Yara UK Pension Fund (“the Fund”)

Annual Engagement Policy Implementation Statement for the Year Ended to 5 April 2023

1. Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (‘SIP’) produced by the Trustees has been followed during the year to 5 April 2023 (the “Fund Year”). This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2019 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP that were in place over the Fund Year: the SIP dated May 2021 (covering the period between 5 April 2022 and 31 August 2022) and the SIP dated September 2022 (covering the period between 1 September 2022 and 5 April 2023).

Sections 2.1 and 2.2 of this statement set out the investment objectives of the Fund and changes that have been made to the SIP during the Fund Year, respectively.

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers of the Fund, and sets out how the Fund’s engagement and voting policy has been followed during the Fund Year. **The Trustees can confirm that all policies in the SIP have been followed during the Fund Year.**

2. Statement of Investment Principles

2.1. Investment Objectives of the Fund

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Fund included in the SIP that was in place the end of the Fund Year are as follows:

- To maintain a full funding position on a low-risk actuarial basis (gilts +0.50%) and further strengthen the solvency funding position.
- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due, with a focus on matching short-term expected cashflow requirements with cashflows received through the Fund's investments or Company contributions;
- To consider the interests of the Company in relation to the size and volatility of contribution requirements; and
- To look to reduce investment risk to a level consistent with the gilts +0.50% actuarial basis or lower as the Fund matures and the funding position relative to this basis improves.

Given the profile of the liabilities, the Trustees' investment time horizon is long term. However, it is recognised that any transfer of liabilities to an insurer could reduce this time horizon significantly.

The Trustees understand, following discussions with the Company, that it is willing to accept some degree of volatility in the contribution requirements in order to reduce the expected long-term cost of the Fund's benefits.

2.2. Review of the SIP

The Trustees reviewed and updated the SIP in September 2022 following strategic changes to the investment strategy taking formal advice from their Investment Consultant (Mercer Limited ("Mercer")). The strategic changes reflected a risk reduction in the investment portfolio over the course of 2022. Implementation of the strategic changes involves disinvesting from the growth assets (comprising of equities, multi-asset credit and long lease property) and investing the proceeds into the matching portfolio (comprised of corporate bonds and government bonds). Over the year to 5 April 2023, numerous transactions were successfully carried out, which resulted in a fully de-risked portfolio as at the end of the Fund Year, the SIP was reviewed and updated in May 2023 to reflect the fully de-risked strategy.

3. Policy on ESG, Stewardship and Climate Change

The Fund's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. A copy of the latest SIP can be found here:

https://www.yara.co.uk/contentassets/3feb031fcb7642b0a89319e73694adb5/yara-uk-pension-fund-sip-2022-09.pdf/

The following work was undertaken during the Fund Year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

- Through their investment consultant, the Trustees reviewed the mandates of Legal and General Investment Management ("LGIM") and Mercer (together the "Investment Managers") in relation to ESG factors, including climate change. This was carried out primarily through the investment consultant's ESG ratings, which are detailed in quarterly investment reports, ad-hoc communications and investment updates.

- Throughout the Fund Year, LGIM has continued to maintain a high rating in respect to the long lease property (fully redeemed in November 2022) and buy and maintain credit, reflecting their ESG and engagement activity. The investment consultant believes LGIM leads other passive managers on engagement across ESG topics, including collaboration at a company, industry and regulatory level.

- Whilst the investment consultant does not formally rate the Mercer funds, the investment managers appointed by Mercer to manage these funds are expected to evaluate and engage on ESG factors, including climate change. Mercer review ESG ratings of the underlying investment managers of their funds during quarterly monitoring processes, with a more comprehensive review performed annually. The underlying managers carry a rating at least in line with their peer group average. Over the course of the year, the Trustees have reviewed the strategic allocation and have fully de-risked from Mercer funds.

- The LGIM Liability Driven Investment (‘LDI’) mandate, which is primarily invested in derivatives and bonds issued by the UK government, is not rated due to the limited scope for ESG integration.

- The Investment Managers confirmed that they are signatories of the UK Stewardship Code 2020 that took effect on 1 January 2020.

- Over the one year period to 5 April 2023, the Trustees did not set any investment restrictions on the appointed investment managers in relation to particular products or activities.

The Trustees and Mercer also received details of relevant engagement activity for the year from the Fund’s investment managers, at a firm and fund level, as part of regular reporting and presentations. These are set out in further detail below.

LGIM:

- In 2022, LGIM strategically defined its long-term objectives to target a broad range of ESG objectives. These include:
    - Reaching net-zero greenhouse gas emissions by 2050 or sooner across all assets under management;
    - Setting an interim target of 70% of eligible Assets Under Management to be managed in alignment with this net-zero ambition by 2030;
    - Achieving net-zero carbon across our real estate portfolio by 2050.

- In 2022, LGIM’s campaigns involved expanding its work on diversity to emerging markets, efforts to tackle commodity-driven deforestation and fighting for equal voting rights, particularly in the US.

- LGIM engaged with companies over the year on a wide range of different ESG related topics, including environmental issues such as deforestation, climate change, energy and water related themes, as well as social issues such as gender diversity, public health, inequality, human rights, labour standards and ethnic diversity and governance related topics such as remuneration, shareholders rights, and board composition.

  An example of engagement conducted by **LGIM** is listed below:

    - LGIM engaged with Kansai Electric Power on governance and climate related issues. Kansai Electric Power is one of the largest electric utilities companies in Japan. LGIM identified several governance areas for improvement and the company appears to lag some of LGIM’s minimum expectations on board composition. The manager believes that through its improvement, it could have a positive influence more broadly upon its sector in Japan.
      Following a bribery scandal in 2020 involving former directors, the company underwent significant changes to improve governance. These changes have been positive but LGIM still observed some areas where they thinks improvements could be made relative to the minimum expectations. Specifically, these included director independence and the presence of executives on committee which LGIM thinks should be fully

independent (e.g. the Remuneration Committee), cross shareholdings and limits to tenure of senior advisors to the board. The manager was pleased to note that the company was meeting their expectations for gender diversity in Japan (15% female representation in the board), which is also expected to increase over time. Regarding climate change and LGIM's expectations under the Climate Impact Pledge, it was noted its lack of interim emissions targets and lack of time-bound commitment to exit coal-fired power generation as an area for discussion.

Mercer:

- Mercer's consideration for ESG factors is applied across asset classes and to all mandates, where relevant, not just to funds labelled "sustainable investments" and Mercer's position is to always highlight sustainability considerations. Mercer acknowledge that the degree of relevance, or materiality, may vary across asset classes and client preferences, which will also inform the degree of integration. Since last year, Mercer has reported the following progress:

  - Annual survey undertaken with managers (on a global scale) on their engagement approach together with their views on priority themes, this year conducted on a global scale for the first time;

  - Survey results were used to populate newly developed engagement dashboard which will help guide portfolio managers' engagement activity with managers on their stewardship approaches with the view of positively influence these over time;

  - Engagement trackers have been implemented to better capture, monitor and communicate Mercer's ongoing engagement activity, both at a manager level and underlying company level; and

  - Conducted their inaugural client engagement survey to gather valuable insight in to Mercer clients' priorities and ensure alignment between approaches.

- Mercer engages with managers when these are not meeting the minimum expectation on engagements across Mercer's priority topics - portfolio management teams will raise this with the managers during the year with a view to positively influence their stewardship practices. Mercer has committed to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and relevant multi-client, multi-asset funds domiciled in Ireland. To achieve this, Mercer plans to reduced portfolio relative carbon emissions by at least 45% from 2019 baseline levels by 2030.

- Mercer managed a global equity mandate for the Fund until December 2022, when the mandate was terminated. This fund is managed as a fund of funds and as such, engagement with underlying companies is undertaken by the appointed sub-investment managers. In addition, Mercer provides monitoring and reporting on these engagements given the nature of the asset class. Mercer recently sent out its annual manager engagement survey, which aims to assess managers' engagement activities, both at a general and thematic level which includes a focus on Mercer's key priority engagement areas relating to climate change, human rights and labor practices, diversity, equity and inclusion.

  Examples of engagements conducted by **some underlying managers** are listed below:

  - **Irish Life Investment Managers** ('ILIM') engaged with Garmin on labour practices and human rights related issues, specifically on supply chain to demonstrate that it conducts audits of its suppliers. ILIM noted that the company performs risk assessment on suppliers but did not perform onsite audits. It was also noted to the company that peers provide more information on the topic and provide the results of the audits as part of their sustainability report. The company mentioned that all the information discussed would be reported to their CEO and would be taken into consideration to inform next steps on their sustainability journey.

- **ILIM** also engaged with MOL Hungarian Oil & Gas Plc on diversity related issues, mainly to assess if there was lack of gender diversity on the board of directors. The main objective of this engagement was to set specific KPIs and milestones related to increase the gender diversity on the board. ILIM voted against (and in line with the custom policy) the election of an incumbent male director. ILIM has contacted the company in order to initiate an engagement regarding the lack of diversity and has open communication with the company in order to discuss the lack of gender diversity, as well as other governance issues that have been identified.

- Mercer also managed a **Multi-Asset Credit** mandate for the Fund which was fully disinvested on March 2023. This fund is also managed as a fund of fund and engagement with underlying companies is undertaken by the appointed sub-investment managers.

  Example of an engagement conducted by **an underlying manager** is listed below:

  - **CQS** engaged with a non-disclosed fashion group on social related issues. CQS noted that there was a lack of disclosures from a fashion group around labour standard audits, chemical safety certifications and there had been some negative publicity around the company. CQS analysts raised questions on a group investor call with the management on their ESG policies, specifically on setting and tracking labour policy targets, and raised concerns around the company's plan to move operations to higher-risk Asian countries. CQS reduced their ESG rating of the company until further information on their labour strategy and long term target tracking is made available.

4. Voting Activity during the Fund Year

The Trustees have delegated their voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case votes are cast on behalf of the pooled fund not the Trustees, who do not own underlying assets directly). As a result, the Trustees do not use the direct services of a proxy voter, although the investment managers may employ the services of proxy voters in exercising their voting rights on behalf of the Trustees. Investment managers are expected to provide voting summary reporting on at least an annual basis.

This section sets out a summary of voting activity and the "most significant" votes cast in respect of holdings in the pooled funds for which voting is possible (i.e. all funds which include equity holdings) as defined by the Trustees.

The Trustees stewardship priorities are as follows:

- **Human rights:** modern slavery, pay & safety in workforce and supply chains and abuses in conflict zones.

- **Diversity, Equity and Inclusion (DEI):** inclusive & diverse decision making.

To be deemed a "most significant" vote, a vote must be in relation to one of the Trustees stewardship priorities as well as be in respect of a holding that makes up 3% or more of the investment fund. The Trustees did not inform managers of what they considered to be the most significant votes in advance of voting.

We note that the LGIM LDI funds consist of UK government bonds. As such voting is not relevant and engagement activities are not significant. Also, LGIM Buy and Maintain and Mercer Multi-Asset Credit are fixed income mandates and therefore the underlying assets do not have voting rights. Voting is also not relevant for LGIM Long Lease Property.

In light of the above, Mercer has been asked to confirm key voting activity on behalf of the Trustees related to the Mercer Passive Global Equity Fund, over the year to 31 March 2023, and have responded as follows.

Mercer – Passive Global Equity Fund

The Trustees investments in Mercer Passive Global Equity Fund took the form of shares or units in the underlying Mercer Funds. Any voting rights that apply with respect to the underlying investments attached to the Mercer Funds are ultimately delegated to the third party investment manager appointed by Mercer. Mercer accepts that the investment managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled the manager to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

A summary of the voting undertaken over the year to 31 March 2023 is provided below.

- The underlying managers were eligible to vote in a total of 19,126 proposals; 96% of all eligible proposals over the period were actioned. A small portion (c. 4.0%) of votes were not actioned, those of which largely relate to circumstances where managers explicitly opted not to vote a meeting, for example where conflicts of interest could be present.
- In around 85% of voted proposals, the underlying investment managers indicated their support to the companies' managements, while voting against in around 15% of the proposals.

The Trustees view the following votes cast by the Mercer Passive Global Equity Fund's underlying managers as the most significant. Next steps/plans to escalate were not provided by the investment manager.

Holding details	Resolution details	How the manager voted	Reason for manager's vote	Outcome of the vote (% Shareholder Support)	Why vote is significant
Company name: **Alphabet Inc** Approximate size of holding as at date of the vote: c. 3%	Summary of resolution: Shareholder Proposal Regarding Human Rights Impact Assessment Report Date of vote: 01/06/2022	For	A vote FOR this proposal is warranted because an independent human rights assessment would help shareholders better evaluate the company's management of risks related to the human rights impacts of	Did not pass with 23% votes for.	The Trustees have deemed votes related to **Human Rights** and the approximate size of the holding at more than 3% to be a significant vote.

			disinformation and misinformation.		
Company name: **Apple Inc** Approximate size of holding as at date of the vote: c. 5%	Summary of resolution: Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report Date of vote: 10/03/2023	For	A vote FOR this proposal is warranted, as shareholders could benefit from the median pay gap statistics that would allow them to compare and measure the progress of the company's diversity and inclusion initiatives.	Did not pass with 33% votes for.	The Trustees have deemed votes related to **Human Rights** and the approximate size of the holding at more than 3% to be a significant vote.
Company name: **Microsoft Corporation** Approximate size of holding as at date of the vote: c. 4%	Summary of resolution: Shareholder Proposal Regarding Report on Hiring Practices Date of vote: 13/12/2022	For	A vote FOR this proposal is warranted because additional information could help shareholders better understand how the company is assessing and managing the progress of its various diversity and inclusion initiatives.	Did not pass with 11% votes for.	The Trustees have deemed votes related to **Diversity, Equity and Inclusion (DEI):** and the approximate size of the holding at more than 3% to be a significant vote.