AIR PRODUCTS PLC PENSION PLAN
Statement of Investment Principles – March 2021

1. Introduction

The Trustees of the Air Products Plc Pension Plan (the Plan) have drawn up this Statement of Investment Principles (the Statement) to comply with the requirements of the Pensions Act 1995 (the Act) and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement the Trustees have consulted the principal employer to the Plan (Air Products Plc) to ascertain whether there are any material issues which the Trustees should be aware of in agreeing the Plan's investment arrangements. The Trustees have also taken into consideration the requirements of section 35 of the 1995 Pensions Act ("Investment Principles"), section 244 of the 2004 Pensions Act, the Occupational Pension Schemes (Investment) Regulations 2005 (the "OPS IRegs 05").

2. Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given an acceptable level of risk

In considering the appropriate investments for the Plan, the Trustees will obtain and consider the written advice of the investment consultant, Mercer Ltd, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Plan Objectives

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. The Trustees' over-riding funding principles for the Plan are to set the employer contribution, in conjunction with the Company, at a level which is sufficient to:

- build up assets to provide for new benefits of active members as they are earned;

- recover any shortfall in assets relative to the value placed on accrued liabilities over a suitable term; and
- ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Statutory Funding Objective is that the Plan must have sufficient and appropriate assets to cover the expected costs of providing members' past service benefits (technical provisions basis).

The secondary Funding Objective for the plan is to have sufficient and appropriate assets to be able to meet all future costs and support a buy-in without taking on any additional company contributions (self-sufficiency basis).

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on the basis agreed by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

4. Investment Objectives

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

Within this framework, the Trustees are aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more short-term volatility in the Plan's funding position.
- The Trustees recognise 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 Trustees aim to ensure the asset allocation policy in place results in

an adequately diversified portfolio. Due to the nature of the Plan's investments, exposure to each asset class is obtained via pooled vehicles. The Trustees have implemented a bespoke pooled fund mandate with regards to the Liability Driven Investment ("LDI") and Buy and Maintain Credit allocation such that they could tailor the characteristics of this mandate to closely match the Plan's liabilities and meet the Trustees' objectives.

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

- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from all the investment managers.

- The safe custody of the Plan's assets is delegated to professional custodians (via the use of pooled vehicles).

Should there be a material change in the Plan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

The Trustees and the principal employer have discussed and agreed to put in place a number of de-risking triggers with the aim of reducing the allocation to return-seeking assets and increasing the allocation to risk-reducing assets when affordable by the Plan.

The Trustees in conjunction with the Plan Actuary and the Plan's investment managers will regularly monitor the Plan's funding level and upon reaching pre-defined triggers will then take action to implement appropriate de-risking step(s).

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 Trustees have appointed them for.

For active mandates, the Trustees look to their investment consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives. Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) each year.

Where the Trustees invest in traditional pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. However, in the case of the bespoke LDI and Credit mandate, the Trustees have greater control and flexibility over the investment guidelines of the Fund. As a result, the Trustees have sought to reduce risk by ensuring that this mandate tailored to the Plan's specific requirements.

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

The Trustees meet with the investment managers at least annually and can challenge decisions made including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The Trustees receive investment manager performance reports on a quarterly basis, which present performance measured over various time periods, including on a short-medium and long term basis. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis over a full market cycle. The Trustees' focus is on long term performance but may put a manager 'on watch' if there are short term performance concerns.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees.

The Trustees ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustees. The Trustees will engage with a 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. In the case of Fidelity, portfolio turnover is compared with consultant expectations based on historical data of the fund.

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 an investment manager 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.

6. Portfolio Construction

The Trustees will appoint one or more investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustees, after seeking appropriate investment advice, have determined an appropriate asset allocation. Each investment manager has been given specific directions as to the asset classes that they have responsibility for investing in subject to their respective benchmarks and asset guidelines, as directed by the Trustees.

The Trustees have decided to invest on a pooled fund basis. Any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.

7. Investment Strategy

Currently the Trustees have appointed Legal and General Investment Management Limited (LGIM) and Fidelity Investments (Fidelity) who are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

LGIM manages a portfolio of equities on a passive (index tracking) basis, as well as a bespoke pooled fund mandate consisting of LDI and Buy and Maintain Credit assets. Fidelity actively manages a Global Small Cap Equity fund.

It was agreed in March 2021, following advice from the investment consultant, that the Plan would target interest rate and inflation hedge ratios of 90% of the total liabilities, as valued on a gilts + 0.5% p.a. basis. The Liability Benchmark Portfolio provided to LGIM was calculated by the Plan Actuary and sets out the key characteristics of the Plan's liabilities. This mandate hedges interest rate and inflation risk but does not provide longevity hedging. The Trustees agreed to increase the hedge ratio gradually over time, with the target hedge ratio expected to be achieved in Q2 2021.

At a total Plan level, the investment strategy is as follows:

Fund	Plan Benchmark %	Control ranges %
Fidelity Select Global Small Cap Plus Fund	5.0	0.0 – 10.0
LGIM UK Equity Index	2.0	0.0 – 10.0
LGIM World (ex UK) Equity Index	26.0	16.0– 36.0
LGIM World Emerging Markets Equity Index	5.0	0.0 – 10.0
Total Equities	**38.0**	**28.0 – 48.0**
LGIM Bespoke Pooled Fund (LDI and Buy & Maintain Credit)	62.0	52.0 – 72.0
LGIM Cash	-	-
Total	**100.0**	**-**

Actual allocations will vary over time as a result of changing interest rate and inflation expectations changing the value of the LDI mandate in line with movements in the present value of the Plan's liabilities. The Trustees do not intend to always rebalance this allocation if the allocation deviates from the benchmark weight as rebalancing would change the level of collateral in the mandate and could result in a change to the interest rate and inflation hedge ratio being required. The Trustees will however keep the asset allocation under review and rebalance when they believe it is appropriate to do so. The tolerance ranges shown are for monitoring purposes only and do not represent automated rebalancing triggers.

In respect of the bespoke LDI and Credit mandate, the primary objective is to deliver the target level of interest rate and inflation hedging.

The credit allocation was restructured in Q4 2020 and Q1 2021 and now consists of a portfolio of investment grade credit assets with, on average, 11-13 years duration.

This mandate will be managed on a "buy and maintain" basis, and income and principal repayments from the bonds will be used to meet cashflows out of the Plan as and then they fall due.

The Plan's interest rate and inflation hedge ratios are managed by LGIM who have been given a specific mandate to maintain the hedge ratios in line with the target (subject to agreed tolerance ranged). LGIM will also monitor the level of collateral within the LDI mandate and will inform the Trustees if a top up is required. A process is in place to manage collateral requirements.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Plan, its cash flow requirements, the funding level of the Plan and the objectives of the Trustees.

LGIM

The Trustees have delegated the day to day management and investment decisions for the majority of the Plan's assets to LGIM, who invest the assets in pooled funds in line with the parameters stipulated in the relevant appointment documentation.

The equity pooled funds are index tracker funds in which the Trustees have decided to invest.

For the bespoke pooled fund, the day to day management of these assets will be in line with the Factsheet for the mandate, which sets out the investment guidelines and restrictions to which LGIM is expected to manage the assets.

The Trustees have taken steps to satisfy themselves that LGIM has the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

In adopting this approach the Trustees are satisfied that the portfolio is suitably diversified as regards asset class, geographic spread and the number of stocks held.

Details of the benchmarks of the funds invested in by the Plan are shown below.

Fund	**Benchmark applicable**
UK Equity Index Fund	FTSE All-Share Index
World (ex UK) Equity Index Fund	FTSE World (ex UK) Index
World Emerging Markets Equity Index Fund	FTSE Emerging Markets Index
Bespoke Pooled Fund (LDI and Buy & Maintain Credit)	To achieve the desired interest rate and inflation hedge ratios whilst delivering additional expected returns via the allocation to Buy and Maintain Credit
Cash Fund	7-Day LIBID

The objective of the LGIM pooled funds (with the exception of the Bespoke Pooled Fund) is to track their respective benchmarks. The table below provides details of the expected tracking error for each fund over the long term. The tracking errors shown give an indication of the expected divergence from the index. It is expected that returns will diverge from the benchmark index by less than the tracking error ranges shown in two years out of three.

Fund	**Expected Tracking Error (% p.a.)**
UK Equity Index Fund	±0.25
World (ex UK) Equity Index Fund	±0.5
World Emerging Markets Equity Index Fund	±1.5

Fidelity

The Plan holds one fund with Fidelity, whose benchmark is shown below.

Fund	**Benchmark Index**
Select Global Small Cap Plus Fund	MSCI AC World Small Cap Index

The fund seeks to provide excess returns relative to MSCI AC World Small Cap Index over the suggested minimum investment time period of five to seven years.

8. Investment restrictions

The Trustees have set out permitted instruments that LGIM are able to utilise within the Plan's Bespoke Pooled Fund. These are documented in the Factsheet for the mandate, dated February 2021 (as amended), and which construes the appointment documentation for the mandate.

For the Plan's other pooled fund investments the Trustees have not set any investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

9. Additional Assets

The Trustees hold assets which are separately invested from the main fund. Additional investments include assets secured by Additional Voluntary Contributions (AVCs) that members make individually with the Trustees. These policies are held with Standard Life Assurance Company. In addition, the Plan purchased annuity policies with Phoenix Life Plc, Friends Life Provident and Scottish Widows Plc to match part of the Plan liabilities.

10. Advisors and Fees

Advisors

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed Investment Managers.

The Trustees are not responsible for the appointment of custodians as the Plan's assets are contained within pooled fund investments. However, the Trustees are satisfied with the processes LGIM and Fidelity undertake when appointing and monitoring custodians for these investments.

Investment Consultant

Whilst the day-to-day management of the Plan's assets is delegated to Investment Managers, all other investment decisions including strategic asset allocation and selection and monitoring of Investment Managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

Actuary

The Actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The Actuarial valuation as at 5 April 2018 has been completed. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the employer's contributions. Samer Hafiz of Hymans Robertson is the appointed Scheme Actuary.

Fee Structures

The Investment Managers are remunerated on an asset-based fee basis (see below). The Scheme Actuary and the Investment Consultant are remunerated on a time/cost or project-based fee basis.

The annual management charges for each of the investment strategies managed by the Plan's investment managers are as outlined below:

LGIM Bespoke Pooled Fund (LDI and Buy & Maintain Credit)

0.105% per annum

LGIM UK Equity Index Fund

0.045% per annum

LGIM World (ex UK) Equity Index Fund

0.080% per annum

LGIM World Emerging Markets Equity Index Fund

0.019% per annum

LGIM Cash Fund

0.090% per annum

Fidelity Select Global Small Cap Plus Fund

0.90% per annum

11. Realisation of Investments

The Trustees recognise 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 (either through the sale of direct holdings of stocks, bonds etc., or the sale of units in pooled funds).

The Plan's investment managers have discretion in the timing of realising the underlying investments within the pooled funds and in considerations relating to the liquidity of those investments, all within parameters stipulated in the relevant appointment documentation.

12. ESG, Stewardship, and Climate Change

The Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising 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 will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The strategic rationale of different asset classes that help the Trustees to achieve the Plan's investment objectives and constraints remains the primary driver behind the Plan's investment strategy. However, within this context, the Trustees are increasingly considering how ESG, climate change and stewardship issues are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

Member views are not explicitly taken into account in the selection, retention and realisation of investments.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

13. Corporate Governance

The Trustees believe that the Plan's investment managers should retain discretion when exercising voting rights but policy and actions should be subject to periodic review, by the Trustees. It is expected that each investment manager will update the Trustees on any changes to their corporate governance policy.

14. Compliance with this Statement

The Trustees monitor compliance with this Statement annually. The investment managers will notify the Trustees promptly of any breach of its investment management responsibilities as set out in their respective investment management agreements and in the Statement. The Trustees shall provide the investment managers with the Statement from time to time to enable them to seek to discharge their responsibilities pursuant to Sections 35 and 36 of the Act.

15. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. This review will occur no less frequently than every three years to coincide with the Actuarial valuation or other actuarial advice. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. Again, the Principal Employer will be consulted.

Approved by the Trustees of the Air Products Plc Pension Plan as at March 2021