STATEMENT OF INVESTMENT PRINCIPLES
August 2020

THE DYLON RETIREMENT BENEFIT PLAN

1. **Introduction**

The purpose of this Statement of Investment Principles (the "Statement") is to record the investment arrangements adopted by the Trustee of the Dylon Retirement Benefit Plan ("the Plan"). This Statement has been prepared by the Trustee of the Dylon Retirement Benefit Plan ("the Plan") to comply with the requirements of the 1995 Pensions Act as amended by the Pensions Act 2004 (the "Act"), the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, and subsequent legislation. It is also intended to fulfil the spirit of the Code of Best Practice (the "Myners Code") published in 2001 and revised in 2008.

The Statement supersedes all other Statements of Investment Principles previously adopted in relation to the Plan.

In preparing this Statement, the Trustee has consulted Henkel Ltd ('the Company'), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing to the Plan's investment arrangements.

Overall investment policy falls into two parts. The strategic management of the Plan's assets is the responsibility of the Trustee, acting upon the advice from Mercer Limited ("the Investment Consultant") and driven by the objectives (see Section 3). The remaining elements of the policy are the day to day management of the assets. This has been delegated to Legal & General Assurance (Pensions Management) Limited ("L&G" or "the Investment Manager").

In considering the appropriate investments for the Plan, the Trustee has obtained and considered the written advice from their Investment Consultant, Mercer Limited, 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 35 of the Pensions Act 1995 (as amended).

2. **Governance, Roles and Responsibilities**

The responsibilities of the Trustee are governed by the Plan's Trust Deed and Rules (a copy of which is available on request) and relevant legislation.

The Trustee is committed to reviewing this Statement on a regular basis and, at the least, every three years. They will also review it as soon as possible following any substantial changes to the Plan's investment arrangements.

As mentioned in Section 1, the Trustee has appointed Mercer to provide strategic investment advice in respect of all issues relating to the investment of the Plan's assets. For the day-to-day management of the assets, the Trustee has appointed L&G, which are managed in accordance with the guidelines agreed on behalf of the Trustee. The manager has discretion to decide whether to buy, sell or retain investments in accordance with these guidelines. The manager reports to the Trustee on a regular basis regarding the performance of the assets under management.

3. Investment Policy

3.1 Investment Objectives

The Trustee is required to invest the Plan's assets in the best interests of the members, beneficiaries and Company and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

Within this context the Trustee's main objectives with regard to the investment policy, to ensure that the obligations to the beneficiaries of the Plan can be met, are as follows:

- To select a combination of assets intended to achieve a return which is consistent with meeting the Plan's funding obligations, on the Plan's statutory funding basis;
- To pay due regard to the Company's interest on the size and incidence of its contribution payments;
- To provide appropriate security for all beneficiaries.

The Trustee is responsible for reviewing the Plan's investment strategy in consultation with the Plan's Investment Consultant.

3.2 Risk Management and Measurement

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Plan and has considered the impact of risks that it believes to be financially material within the expected lifetime of the Plan.

The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believe that the current investment strategy is appropriate given the Plan's liability profile.

The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the assets and its liabilities. This is therefore the Trustee's principal focus in setting the investment strategy.
- The Trustee recognises that whilst increasing risk increases potential returns over the long term, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) carefully considered the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio.

- The documents governing the investment manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The manager is prevented from investing in asset classes outside its mandate without the Trustee's prior consent.

- The Trustee recognises the risk that are insufficient liquid assets available to meet benefit payments as they fall due i.e. "liquidity risk". This is monitored according to regular comparison of the level of cash flows required by the Plan over a specified period with the level of cash actually held. It is managed by holding an appropriate amount of readily realisable investments- the majority of the Plan's assets are invested in quoted markets.

- There is a risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation i.e. "credit risk". This is partially mitigated by the Plan investing in corporate bonds that are rated as investment grade credit (i.e. higher quality bonds).

- The Trustee is mindful of the risk of changes to the Sponsor's covenant. This is assessed as the level of ability and degree of willingness of the Sponsor to support the continuation of the Plan and to make good any current or future deficit. It is managed by assessing the interaction between the Plan and the Sponsor's business, as measured by a number of factors, including the creditworthiness of the Sponsor and the size of the pension liability relative to the Sponsor.

- Considerations specific to Environmental, Social and Governance ("ESG") issues are addressed in Section 5.

- Arrangements are in place to monitor the Plan's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from the investment manager. These reports include an analysis of the overall level of return, to ensure the risks taken and returns achieved are consistent with those expected. The Trustee also takes advice from the Investment Consultant on the manager's performance, as required.

- The safe custody of the assets is delegated to professional custodians by the investment manager.

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Should there be a material change in the Plan's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

3.3 Investment Strategy

Investment policy can be considered in two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee and (2) the day-to-day management of the assets, which has been delegated to a professional Investment Manager.

The Trustee has adopted an investment strategy for the Plan's assets that is designed to approximately hedge the interest rate and inflation sensitivities of the Plan's liabilities. To achieve this, the Trustee has invested in a range of Liability Driven Investment ("LDI") funds which use derivatives to better match the characteristics of the liabilities.

The Plan is also invested in an actively managed corporate bond fund, which provides some interest rate sensitivity while at the same time providing the Plan with an expected excess return above gilts.

3.4 Expected Return

Over the long term, the Trustee expect the return on the Plan's assets to be sufficient to meet its objectives.

3.5 Day-to-Day Management of the Assets

Following receipt of written advice from Mercer, the Trustee has appointed Legal & General Assurance (Pensions Management) Limited ("L&G") to manage the Plan's assets.

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). The Trustee has taken steps to satisfy themselves that L&G has the appropriate knowledge and experience for managing the Plan's investments and is carrying out their work competently.

The asset allocation of the Plan as at 30 June 2019 is set out below:

Fund Name	Weight* (%)	Market Index
Active Corporate Bond All Stock	61.4	iBoxx £ Non-Gilts 10 Year +
2055 Gilt	0.5	
2068 Gilt	0.7	
2027 Index-linked Gilts	4.6	
2030 Index-Linked Gilts	3.7	
2035 Index-linked Gilts	6.6	
2037 Index-Linked Gilts	5.7	
2058 Index-Linked Gilts	3.7	
2034 Leveraged Index-linked Gilts	1.7	
2042 Leveraged Index-Linked Gilts	3.4	
2047 Leveraged Index-linked Gilts	0.5	
2050 Leveraged Index-Linked Gilts	4.6	
2062 Leveraged Index-Linked Gilts	1.6	
2068 Leveraged Index-Linked Gilts	1.4	
Sterling Liquidity Fund	0.0	
Total	**100.0**	

*Figures may not sum due to rounding. Data provided by Legal & General Investment Management as at 30 June 2019.

L&G are not directed to rebalance the Plan's assets, so the actual allocation to each of the funds can deviate materially from the allocations as set out above. As the funds are held to approximately match the liabilities at the implementation date, it is appropriate to allow the allocations to drift in line with market movements as the liability values would be expected to respond in a similar way. The allocations are reviewed as part of the investment strategy review process. The last formal review was carried out during 2017.

The Corporate Bond All Stocks Fund invests primarily in sterling corporate bonds. The outperformance target for the fund is 0.75% p.a. (before fees) over rolling three year periods. The remaining funds form part of L&G's suite of liability matching funds which invest in a combination of funds from the Matching Plus Fund range.

The Matching Plus Fund range are funds which are designed to achieve the desired duration and inflation exposure, and are collateralised by cash and/or gilts.

The Trustee has considered the need for diversification in so far as appropriate to the circumstances of the Plan. The Trustee believes these investment arrangements remain appropriate given the objectives and the risks identified in this Statement.

3.6 **Realisation of Assets**

3.7 Income from the funds is automatically invested in the Sterling Liquidity Fund. Required disinvestments are then taken initially from the Sterling Liquidity Fund and then from the Corporate Bond All Stocks Fund. The Sterling Liquidity Fund deals on a daily basis, while the Corporate Bond All Stocks Fund deals on a weekly basis.

3.8 **Additional Voluntary Contributions (AVCs)**

3.9 The Trustee invests members' AVCs with the Prudential Assurance Company Limited, Scottish Friendly Assurance Society Limited (formerly MGM Life Assurance Society) and Royal London (formerly Scottish Life). With the assistance of the Plan's consultants, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds used for investment remains consistent with the objectives of the Trustee and the needs of the members.

4.0 Responsible Investment and Corporate Governance

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustee will review the investment managers' policies and engagement activities (where applicable) periodically.

The strategic rationale for holding different asset classes that help the Trustee to achieve the Scheme's investment objectives and constraints remains the primary driver behind the Scheme's investment strategy. However, within this context, the Trustee is increasingly considering how ESG, climate change and stewardship issues are integrated within investment processes. Monitoring is undertaken on a regular basis and is documented periodically.

Member views are not currently taken into account in the selection, retention and realisation of investments. This position is kept under review.

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class the Trustee has appointed them for.

The Trustee looks to their investment consultant for their forward-looking assessment of the investment manager's ability to achieve the funds' investment objectives over a full market cycle. The consultant's manager research ratings assist with due diligence and questioning the manager during presentations to the Trustee. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular fund changes, the Trustee will review the fund's appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. The Plan's corporate bond investments are actively managed and the manager is incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) from time to time.

The Trustee invests in pooled investment vehicles and accepts that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates have been selected to align with the overall investment strategy.

The Trustee will also consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustee meets with the investment manager from time to time and can challenge decisions made including engagement activity, to try to ensure the best performance over the medium to long term.

The investment manager is aware that its continued appointment is based on its success in delivering the mandates it has been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The Trustees receive investment manager performance reports from the investment manager on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee review the absolute performance, relative performance against a suitable benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis.. The Trustee regularly reviews this performance. The Trustee's focus is on long term performance but may put a fund 'on watch' if there are short term performance concerns.

The Manager is remunerated by way of a fee calculated as a percentage of assets under management (an 'ad valorem' fee). If the manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review its fees.

The Trustee asks the investment manager to include portfolio turnover and turnover costs in its presentations and reports to the Trustees. The Trustees will engage with the manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

There is no set duration for the manager appointments. The Trustees will retain the investment manager and funds unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

5. Compliance with this Statement

The Trustee will monitor compliance with this Statement on a regular basis and will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee and Company.

This review will occur no less frequently than every three years to coincide with the Plan's actuarial valuation. Any such review will again be based on expert advice and will be in consultation with the Company.

Signed on behalf of the Trustee of the Dylon Retirement Benefits Plan.