Yara UK Pension Fund (“the Fund”)

Annual Engagement Policy Implementation Statement for the Year Ended to 5 April 2022

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 2022 (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 1 May 2021 and 31 December 2021) and the SIP dated January 2022 (covering the period between 1 January 2022 and 5 April 2022).

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 Trustee can confirm that all policies in the SIP on investment rights (including voting) and engagement 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 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 last reviewed the SIP in May 2021 and January 2022 following strategic changes to the investment strategy taking formal advice from their Investment Consultant (Mercer Limited ("Mercer")). The strategic changes are intended to reduce risk 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). Before the end of the Fund Year the first tranche of transitions had commenced, however the implementation will take place in a number of phases throughout 2022.

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.

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.

- Throughout the Fund Year, LGIM has continued to maintain a high rating in respect of the passive equity (fully redeemed in March 2022) and long lease property investments, 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.

- 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.

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

LGIM:

- LGIM engaged with companies over the year on a wide range of different issues including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).

- In 2021, LGIM participated in industry-wide assessments of their engagement and stewardship processes and were nominated by various industry bodies (such as the UN-backed Principles for Responsible Investment ('UN PRI') and International Corporate Governance Network ('ICGN')) for their:

    - Engagement activities disclosure;
    - Market-wide involvement in lobbying activities; and
    - Strong implementation of ESG and corporate governance matters into stewardship activities.

- In line with its longstanding commitment to sustainability and inclusive capitalism, in 2021, LGIM kept climate change as one of its six strategic priorities.

- Throughout the year, LGIM continued to support its parent company in decarbonising the assets on its balance sheet. Moreover, on the fifth anniversary of the Paris Agreement, LGIM was a founding member of the Net Zero Asset Managers Initiative, under which LGIM pledged to work in partnership with their clients to set decarbonisation goals for the clients' portfolios. Additionally, LGIM's parent company has pledged to align its business with the 1.5ºC temperature goal of the Paris Agreement and LGIM has set a net zero AUM target of 70% by 2030 (excluding government securities and derivative assets due to lack of clear industry methodologies to account for these asset classes at the time of writing this statement).

- LGIM provided examples of instances where they had engaged with companies which they were invested in (or were about to invest in) which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that LGIM invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. When one-to-one engagement does not yield results, LGIM seeks to escalate engagement through collaborating with other institutional investors directly, or via investor networks, to amass voting power. LGIM have a number of escalation options at their disposal, from voting sanctions through to divestment from securities of an unresponsive company.

Mercer:

- Mercer produce an annual Stewardship Monitoring Report. The report provides summary reporting on engagement activities undertaken by managers to capture the level of disclosure and examples given by the managers for insights into where the manager has exchanged views with companies on a range of strategic and governance issues, together with environmental and social topics. The most recent report covers the period 1 January 2021 to 31 December 2021.

- The Trustees' investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are ultimately delegated to the third party investment managers appointed by Mercer Global Investments Europe ("MGIE"). As part of the monitoring of managers' approaches to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur.

- 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;

    - 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.

- As an overarching principle, Mercer prefer an approach of positive engagement (for example, integration and engagement-based approach) rather than divestment. However, Mercer recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate. Controversial and civilian weapons, nuclear weapons, auto civilian firearms and tobacco are excluded from active equity and fixed income funds, including the Multi-Asset Credit Fund. Mercer has also expanded exclusions for those that have at least 1% revenue capitalisation on artic drilling, thermal coal mining or oil sands. In mid 2022, Mercer will be expanding exclusions to further promote environmental and social characteristics across the majority of their multi-client building block funds.

- In 2021, gender diversity statistics have been included in the reporting for the Mercer equity funds and this is being built into a broader investment policy. Diversity, equity & inclusion is an engagement priority of Mercer, both at sub-investment management team level and at underlying investee company board level. Mercer also conducted an initial assessment of their own investment team's diversity statistics during 2021, and reported that they were already ahead of the 30 by 30 objective (which stands for 30% non-male population by 2030, with long term target being 50%), both at Mercer Global Investments Europe Limited level (38%) and Mercer Investment Solutions International level (33%). Mercer also analysed the portfolio management team line ups of the multi-client funds versus their peer universe and the 30 by 30 target.

- Mercer has committed to target net zero absolute carbon emissions across a large selection of their multi-client funds, including a 45% reduction commitment (at least and from 2019 baseline levels) by 2030.

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. Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible (i.e. all funds which include equity holdings) in which the Fund's assets are ultimately invested.

In light of the above, each manager has been asked to confirm key voting activity on behalf of the Trustees (or in relation to the pooled funds in which the Trustees invest), over the year to 31 March 2022, and have responded as follows.

<table>
<tr><th rowspan="2">Manager / Fund</th><th rowspan="2">Proxy voter used?</th><th colspan="3">Votes cast</th><th rowspan="2">Most significant votes (description)</th><th rowspan="2">Significant vote examples</th></tr>
<tr><th>Votes in Total</th><th>Votes Against</th><th>Abstentions</th></tr>
<tr><td>LGIM
UK Equity Index</td><td rowspan="5">LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares.
All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.
To ensure their proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.</td><td>10,810</td><td>749</td><td>0</td><td rowspan="5">In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:
• High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
• Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
• Sanction vote as a result of a direct or collaborative engagement;</td><td>The Sage Group Plc – Voted 'against' the re-election of Director Drummond Hall at the company's annual general meeting. LGIM voted against the resolution because of lack of progress on gender diversity on the board as LGIM expects boards to have at least one-third female representation on the board.</td></tr>
<tr><td>LGIM
North America Equity Index</td><td rowspan="2">8,160</td><td rowspan="2">2,408</td><td rowspan="2">5</td><td rowspan="2">Apple Inc. – Voted 'for' the report on civil rights audit as LGIM supports proposals related to diversity and inclusion policies and consider these issues to be a material risk to the company.</td></tr>
<tr><td>LGIM
North America Equity Index – GPB hedged</td></tr>
<tr><td>LGIM
Europe (ex UK) Equity Index</td><td rowspan="2">9,428</td><td rowspan="2">1,613</td><td rowspan="2">66</td><td rowspan="2">Volkswagen AG– Voted 'against' the annual formal discharge of the management board and supervisory board. Whilst LGIM notes the progress made by the company in its strategy towards the transition to a lower emission world, LGIM remains concerned regarding the handling of the diesel emissions scandal of 2015 by the management and supervisory boards</td></tr>
<tr><td>LGIM
Europe (ex UK) Equity Index – GBP hedged</td></tr>
</table>

					• Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.	and the overall governance structure of the company. In particular, LGIM notes a lack of transparency regarding the handling of the crisis, including any lessons learnt by the boards, how sufficient internal control mechanisms have been put in place, and any progress made around improvement of corporate culture.
LGIM Japan Equity Index **LGIM** Japan Equity Index – GBP hedged		6,109	815	1		***Mitsubishi UFJ Financial Group, Inc. –*** Voted 'for' the amendment articles to disclose plan outlining company's business strategy to align investments with goals of Paris Agreement as LGIM expects companies to be taking sufficient action on the key issue of climate change. While they positively note the company's announcements around net-zero targets and exclusion policies, LGIM thinks that these commitments could be further strengthened and believes the shareholder proposal provides a good directional push.
LGIM Asia Pacific (ex Japan) Dev Equity Index **LGIM** Asia Pacific (ex Japan) Dev Equity Index – GBP hedged		3,456	911	8		***Hyundai Motor Co., Ltd –*** Voted 'against' the election of Jeong Ui-seon as inside Director as LGIM expects roles of Board Chair and CEO to be separate. These two roles are substantially different and a division of responsibilities ensures there is a proper balance of authority and responsibility on the board.
LGIM World Emerging Markets Equity Index		34,169	5,710	745		***China Construction Bank Corporation –*** Voted against' the report of the Board of Directors as the company is deemed to not meet minimum standards with regards to climate risk management and disclosure.
Mercer Global Investments Europe Limited (MGIE)	MGIE accepts that managers may have detailed knowledge of both	20,410	1,837	0	Mercer Investment Solutions has based its definition of significant votes on its Global	***Microsoft Corporation –*** *Voted 'for' shareholder proposal regarding*

Passive Global Global Equity CCF	the governance and the operations of the investee companies and has therefore enabled managers 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. Majority of managers use a proxy advisor (85%), with two key players dominating this space, namely ISS and Glass Lewis.				Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. In order to capture this in the monitoring and reporting of managers voting activities, significant votes that highlight shareholder proposals with specific focus on Mercer's engagement priority areas, while taking into account the size of holding across the funds. Examples of definitions of significant votes used by managers, based on survey responses include: • Any vote cast against management; • Determined by market opinion, media scrutiny or an internal view, such as where they have opposed to the financial statements; • Based on a focus list of companies; • On companies with poor governance scores.	*median gender and racial pay equity report.* ***Alphabet Inc.*** *– Voted 'for' the shareholder proposal regarding human rights and civil rights expertise on Board.* ***Tesla Inc****. – Voted 'for' the shareholder proposal regarding diversity and inclusion report.*