessing a mix of assets, including allocations to equities and bonds.	Medium
Ethical	Achieve long-term growth by investing in equities. The companies in which this fund invests are restricted to those which are considered socially responsible.	High
Islamic	Achieve long-term growth by investing in equities. The companies in which this fund invests are restricted to those that satisfy Islamic investment principles.	High
Consolidation Funds		
Pre-Retirement Annuity	Provide protection against changes in annuity pricing by investing in a mix of government and corporate bonds.	Medium
LEAF	Provide capital protection by investing in a wide range of cash and cash-like investments to achieve a relatively stable return.	Low

Lucy's case study

Lucy isn't sure what her plans for retirement are yet but she has made the sensible decision to start saving.

She has a high risk tolerance, and wants to make sure her DC Account is invested to increase its value over the long term.

As Lucy is unsure of her plans, she has decided to invest **100%** in the Adventurous Fund via **FreePlan**.

She can change her investment choice in the future if she decides this fund is no longer right for her.

Sandeep's case study

Sandeep feels he would like a flexible income but doesn't want to make a decision yet.

Sandeep has a medium risk tolerance, but has decided to split his investments between the Adventurous Fund (**70%**) and the Moderate Fund (**30%**) via **FreePlan**. It will be over 20 years before he accesses his savings, so Sandeep is comfortable with a higher risk approach at this time to protect his DC Account from inflation risk.

At least five years before he plans to take his benefits, Sandeep will select his targeted benefit and consider whether to use one of the LifePlan options to help target the benefits he plans to take. In the meantime, he knows he can change his investment choices at any time if his plans or preferences change.

Whichever investment route you choose, you need to decide how you plan to take your savings at retirement as you get closer to it. You can change how your DC Account is invested at any time on the **Pension Portal**.

LifePlan

If you want to follow a guided route, you might choose LifePlan. LifePlan is a ready-built investment route that aims to reduce some risk as you get nearer to retirement. Your DC Account is invested using a strategy that defines the funds to invest in depending on how far you are from retirement.

Each LifePlan option has:

- A growth phase, where you can access the **Cautious**, **Moderate**, or **Adventurous** funds.
- A consolidation phase, where your DC Account automatically switches into funds that are linked to how you want to use your DC Account at retirement.

The aim of the consolidation phase is to gradually reduce investment and benefit conversion risk during the last few years before retirement.

LifePlan may suit you if:

- You are approaching retirement and know how you want to use your DC Account at retirement.
- You want to reduce the number of investment decisions you need to make, as changes are made automatically.

Building your LifePlan

To help you select the right LifePlan, you should consider following the 3-step process below:

Step 1 - the Growth phase

There are three growth phase fund options, (each fund aims for different levels of growth and risk):

- Adventurous
- Moderate
- Cautious

Step 2 - Target retirement benefit (the consolidation phase)

You need to decide which benefit you want to target, there are three options:

- Cash lump sum (of which 25% is typically tax-free)
- Guaranteed income (annuity), with the option to take up to 25% as a tax-free sum
- Flexible income (drawdown), with the option to take up to 25% as a tax-free sum

If you want a flexible income, you need to transfer your DC Account outside the Scheme to a flexi-access drawdown arrangement. If you want a guaranteed income, this will be secured outside the Scheme with an annuity provider.

You can use your DC Account at retirement differently, even if you have targeted a specific benefit.

Step 3 - Target Retirement Date (TRD)

The date you want to take your benefits, between age 55 (57 from April 2028) and 75. Your TRD determines when your DC Account begins switching from the growth phase to the consolidation phase.

It's important that you review your TRD regularly, especially as you get closer to it, and you can change it anytime on the **Pension Portal**.

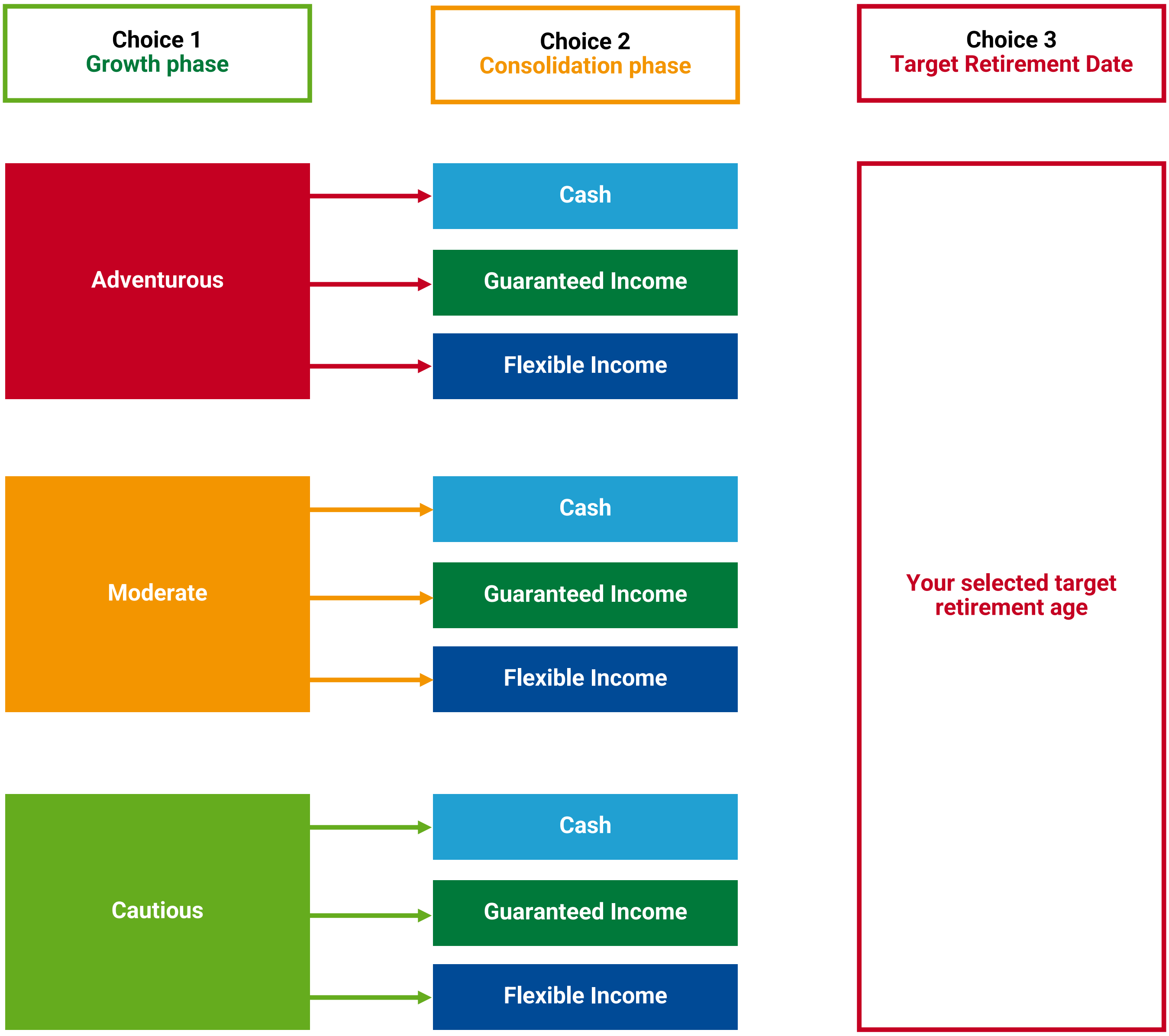
Remember that the earlier you retire, the lower your benefits will be as fewer contributions will have been paid into your DC Account and it will have had less time to grow. Your DC Account may also need to last for longer.

The Retirement Modeller on the Pension Portal can help estimate what your DC Account could be worth at your TRD.

Whichever investment route you choose, you need to decide how you plan to take your savings at retirement as you get closer to it. You can change how your DC Account is invested at any time on the **Pension Portal**.

LifePlan matrixes

Depending what you select for your growth phase, benefit target and TRD, there are **nine** different LifePlan options.



Asha's case study

Asha is aiming for a regular guaranteed income (annuity) and would also like to take 25% of her DC Account as tax-free cash.

Asha has a low risk tolerance, so she has chosen to invest in the Moderate Guaranteed income (annuity) LifePlan.

- Growth phase - **Moderate**
- Consolidation phase - **Guaranteed Income (annuity)**
- TRD - **age 65**

William's case study

William has a defined benefit pension to rely on at retirement and only a small additional DC Account, so he wants to take his DC Account as cash.

With this in mind, William has chosen the Moderate Cash LifePlan fund.

- Growth phase - **Moderate**
- Consolidation phase - **Cash**
- TRD - **age 62**

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Investment Guide — Frequently Asked Questions

What if I don't know how I want to use my DC Account at retirement?
You could choose to invest in a FreePlan fund that links to your general risk attitude (or a LifePlan fund and decide later).

You can update your investment choice at any time on the Pension Portal, so remember to review your investments regularly and update your investment choice if you wish.

When you decide how you want to use your DC Account at retirement, you could also consider whether you want to use one of the LifePlan options to help you manage risk in the last few years before you retire.

We recommend that you try and make a choice about your targeted benefit at least five years before you plan to take your benefits.

Can I change where my DC Account is invested?
Yes, whether you invest in a LifePlan option or in FreePlan, your choices are not permanent and you can change how your DC Account is invested at any time.

For example, you could move out of a LifePlan option, change your TRD within a LifePlan option, or invest in different funds within FreePlan.

How do I change where my DC Account is invested?
Make changes to your investments on the Pension Portal.

You can also choose different FreePlan investment options for future contributions and your existing DC Account balance, if you wish.

There is also some flexibility to invest different types of contributions in different ways. For example, you could invest your regular contributions in a LifePlan option and any additional voluntary contributions in a different LifePlan option or in FreePlan.

The Pension Portal will give you all the options available, giving you lots of flexibility.

What happens if I don't make an investment choice?
We would recommend that you make an active choice about where your DC Account is invested. If you don't make a choice, your DC Account will be invested in the default fund, which is currently the Moderate Flexible Income LifePlan with a TRD of 65 *(default fund subject to change)*.

How do I select where to invest my DC Account?
When you first join the Scheme, you should complete an Investment Form with your initial investment choice.

Forms are available on the **Pension Website**.

After that, you can make different investment choices via the **Pension Portal**.

How do I monitor my DC Account?
- **Pension Portal**
  Provides a secure online service where you can review your DC Account whenever you want and see how the Scheme's investment funds have performed by looking at the 'Unit prices'.

  There is also a Retirement Modeller on the Pension Portal to help you see how different choices could impact how much money you have in your DC Account at retirement.
- **Annual Benefit Statement**
  Each year, you will receive a benefit statement showing the value of your DC Account, an estimate of what your DC Account might provide at your TRD, and details of the benefits payable on death.

Are there any investment charges?
The Trustee has negotiated competitive charges for each fund. Please see the fund factsheets for further information, available on the **Pension Website**.

How is the Scheme governed?
The Scheme is an occupational pension scheme established under a trust. Scheme investments are held separately from those of BASF and are the responsibility of the Trustee.

The Scheme is run in accordance with its Trust Deed and Rules and if any inconsistencies arise between this guide and the Trust Deed and Rules, then the Trust Deed and Rules will override.

If I die, who will receive any benefits due?
Where any lump sum benefits are due on death, the Trustee will decide who to pay the monies to. However, they will usually take your wishes into account.

You can tell the Trustee who you would like to receive any benefits in the event of your death by either updating your information on the **Pension Portal** or by completing a form on the **Pension Website**.

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Investment Guide — Glossary & Keywords

This guide uses specific wording relating to pensions and investments that may be difficult to understand. These phrases and terms are explained below.

If you have any questions, please contact the BASF In-House Pension Team for more information.

Bonds
Loans taken out by companies or governments. The company or the government receive a loan and issue a contract (the bond) that promises to pay back the loan on a set date. Interest is paid until the loan is repaid.

Currency hedging
An approach that aims to protect against changes in currency exchange rates. This helps to reduce risk when investing in overseas funds.

Default fund
If you do not select any funds for your DC Account, you will be invested in the default. The current default is the **Moderate Flexible Income LifePlan** with a TRD of **65** (the default may change from time-to-time).

Diversified Growth Funds (DGFs)
Funds that invest in a variety of assets.

Dividends
Payments that are received by shareholders when the company they invest in makes a profit.

Equities
These are shares in companies and are a type of investment used in the Scheme.

Flexible Income
Allows you to keep your pension savings invested and take a variable amount of money out each year. Flexible income is not guaranteed for life and because your savings remain invested, they can go down as well as up, and may run out.

FreePlan
Under FreePlan, you select your own investment funds.Your funds will not automatically switch from a growth phase into a consolidation phase as you approach your TRD.

Fund Factsheets
Provide detailed information, including the investment managers used, the most up-to-date breakdown of how each fund is invested, the investment performance, and the charges. These are available on the **Pension Website**.

Gilts
A type of bond, issued by the UK Government when it receives a loan from investors.

Guaranteed Income
An annuity that usually provides an income for the rest of your life, bought at retirement with the value of your DC Account.

Inflation
The increase in the general price of goods and services over time.

Investment Returns
The gain (or loss) achieved by an investment. It represents the increase or decrease in the value of the investment plus any income received from investing in it.

LifePlan
Ready-built investment routes that aim to reduce some types of risk automatically as you get nearer to your TRD. As you approach your TRD, your DC Account and future contributions are gradually switched from your chosen growth fund to consolidation funds, with characteristics that are more appropriate for the type of benefit being targeted.

Pension Portal (www.buckhrsolutions/basf.co.uk)
A secure online system where you can view and manage your DC Account. Read more on the Pension Portal factsheet on the **Pension Website**.

Pension Website (www.ukpensions.basf.co.uk)
Public website with access to guides, forms, & factsheets.

Scheme
The BASF UK Group Pension Scheme.

Target Retirement Date (TRD)
Your TRD is used to drive the switching period in LifePlan and used to calculate your projected DC Account for your annual benefit illustration.

Trustee
BASF Pensions Trustee Limited, the company that has ultimate responsibility for running the Scheme.

Test your Risk Tolerance

Many of the everyday things we do in life involve some element of risk, whether it's thrill seeking exploits such as skiing or bungee jumping, or more common things like crossing the road or driving. Some of us are prepared to take much more risk than others, but do you know how open to risk you are?

Investment is no different – decide how much risk you're prepared to take with your money.

To find out what your risk tolerance might be, we've put together a short quiz that will take you just a few minutes to complete and could help you to decide how risky you're prepared to be with your money.

Q1. Which types of investment are you most comfortable with?

a) Cash deposit accounts
b) Corporate bonds and government gilts
c) Equities (stocks and shares)

Q2. After you make an investment, do you feel:

a) Sick with worry
b) Satisfied
c) Excited

Q3. Assume you invest £10,000. Which possible value after one year would you be most comfortable with?

a) £9,000 – £11,000
b) £7,000 – £13,000
c) £4,000 – £18,000

Q4. For the last five years, your investment has an average return of 10% per year. However, over the next year it loses 20%. What do you do?

a) Sell the whole investment
b) Sell part of the investment but hold onto some
c) Buy more of the same investment

Q5. Which phrase best describes your outlook on life?

a) I proceed with caution and don't take unnecessary risks
b) I take small, reasonable risks to pursue my dreams
c) No holds barred – I go for it!

What do your scores mean?

Mostly a)
You have a low risk tolerance and are considered a conservative investor. You are uncomfortable taking large risks with your investments and would rather protect them from large falls in value. You are likely to be investing for the shorter term (often, people feel more willing to take risks with a longer term horizon, because there is still time for the ups and downs to be smoothed out).

Mostly b)
You have an average risk tolerance and are considered a moderate investor. You prefer to avoid risk but can accept a moderate amount. Moderate investors tend to invest for the medium to long term.

Mostly c)
You have a high risk tolerance and are considered an aggressive investor. You are comfortable taking risks with your investments in the hope of gaining good future returns and are not concerned about short term losses. Adventurous investors tend to be younger and investing for the long term.

This quiz is intended to give you an indication of your risk tolerance, and is not intended as financial advice. When deciding where to invest, you should consider other factors than your risk tolerance, such as your age, Target Retirement Age, and your targeted benefits, to ensure that your investments are right for you.

For help in understanding any decisions you make, you should seek advice. For help finding an Independent Financial Adviser, visit the Unbiased website.

unbiased

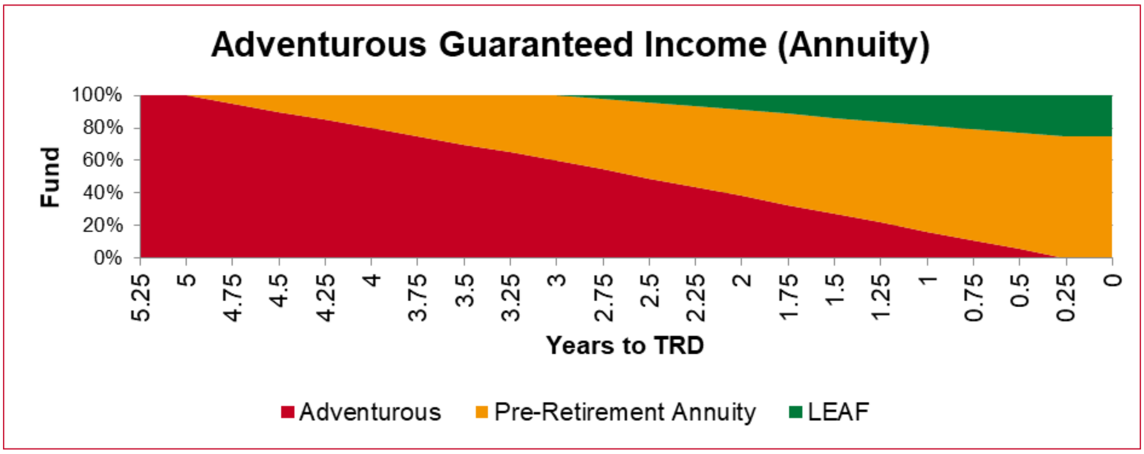
MoneyHelper brings together the support and services of three government-backed financial guidance providers:

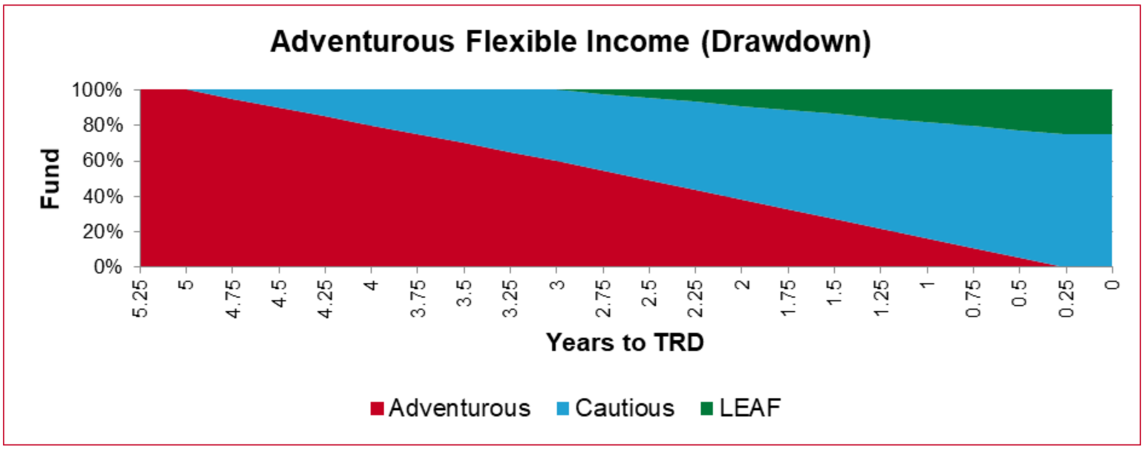
- Money Advice Service
- Pensions Advisory Service
- Pension Wise

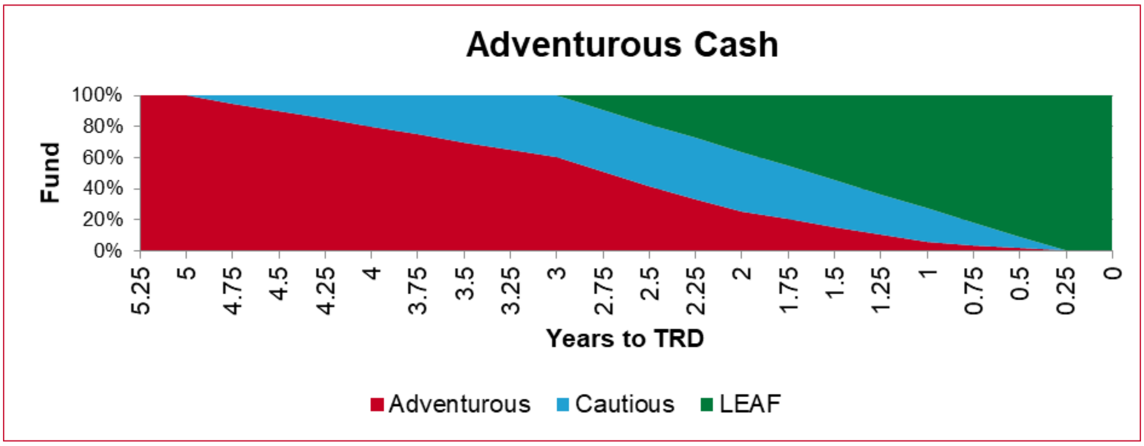
Money Helper

Adventurous LifePlan

Growth phase fund	Targeted benefit	Begin switching	Lower risk funds	Investment aim
Adventurous	Cash	5 years before TRD	Cautious LEAF	During the growth phase, the fund aims to achieve high levels of growth over the long term, but with high levels of risk. It invests predominately in equities, but has the potential to hold other growth assets. It is likely to deliver high levels of variability of returns, particularly in the short term. During the consolidation phase, the fund moves to lower risk funds in line with the targeted benefit.
	Guaranteed Income	5 years before TRD	Pre-Retirement Annuity LEAF	
	Flexible Income	5 years before TRD	Cautious LEAF	

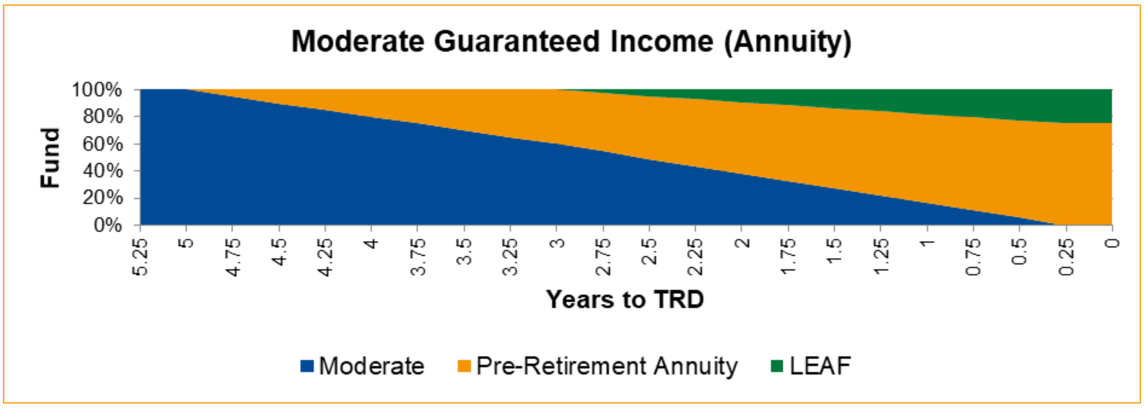


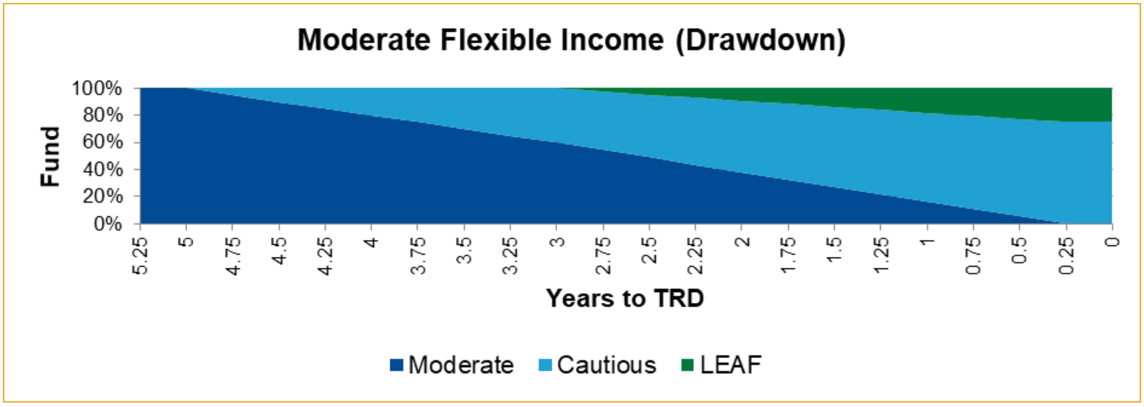


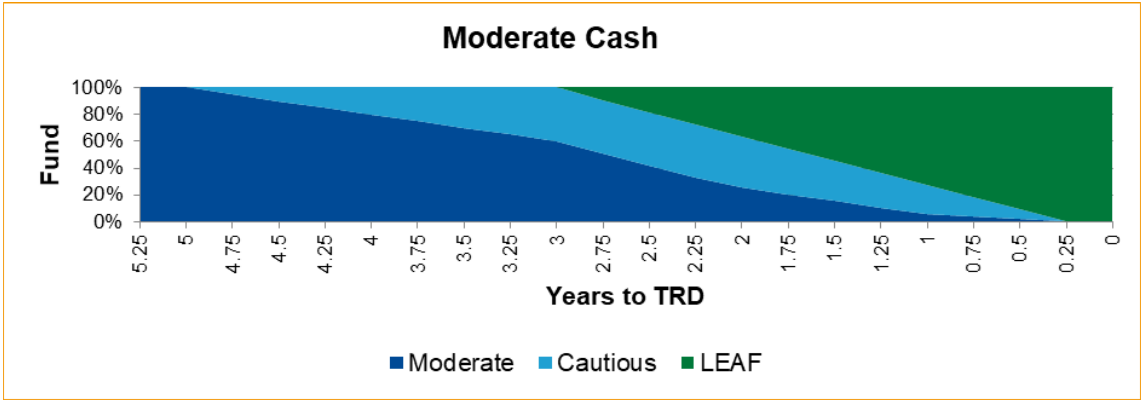


Moderate LifePlan

Growth phase fund	Targeted benefit	Begin switching	Lower risk funds	Investment aim
Moderate	Cash	5 years before TRD	Cautious LEAF	During the growth phase, these funds aim to achieve medium to high capital growth over the long term with medium to high risk. These funds invest in a diverse range of growth assets, including equities, as well as some potential allocation to bonds. During the consolidation phase, these funds move investments to lower risk funds in line with the targeted benefit.
	Guaranteed Income	5 years before TRD	Pre-Retirement Annuity LEAF	
	Flexible Income	5 years before TRD	Cautious LEAF	







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Investment Guide — LifePlan Switching Periods

Cautious LifePlan

Growth phase fund	Targeted benefit	Begin switching	Lower risk funds	Investment aim
Cautious	Cash	3 years before TRD	Cautious LEAF	During the growth phase, these funds aim to achieve low to medium capital growth over the long term with a medium level of risk. These funds invest in a diverse range of assets, including allocations to equities and bonds. During the consolidation phase, these funds may move investments to lower risk funds in line with the targeted benefit.
	Guaranteed Income	5 years before TRD	Pre-Retirement Annuity LEAF	
	Flexible Income	3 years before TRD	Cautious LEAF