

# Yara UK Pension Fund

## Statement of Investment Principles – May 2023 (Replaces September 2022)

### 1. Introduction

The Trustees of the Yara UK Pension Fund (“the Fund”) 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 and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Fund’s investments. A separate document detailing the specifics of the Fund’s investment arrangements, the Investment Policy Implementation Document (“IPID”), has also been drawn up and is available on request to members.

In preparing this Statement the Trustees have consulted Yara UK Limited (“the Company”) to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Fund’s investment arrangements. Given there is a parent company guarantee in place, the Trustees have also consulted with Yara International ASA on the Fund’s investment policy. The Trustees have also received and considered written advice from Mercer Limited (“the Investment Consultant”), which is regulated by the Financial Conduct Authority (“FCA”) in relation to investment services.

### 2. Process For Choosing Investments

The process that the Trustees have adopted for choosing investments is as follows:

- Identify appropriate investment objectives and how they interact with the Trustees’ funding 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 the targeted level of risk (taking into account limitations on the overall complexity and governance requirements of their investment arrangements).

In doing so the Trustees take into account what they believe to be financially material considerations, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Fund over the Trustees’ investment time horizon. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Fund the Trustees obtained and considered the written advice from the Investment Consultant and the Trustees believe the Investment Consultant meets the requirement of Section 35 (5) of the Pensions Act 1995 (as amended). 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. Investment Objectives**

The investment objectives set out here are those that the Trustees determine to be financially material considerations in relation to the Fund.

The Trustees are required to invest the Fund's assets in the best interest of the members, beneficiaries and the Company and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

Within this context the Trustees' primary objective is to ensure that sufficient assets are available to pay out member's benefits as and when they arise. The Trustees have set an investment policy consistent with this objective that aims to:

- a) maintain a full funding position on a low-risk actuarial basis (gilts +0.50%) and the Actuary's estimate of the solvency funding position. In exceptional circumstances the Trustees, with Actuarial support, may flex this;
- b) 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;
- c) to consider the interests of the Company in relation to the size and volatility of contribution requirements; and
- d) 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.

### **4. Risk Management and Measurement**

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is set out below. The Trustees believe these to be financially material considerations over their investment time horizon. The Trustees are aware of and pay close attention to these risks when investing the assets of the Fund.

The primary investment risk faced by the Fund arises as a result of a mismatch between the Fund's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy. The key strategic investment risks inherent in the current investment strategy are as follows:

- i. Credit risk:
  - Is the risk that one party to a financial instrument will cause a financial loss to the Fund by failing to discharge an obligation.
  - Is measured by periodic asset-liability modelling, in particular, Value-at-Risk ("VaR") which quantifies the potential losses to the Fund, including those arising from credit losses.

Is managed by investing predominantly in government bonds and corporate bonds with an investment grade credit rating, and diversifying credit risk across issuers.

ii. Market risk:

- Is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.
- Is also measured by periodic asset-liability modelling which quantifies the potential losses to the Fund, including those arising from changes in market prices.
- It is managed by investing in a diversified portfolio of assets and return drivers and reducing the possibility of becoming a forced seller of assets, which could result in the crystallisation of a loss, through aiming to match short-term expected cashflow requirements with investment income.

iii. Interest rate and inflation risk:

- Is the risk that changes in the value of the assets do not move in line with changes in the value placed on the Fund's liabilities in response to changes in interest rates and inflation.
- Is measured by the level of interest rate and inflation sensitivity that is unhedged by the Fund's assets.
- Is managed by investing in Liability Driven Investment ("LDI") assets which seek to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation.

iv. Manager Risk:

- Is the risk that the Fund's investment manager underperforms its target returns or invests out of line versus expectations.
- Is measured by the expected deviation of the prospective risk and return, as set out in the investment manager's objectives, relative to the investment policy.
- Is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the investment manager's investment process. The Trustees invest all of the Fund's assets in passive funds hence minimising the risk of large deviations from benchmark. The documents governing the manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The investment manager is prevented from investing in asset classes outside their mandates without the Trustees' prior consent.

v. Liquidity Risk:

- Is the risk that the Fund does not have sufficient liquid assets to meet payments.
- Is measured by a comparison of asset liquidity versus cashflow requirements.
- Is managed by aiming to match short-term expected cashflow requirements with investment income and maintaining a high proportion of the Fund assets in liquid investments (typically realisable within a week).

The Trustees also consider Sponsor Risk. This is the risk that the Fund Sponsor does not pay the financial obligations due to the Fund. It is measured by the level of ability and willingness of the Sponsor to support the continuation of the Fund and to make good any current or future deficit. This risk is managed by regular updates from the Sponsor and assessing the interaction between the Fund 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 a number of metrics reflecting the financial strength of the Sponsor. In addition, a financial guarantee is in place between the Fund and the parent company of the Sponsor, Yara International ASA.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 12.

To manage these investment risks, the Trustees have also set the following policy:

- 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 Fund's liabilities as well as producing more short-term volatility in the Fund's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.
- 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 size of the Fund's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes and sectors. The Trustees further believe that the current investment strategy is appropriate given the parent company guarantee currently in place and the Fund's liability profile.
- The safe custody of the Fund's assets is delegated to professional custodians via the use of pooled vehicles.

The Trustees have considered this policy when setting the investment strategy set out in Section 6 and review the appropriateness of this strategy on a regular basis taking into account funding and covenant considerations. Should there be a material change in the Fund'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.

## **5. Portfolio Construction**

The Trustees have adopted the following principles in structuring the Fund's investments subject to the overriding constraint that at the total Fund level the expected level of risk is consistent with the investment objectives.

The Trustees have appointed one investment manager to manage the Fund's assets. Details of the investment manager are set out in Section 8. Liability driven investments ("LDI") are passively managed because:

- passive management is generally a lower risk strategy in these asset classes and the likelihood of active management consistently achieving outperformance after fees in these particular markets is viewed as limited;

- ongoing monitoring requirements and management fees are significantly lower for passive management than for active management.

In addition, the corporate bond assets are managed on a “buy and maintain” basis. This is because:

- There are considered to be inherent flaws in investment grade corporate bond indices, and buy and the maintain corporate bond manager is expected to deliver superior risk-adjusted returns by avoiding low yielding, government-related corporate bonds and minimising portfolio turnover.

## 6. Investment Strategy

Given the investment objectives the Trustees have implemented the investment strategy detailed in the table below. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

<b>Asset Class</b>	<b>Benchmark Allocation (%)</b>
<b>Matching Assets</b>	<b>100.0</b>
LDI	70.0
Corporate Bonds	30.0
<b>Total</b>	<b>100.0</b>

The Trustees will monitor the overall asset allocation on a regular basis. Any breach of the allocation ranges above will trigger a discussion and potentially rebalancing towards the benchmark position.

Through the use of the LDI portfolio the Trustees target a 100% interest rate and 100% inflation hedge relative to gilts+0.50% basis liabilities. Responsibility to monitor and maintain the target level of hedging has been delegated to LGIM.

## 7. Expected Return

The Trustees expect to generate a return that is broadly consistent with their investment objective to maintain full funding on the solvency basis..

The Trustees recognise that over the short term performance may deviate significantly from this expectation.

## 8. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to the professional investment manager. The Trustees have taken steps to satisfy themselves that the investment manager has the appropriate knowledge and experience for managing the Fund’s investments and is carrying out its work competently. Further detail on the investment manager is set out in the IPID.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which the appointed investment manager may operate.

The Trustees regularly review the continuing suitability of the Fund’s investments, including the appointed investment manager and the balance between active and passive management,

which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring consistency with this Statement.

Section 12 sets out how the Trustees incentivise the investment manager, where applicable, to operate in line with the Trustees' objectives.

## **9. Selection, Retention and Realisation of Investments**

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Fund's overall strategic allocation and consistent with the overall principles set out in this Statement. The Trustees' policy for portfolio construction ensures sufficient assets are held in readily available assets and the Trustees have set a cashflow policy to be followed when realising investments for cashflow purposes which is set out in the IPID.

Within individual mandates, the investment manager have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

## **10. ESG, Stewardship (including Engagement Activities) and Climate Change**

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment risk and returns and that good stewardship can create and preserve value for companies as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that may apply over their investment time horizon and increasingly require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Fund's assets are invested in pooled vehicles and the day-to-day management of the assets has been delegated to the investment manager including the selection, retention and realisation of investments within their mandates. In doing so, the Trustees have given the investment manager (where relevant to their mandate) full discretion when evaluating ESG issues, including climate change considerations. In addition they have delegated to the investment manager engagement with companies and stewardship obligations attached to the Fund's investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. This applies to debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Trustees engage with the investment manager on these issues through (amongst other things) meetings and periodic correspondence and will monitor investment manager engagement activity at least annually. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Notwithstanding the above, the Trustees recognise that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the investment manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustees accept that the primary role

of its passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which the current strategy has been set.

The Trustees consider, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of existing manager is undertaken on a regular basis and this makes use of the Investment Consultant's ESG ratings. This is documented at least annually and the Trustees are informed of any changes to ESG ratings usually on a quarterly basis.

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 the future.

The Trustees will not consider the ESG policies of Additional Voluntary Contributions providers as these are a small proportion of total assets.

## **11. Non-Financial Matters and Risks**

The Trustees take into consideration non-financial matters when assessing the overall investment strategy and managers, for example, they consider the level of diversity across the workforce at the investment managers when appointing, retaining and withdrawing from them. Members views on "non-financial matters" (where non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees would review this policy in response to significant member demand.

## **12. Investment Manager Arrangements**

### *Aligning Investment Manager Objectives and Incentivisation*

The investment manager has been appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon.

The Trustees seek expert advice in relation to this appointment. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

The Trustees invest in multi-investor pooled investment vehicles and accept that they have little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustees' own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can be terminated at short notice.

Retention is dependent upon the Trustees having ongoing confidence that the investment manager will achieve its investment objective. The Trustees make this assessment taking into

account various factors which includes performance to date as well as an assessment of future prospects.

Investment manager is therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees' policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages the investment manager to take a suitably long term view when assessing the performance prospects of, and engaging with, the debt issuers in which they invest or seek to invest.

#### *Performance Assessment & Fees*

The Trustees receive reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment manager.

Investment returns (and volatility) are measured on an absolute basis and considered relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.

As well as assessing investment returns the Trustees will consider a range of other factors, with the assistance of their investment consultant, when assessing the investment manager, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Engagement activity;
- Service standards;
- Operational controls; and
- The investment consultant's assessment of ongoing prospects based on their research ratings.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment (in full), by achieving its objectives, in order to continue to receive the associated fee. The Trustees will consider any performance related fees on a case by case basis and would also consider requesting fee reductions. The investment manager is not remunerated based on portfolio turnover.

#### *Portfolio Turnover Costs*

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustees have not historically monitored the investment manager's ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees will seek explicit reporting on ongoing costs for the appointed manager.

The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via their investment consultant.

**13. Additional Voluntary Contributions (“AVCs”)**

There are no longer any members with AVCs in the Fund.

**14. Custodian and 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 manager.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that the investment manager has procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

*Actuary*

Damien Kelson of AON is the appointed Scheme Actuary.

The actuary performs a valuation of the Fund at least every three years, in accordance with regulatory requirements. The date of the last Actuarial Valuation is 5 April 2020.

*Investment Consultant*

Whilst the day-to-day management of the Fund’s assets is delegated to an investment manager, 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 (“Mercer”) has been appointed for this purpose.

For the investment with Mercer, the Trustees have delegated the selection, appointment, removal and monitoring of the underlying investment managers to Mercer.

**15. Fee Structures**

The investment manager is paid a management fee on the basis of assets under management.

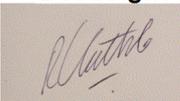
The Scheme Actuary and Investment Consultant typically work on the basis of fixed fees which are agreed in advance by the Trustees.

**16. Compliance with this Statement**

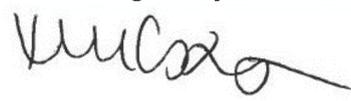
The Trustees monitor compliance with this Statement annually and obtain written confirmation from the investment manager that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment manager has done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

**17. 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. 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.

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Trustee

Date 15 May 2023

**The Trustees of the Yara UK Pension Fund**