Declaration of Investment Principles of SPF

(Version March 2020)

Introduction

This Declaration of Investment Principles (hereafter: Declaration) concisely describes the starting points of the investment policy of Stichting Pensioenfonds SABIC (hereafter: the fund). These starting points are determined by the board.

In conformity with prevailing legislation and regulations, the Declaration discusses:
1. the objective of the investment policy;
2. the organization and the risk management procedures;
3. the investment principles, in particular the weighing methods applied to investment risks and the strategic allocation of assets in light of the nature and term of the fund's pension liabilities.

The Declaration is added as an annex to the fund's actuarial and operating memorandum and is reviewed every three years. Furthermore the Declaration is immediately reviewed if a major change is introduced to the investment policy in the course of this three-year period.

Fund stakeholders can obtain a copy of the Declaration upon request.

1. Objective of the investment policy

The fund is the pension fund for (former) employees of SABIC Europe B.V. and affiliated companies (hereafter: the employer) and manages three pension schemes to help members cope with the financial consequences of retirement, disability and death. The investment policy is one of the fund's responsibilities.

Investments are based on the prudent person rule, which to a large extent corresponds to what DNB calls "solid investing', implying that the investments must meet requirements in terms of security, quality and spreading of risk.

In line with this, the objective of the investment policy is: to strive, within the boundary conditions imposed by the pension agreement and the Pensions Act, to achieve an allowable risk profile that is expected to result in the long term in an adequate return to secure the pension payments and the fund's ambition in accordance with pension accrual and the supplements policy.

To achieve this objective, the strategic investment policy is determined while taking into account the provisions of and pursuant to the Pensions and Saving Funds Act, the structure of the fund's liabilities and the way the fund is financed as laid down in the administration agreement with the employer.

2. Organization and risk management procedures

2.1 Tasks and responsibilities

The fund is aware of its role as pension investor, a role which demands great care in all its activities. The fund is always prepared to account for its investment behavior and the consequences it has for stakeholders.

DPS implements the investment policy as adopted by the pension fund board via the strategic policy plan and the frameworks and guidelines laid down in this plan.
The pension fund board always, without any exceptions, has final responsibility for all fund activities, including the investment process.

2.2 Other activities

The fund develops activities that enable optimal performance of its core tasks. Insofar as these activities do not form part of the core tasks of a pension fund, they are organized in a separate legal entity. The relationship between the fund and this entity will not involve any:

- financial cross-flows bringing the legal entity a non-market conform competitive advantage;
- personal unions between the fund board on the one hand and the management of the legal entity on the other;
- access to knowledge and data files of the fund other than on conditions allowed by legislation and regulations;
- use of the fund’s name and logo.

2.3 Outsourcing

Asset management is outsourced on the basis of a Service Level Agreement (SLA) that (at least) meets the requirements to be imposed by DNB.

During the outsourcing period the fund ensures maintenance of and compliance with adequate control mechanisms to control the outsourcing risks.

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. The asset managers are assessed on a number of factors, including implementation according to the assigned mandate guidelines, the team, the process, and performance. 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

DPS’s Investments department periodically discusses the past and future investment policy with the Finance Committee. In December of each year the investment policy for the coming year is determined. Each quarter the board receives a report on the results of the past quarter and the cumulative result for the current year. Periodically, investment workshops and courses are provided for the board.

2.5 Cost control

In implementing its investment policy the fund incurs no costs other than those that are reasonable and proportional in relation to the size and composition of the invested assets and the objective.

2.6 Professional expertise

The fund ensures that in all phases of the investment process it has the professional expertise needed for:
- an optimal investment result;
- professional management of the investments and control of the risks involved;
- investments related to risks.

2.7 Separation of interests

Care is taken that there are no conflicts of interests in the implementation of the investment policy. Fund executives and staff are therefore required to comply with a code of conduct.

An external compliance officer monitors compliance with the code of conduct.

2.8 Corporate Governance

In the framework of the best practices drawn up by the Corporate Governance Monitoring Commission, in 2007 an active voting policy was introduced with respect to Dutch listed companies. 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 carefully apply these principles and best practice provisions. The code also underlines the obligations of institutional investors in this field, which relate to transparency of the voting policy, accountability for this policy and the voting behavior during the General Meeting of Shareholders. These obligations are laid down in the Financial Supervision Act, which came into effect on 1 January 2007.

SPF's voting policy and voting behavior are outlined on SPF's website: www.SPF-pensioenen.nl.

3. Investment principles

3.1 The investment process

The investment process forms the boundary conditions for the investment policy. The investment process is understood to be the body of rules supervising the preparation and implementation of the investment policy and management of the investments.

3.2 Investment decisions

On behalf of the fund, DPS assesses each investment based on risk and return considerations in relation to the structure of the liabilities. In principle, the fund does not exclude any separate investment category, instrument or technique.
The fund does not engage in investment transactions that are not allowed, for instance under international law. In this context the fund has taken concrete measures in the field of the administrative organization and internal control.

Companies are excluded for investment on the basis of the classification of unacceptable activities as used by the United Nations, the European Union or the Dutch government. Therefore SPF does not invest in companies that do not conduct their business in accordance with the 10 principles laid out in the United Nations' Global Compact. Producers of controversial weapons such as nuclear weapons that are not excluded based on the criteria set by the Global Compact, are separately excluded. In order to find companies and countries that do not meet SPF's socially responsible investment policy, Sustainalytics screens SPF's investment universe to find companies and countries it should not invest in, not only in developed markets but also developing ones. Sustainalytics screens both developed and emerging markets based on the above mentioned framework. Based on this framework not only equities but also corporate and government bonds are excluded.

3.3 Methods used to weigh investment risks

Investments, management of investments, and control of the investment risks take place in compliance with the strategic policy plan 2019-2023. For generic risk management, the weighing based on the investment categories in the investment portfolio is of major importance. For credit risks use is made of credit ratings. To control the operational risks several measures have been implemented, including an authorization schedule.

3.4 Valuation method

The total investments portfolio is valued in strict conformity with the objective criteria formulated by the International Accounting Standards Board's (IASB). Valuation is based on a fair value hierarchy, which implies that the fair value is to be determined using a prescribed ranking of methods. In this ranking there are three 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 allocation

The board considers the fund's strategic long-term policy to be a focal point. Determination of the strategic long-term policy is one of the key tasks of the board. To prevent the strategic policy being focused on sub-risks, as a result of which attention may partly shift from integrated management of all strategic risks at balance sheet level to a specific sub-risk, the board has opted for an Integrated Balance Sheet Management approach in which the assets side of the balance sheet is managed in conjunction with the liabilities side. This involves an integrated approach to the wider context within which the specific sub-risks are considered, so that the Integrated Balance Sheet Management approach fits within the fund's risk management framework –Risk and Control Assessment.
This provides more clarity with respect to the strategic coherence and the insight into the various sub-risks and policy principles.

This integrated approach has resulted in a strategic policy plan featuring a division of the invested assets in outline and in conformity with the fund's strategic objectives. The invested assets are divided into two core portfolios – the matching portfolio and the return portfolio – in this plan, which also describes in outline how the interest rate risk and the currency risk are strategically covered.

This division is worked out in further detail in the annual investment plan, which gives a further breakdown of the two core portfolios and defines the operational frameworks and benchmarks for the two core portfolios. The development of the strategic policy incorporated in this annual investment plan complies with the risk boundaries and restrictions as determined in the longer-term strategic policy plan.