Yara UK Pension Fund

Statement of Investment Principles – February 2024 (Replaces May 2023)

1. Introduction

The Trustee Directors (“the Trustee”) 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.

In preparing this Statement the Trustee has consulted Yara UK Limited (“the Company”) to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Fund’s investment arrangements. The Trustee has 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 Trustee has adopted for choosing investments is as follows:

- Identify appropriate investment objectives and how they interact with the Trustee’s 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 Trustee takes into account what it believes 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 Trustee’s investment time horizon. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Fund the Trustee has obtained and considered the written advice from the Investment Consultant and the Trustee believes 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 Trustee’s 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 Trustee determines to be financially material considerations in relation to the Fund.

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

a) ensure that sufficient liquid assets are available to meet benefit payments and expenses as they fall due, with a focus on matching expected cashflow requirements with cashflows received through the Fund's investments;

b) preserve the value of the residual assets.

To this end, the Trustee purchased a buy-in policy with Aviva Life & Pensions UK Limited ("Aviva") in December 2023, securing the Fund's full liabilities. Under the buy-in contract, Aviva is obligated to make payments to the Trustee in order to meet the Fund's liabilities to the beneficiaries insured under the policy. The residual assets will be invested in a low-risk cash fund expected to generate returns in line with money market rates.

The Trustee's investment horizon for the investment of the residual assets is medium term.

4. 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 Fund. The Trustee has sought to mitigate key risks by the purchase of a buy-in contract. The Trustee believes the following risks may be financially material over the future lifetime of the Fund.

Failure of the buy-in provider (counterparty risk): the risk that Aviva may default on their obligations under the buy-in contract. To mitigate this risk, before entering into the buy-in contract the Trustee took appropriate advice and paid close attention to the financial strength, security and operational soundness of the chosen annuity provider at the point of purchase.

Liquidity risk: The Trustee does not expect to be able to obtain cash from the buy-in policy other than to meet promised benefits as agreed with Aviva. The Trustee has considered this and has invested the residual assets in a low-risk cash fund, in order to meet expenses and other potential liquidity needs.

5. Investment Strategy

In December 2023, the Fund completed a buy-in transaction and the majority of the Fund's assets were transferred to Aviva in January 2024 in order to meet the insurance premium.

The Fund's liabilities are met by the buy-in contract with Aviva. Aviva is responsible for the realisation of assets within the buy-in contract in order to make the payments due under the contracts.

The residual invested assets are invested in Legal & General Investment Management's ("LGIM") Sterling Liquidity Fund. The LGIM Sterling Liquidity Fund's aim is to provide capital stability and a return in line with money market rates whilst providing daily access to liquidity and providing an income. The fund seeks to maintain an AAA rating, which is the highest fund rating available. The Sterling Liquidity Fund's performance is benchmarked against the Sterling Overnight Index Average rate.

6. Day–to-Day Management of the Assets

The Trustee currently delegates all of the day-to-day management of the assets, excluding the buy-in contract, to LGIM. The Trustee has taken steps to satisfy themselves that LGIM have the appropriate knowledge and experience to manage the Fund's residual investments and that they are carrying out their work competently.

The residual assets are invested in LGIM's Sterling Liquidity Fund and a float is held in cash in the Trustee Bank Account with HSBC, which is managed by the Fund's appointed administrator, Aon.

7. 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 Trustee's policy for portfolio construction ensures sufficient assets are held in readily available assets to meet expenses and other payment out the Fund. Payments from the buy-in provider are expected to meet ongoing payments due to the beneficiaries of the Fund.

Within the Sterling Liquidity Fund, the investment manager has 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.

Sections 8 to 12 of the Statement focus on the Trustee's policies in respect of the investment of the residual assets.

8. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustee believes 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 Trustee also recognises that long-term sustainability issues, including climate change, present risks and opportunities that may apply over their investment time horizon and increasingly may require explicit consideration.

The Fund's residual assets are invested in a multi-client pooled vehicle 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 mandate. In doing so, the Trustee has 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.

The Trustee engages with the investment manager on these issues through periodic correspondence and will monitor investment manager engagement activity at least annually. The investment manager is expected to report on their adherence to the UK Stewardship Code on an annual basis.

Notwithstanding the above, the Trustee accepts that the primary role of its investment manager is to deliver returns in line with money market rates and believe this approach is in line with the basis on which the current strategy has been set.

The Trustee considers, 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 Trustee is informed of any changes to ESG ratings usually on a quarterly basis.

The Trustee has not set any investment restrictions on the appointed investment manager in relation to particular products or activities but may consider this in the future.

9. Non-Financial Matters and Risks

The Trustee takes into consideration non-financial matters when assessing the overall investment strategy and investment manager. 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.

10. 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 the Fund's time horizon.

The Trustee received 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.

The Trustee invests in a multi-client pooled investment vehicle and accepts that it has little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. The Trustee will therefore select vehicles that best align with its 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 Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee's 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 Trustee having ongoing confidence that the investment manager will achieve its investment objective. The Trustee makes 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 Trustee's 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 Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of independent updates from their investment consultant and reporting from the investment manager.

Residual asset investment returns (and volatility) are measured on an absolute basis and considered relative to the Sterling Overnight Index Average rate. Returns are considered net of fees and expenses.

As well as assessing investment returns the Trustee 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 Trustee 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 Trustee has 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 Trustee does not monitor regular cashflow costs. The Trustee monitors the costs of implementing strategic change via their investment consultant.

11. 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 Trustee is not responsible for the appointment of the custodian of the residual assets contained within a pooled fund investment. However, the Trustee is comfortable that the investment manager has procedures in place for the appointment and monitoring of the relevant custodian 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 2023, this is ongoing at the time of agreeing this statement.

Investment Consultant

Whilst the day-to-day management of the Fund's residual 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.

12. 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 Trustee.

13. Compliance with this Statement

The Trustee monitors compliance with this Statement annually and obtains 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.

14. Review of this Statement

The Trustee 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 Trustee reasonably believes 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.

Signed by Robin Cattermole and Helen Coxon for and on behalf of the Yara Reserve 5 Limited in capacity as Trustee of the Yara UK Pension Fund