Stichting Pensioenfonds SABIC

# Declaration of SPF's Investment Principles

*(January 2022 version)*

## Introduction

This ‘Declaration of Investment Principles’ (hereinafter: Declaration) briefly describes the investment policy principles of Stichting Pensioenfonds SABIC (hereinafter: the fund). The principles are determined by the Board.

In accordance with the applicable legislation and regulations, the Declaration addresses:

1. the investment policy objectives;
2. the organization and risk management procedures;
3. the investment principles, in particular the weighting methods used for investment risks and the strategic allocation of the assets in the light of the nature and duration of the fund’s pension obligations.

The Declaration is included as attachment to the fund’s actuarial and technical business memorandum and is reviewed every three years. The Declaration will also be revised without delay should important investment policy changes occur in the interim.

The Declaration will be provided at the request of a fund stakeholder.

## 1. Investment policy objective

The fund is the pension fund for employees and former employees of the employers and runs three pension plans for the accrual of income provisions for retirement, disability, and death. The fund is responsible for the investment policy.

The fund invests according to the prudent person principle. This is very similar to what DNB refers to as “sound” investing. The investments must also meet the qualitative principles of safety, quality, and distribution of risks.

In line with this, the investment policy objective is: To realize sufficient long-term returns within the preconditions of the Pension Agreement and the Pensions Act with due regard for an acceptable risk profile in order to achieve pension benefit payments and the fund ambition in line with pension accrual and the indexation policy.

To guarantee the objective, when determining the strategic investment policy, the provisions under and pursuant to the Pensions Act, the liability structure, and the financing of the fund as laid down in the administration agreement with the employers, and members’ risk appetite are taken into account.

## 2. Organization and risk management procedures

### *2.1 Tasks and responsibilities*

The fund is aware of its role as a pension investor. This role forces it to take the utmost care in its actions. The fund is prepared at all times to account for its investment behavior and the consequences this has for stakeholders.

DPS implements the investment policy determined by the fund Board through the Strategic Policy Plan and the Annual Investment Plan, and the frameworks and guidelines agreed within these.

The fund Board remains, without any exception, responsible for all fund activities, including the investment process.

### *2.2 Ancillary activities*

The fund develops activities that enable it to carry out its core tasks in the best way possible. If these activities are not considered to be core tasks of a fund, the fund places them in a separate legal entity. Between the fund and this legal entity there will never be:

- financial cross-flows that give the legal entity a competitive advantage that is not in line with the market;
- personal unions between the fund Board on the one hand and the legal entity Board on the other;
- access to fund knowledge and data files, other than under conditions permitted by legislation and regulations;
- use of the fund name and logo by the legal entity.

### *2.3 Outsourcing*

Outsourcing of asset management takes place in accordance with a Service Level Agreement (SLA). This agreement at least meets the requirements set by DNB.

During the period of outsourcing and to manage outsourcing risks, the fund maintains and ensures compliance with effective control mechanisms.

DPS advises SPF on investment strategies and all related topics, as well as other matters. Tactical and operational management is carried out by the asset management department. External asset managers are used selectively for special mandates. SPF has chosen to pay DPS a fixed fee in basis points. SPF does not consider a performance-related fee to be appropriate for liquid investment mandates, including the mandate to DPS. The agreements with asset managers for the purpose of the liquid mandates have been entered into for an indefinite period of time and can be terminated prematurely. In these agreements, SPF agrees that it will act in line with the strategic investment policy (including the SRI policy) determined by the Board of SPF and the established frameworks for tactical and operational policy. The asset managers are assessed over a full market cycle and a period of three to five years. A 7P model is used in the selection and monitoring process. Transaction costs are monitored via reports, such as the transaction costs statement in the annual report. SPF does not use a fixed target for the turnover rate for transactions.

## 2.4 Reporting

The DPS Investment department discusses the implemented and to be implemented investment policy with the Asset management committee. The investment plan for the coming year is determined in December each year. Each month, the Board receives a report of the results of the past month and a cumulative result for the current year. The Board provides periodic investment workshops and training.

## 2.5 Cost control

In implementing the investment policy, the fund does not incur other costs than those that are reasonable and proportional in relation to the size and composition of the invested assets and the objective.

## 2.6 Expertise

The fund ensures that, in all investment process phases, it has the expertise required for:

- an optimal investment result;
- professional investment management and the management of risks associated with the investments.

## 2.7 Separation of interests

Conflicts of interest are guarded against in implementing the investment policy. In this light, the fund managers and employees are expected to comply with a Code of Conduct.

An external compliance officer ensures compliance with the Code of Conduct.

## 2.8 Corporate governance

The fund has an active voting policy with respect to global listed companies. This is in line with best practice provisions formulated by the Corporate Governance Monitoring Committee. The Corporate Governance Code was drawn up to improve the management and supervision of Dutch listed companies. A separate section is devoted to the responsibility of institutional investors. They are expected to ensure that companies take a careful approach to these principles and best practice provisions. The Code also underlines the obligations of institutional investors in this area. These obligations relate to the transparency of the voting policy, the accountability of this policy, and voting behavior during the General Meeting of Shareholders. These obligations are enshrined in the Financial Supervision Act (Wft), which came into force on January 1, 2007.

The SPF voting policy and voting conduct are included on the following website: www.SPF-pensioenen.nl.

## 3. Investment principles

### *3.1 The investment process*

The investment process forms the conditions of the investment policy. The investment process is understood to mean the set of rules governing the preparation and implementation of the investment policy and the management of investments.

### *3.2 Investment decisions*

On behalf of the fund, DPS evaluates each investment based on risk and return considerations in relation to the liability structure. In principle the fund does not exclude any separate investment category, instrument, or technique.

The fund does not cooperate on any investment transaction that is prohibited, for example under international law. In this context the fund has taken concrete measures with respect to the administrative organization and internal audits. We exclude activities in companies and countries that the United Nations, the European Union, or the Dutch government deem unacceptable. SPF therefore does not invest in companies that fail to act in accordance with the 10 principles of the United Nations Global Compact. Manufacturers of controversial weapons, including nuclear weapons, are also excluded even if they do not fall under the exclusion criteria of the Global Compact. To identify companies and countries for exclusion, Sustainalytics carries out screening on behalf of SPF to establish the companies and countries in which the fund should not invest. Sustainalytics screens both developed and emerging markets on the above criteria for SPF. Based on these criteria, SPF excludes not only equities but also corporate and government bonds.

### *3.3 Methods used for assessing investment risks*

The investments, the management of investments, and the management of risks associated with investments take place in accordance with the Strategic Policy Plan 2019-2023. The weighting of the investment categories in the investment portfolio is vital for the generic management of risks. Credit ratings are among the tools used for credit risks. To manage operational risks, various measures have been implemented, including the regulation of authorities.

### *3.4 Valuation method*

The total investment portfolio is valued according to objective criteria of the International Accounting Standards Board (IASB). A fair value hierarchy is used. This hierarchy means that in determining the fair value, a prescribed ranking of methods should be followed. The ranking comprises the following four levels:

Level 1: valuation based on quoted prices.
Level 2: valuation based on independent valuation.
Level 3: valuation based on net calculation of the present value.
Level 4: valuation not on the basis of observable stock exchange listing, but on the basis of another suitable method (externally validated models, agreed outlines, and annual reports).

This hierarchy means that the fund will move to level 2 (or level 3 or 4, respectively) if it is not possible to meet the conditions of level 1 (or level 2 and 3, respectively).

### *3.5 Strategic policy*

The Board considers the fund's long-term strategic policy to be a focus point. Determining the strategic long-term policy is one of the Board's most important core tasks. The Board has opted for an Integrated Balance Sheet Management approach in which the assets and liabilities side of the balance sheet are managed in conjunction: This prevents the strategic policy from focusing on partial risks, and as a result perhaps partially shifting the focus from an integrated approach to all strategic risks at balance sheet level to a specific partial risk. Within this approach, the broader context within which the specific sub-risks are viewed is handled in an integrated way, so that the Integrated Balance Sheet Management approach fits within Risk and Control Assessment; the fund's risk management framework. This further clarifies the strategic coherence and insight into the various sub-risks and policy principles.

This integrated approach has resulted in a Strategic Policy Plan. This sets out a distribution of invested assets that is in line with the fund's strategic objectives. This outlines the distribution of the invested assets over two core portfolios, the matching portfolio and the returns portfolio, as well as the strategic coverage of the interest rate risk and the currency risks.

In the annual investment plan, this allocation is further elaborated, achieving a more detailed specification of the two core portfolios, and establishing operational frameworks and benchmarks. The elaboration of the strategic policy contained in this annual investment plan is in line with the risk frameworks and restrictions as determined in the longer-term Strategic Policy Plan.