

Statement of Investment Principles

Syngenta UK Pension Fund – Retirement
Account section

September 2019

Statement of Investment Principles

Syngenta UK Pension Fund

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1 Introduction

- 1.1 Sections 1 to 7 of this document constitute the Statement of Investment Principles. The Appendices to this document are included for information only and are relevant as at September 2019.

Background

- 1.2 Under the Pensions Act 1995, subsequently amended by the Pensions Act 2004, trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by Syngenta Pensions Trustee Limited (the Trustee) of the Syngenta UK Pension Fund (the Fund) in respect of the Retirement Account section.
- 1.3 Before preparing this document, the Trustee has consulted the Employer and the Trustee will consult the Employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.4 Before preparing this document, the Trustee has sought advice from the Fund's Investment Consultant and the Fund Actuary. The Trustee will review this document from time to time, and at least after every three yearly actuarial valuation. In preparing this document, the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider these requirements in any review of this document or any change in their investment policy. The Trustee will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.
- 1.5 Sections 2 to 7 of this document relate to the defined benefit section of the Fund. The defined contribution (Investment Account) section of the Fund is covered under a separate Statement of Investment Principles.
- 1.6 The Trustee has considered the IGG Principles (formerly the Myners Principles) and acknowledges them as a useful guide in determining its investment policies. The Principles are reviewed from time-to-time and any amendments incorporated into updates of this document.
- 1.7 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but delegate the responsibility for selection of specific investments to appointed Investment Managers.
- 1.8 When choosing investments, the Trustee and the Investment Managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement.

Fund details

- 1.9 Members of the Fund are contracted-out of the Second State Pension under the Pension Funds Act 1993. The Fund holds a contracting-out certificate issued by the Occupational Pensions Board. Defined benefit section members are no longer contracted out from 6 April 2016.
- 1.10 Exempt approval has been granted by the Inland Revenue under Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. Since 6 April 2006, the Syngenta UK Pension Fund has been treated by HM Revenue and Customs (HMRC) as a registered pension scheme in accordance with Schedule 36 of the Finance Act 2004.

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Governance

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. However, an Investment Committee handles the majority of investment matters and makes recommendations to the Trustee where decisions are required to be taken by the Trustee. In making investment decisions the Trustee will consult with the Employer.

The Trustee's investment responsibilities include:

- Reviewing, at least every three years and immediately after any significant change in investment policy, the content of this Statement of Investment Principles (SIP) and modifying it if deemed appropriate, in consultation with the Employer and with written advice from the Investment Consultant and the Fund Actuary
- Reviewing the suitability of the investment policy following the results of each actuarial review, and/or asset liability study in consultation with the Investment Consultant and Fund Actuary
- Assessing the quality of the performance and processes of the Investment Managers by means of regular, but no less than annual, reviews of the investment results and other information in consultation with the Investment Consultant and the Fund Actuary
- Strategically allocating the assets and the cash flow of the Fund between investment mandates
- Consulting with the Employer when reviewing investment policy issues
- Appointing (and dismissing) Investment Managers and Custodian
- Monitoring compliance with this Statement on an ongoing basis
- In addition to the considerations articulated within this Statement, the Trustee will formulate a forward-looking business plan that provides greater detail on the processes and structure in place governing the Fund's investments.

2.2 The Trustee has delegated a number of investment responsibilities to an Investment Committee.

2.3 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's Actuary and Investment Consultant and the Trustee's other advisers.

2.4 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Fund. The Trustee of the Fund draws on the expertise available from consulting the Employer, and where necessary employs the skills and expertise of external advisers including the Investment Managers, Custodians, Investment Consultant, Fund Actuary and Legal Advisers.

2.5 A schedule of the respective responsibilities of each party is provided in Appendix B.

3 Objectives of the Fund

General objectives

- 3.1 The general investment objectives of the Fund are:
- To maintain a suitably diversified portfolio of secure assets of appropriate liquidity that will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Fund provides as set out in the trust deed and rules
 - To limit the risk of assets failing to meet liabilities over the long term, in particular in relation to the scheme specific funding measure introduced by the Pensions Act 2004.
 - To control the long-term costs of the Fund by maximising the return on the assets whilst having regard to the objectives shown above.
- 3.2 The Trustee's longer-term objective is for the Fund to be fully funded on a low risk basis (liabilities valued on gilts + 0.30% pa). At this point it is expected that the Fund will be running a very low risk investment strategy that can be held over the long-term with the aim of securely meeting benefits as they fall due.
- 3.3 These investment objectives of the Fund are not framed relative to the performance of other pension funds or market indices.
- 3.4 The Trustee, and Investment Managers who have delegated discretion, exercise their powers in a manner calculated to ensure the security, quality, liquidity and profitability of the Fund. The Trustee invests the assets in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

4 Strategic asset allocation

- 4.1 The strategic asset allocation is driven by the financial characteristics of the Fund, in particular the Fund's liabilities and the risk tolerance of the Trustee and the Employer and the Trustee's assessment of Employer covenant.
- 4.2 The Trustee seeks to achieve the Fund's investment objectives through investing in a suitably diversified mix of real and monetary assets that balances investment return against risk. The Trustee ensures that the majority of the assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level.
- 4.3 In setting the investment policy, the Trustee has had regard to the influence that this will have in relation to its policy concerning compliance with the statutory funding objective under the Pensions Act 2004.
- 4.4 Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed within the Fund Actuary's funding assumptions.
- 4.5 The Trustee uses, or permits the Investment Managers to use, derivative instruments if they contribute to a reduction of risks or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

5 Investment Manager structure

- 5.1 The Fund employs a number of Managers to ensure adequate diversification by fund management organisation and investment style.
- 5.2 The Investment Managers have been set mandate-specific benchmarks which have clear performance objectives attached. None of the Managers has been set performance benchmarks relating to their peer group.
- 5.3 The expectation is that the Investment Managers should achieve their objectives in the majority of three year periods under consideration. It is not expected that the Managers will achieve these objectives in every three-year period. Investment Managers should, however, demonstrate that the skill they exercise in managing the portfolio and the process that they follow is consistent with these objectives given the level of risk adopted.
- 5.4 The Fund's overall benchmark and asset ranges specified are designed to ensure that the Fund's investments are adequately diversified and suitable for the Fund given its liability profile. In this regard, the Trustee has taken written advice from the Investment Consultant.
- 5.5 Routine or day-to-day asset allocation is delegated to the Investment Managers. Specific guidelines relating to the use of derivatives have been agreed with each Manager. The guidelines reflect the types of mandates established and the degrees of freedom that the Managers require to fulfil these mandates.
- 5.6 The Trustee will ensure that it holds sufficient cash to meet the likely benefit outgoings from time to time. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Fund's overall investment policy where possible.
- 5.7 The Investment Managers provide the Trustee with details of the commission payments they make on asset transactions.
- 5.8 Whilst not common practice, from time to time the Investment Managers may use soft commission arrangements to improve the service provided to their clients. However, when done so, the principal objective is to obtain best execution in respect of each transaction.

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Socially Responsible Investment (SRI), Stewardship and Sustainability

- 6.1 The Trustee recognises its responsibilities as a shareholder.
- 6.2 The Trustee considers long-term sustainability to be an important and relevant issue to consider throughout the investment process.
- 6.3 The Trustee recognises that an investment's financial success can be influenced by a number of factors including (but not limited to) those arising from Environmental, Social and Governance (ESG) issues, including climate change and stewardship.
- 6.4 The Trustee considers these issues as part of their broader risk management processes, when reviewing and monitoring the Fund's investment strategy, which considers the Fund's Journey Plan and funding time horizon.
- 6.5 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Investment Managers (within certain guidelines and restrictions). This includes consideration of all financially material factors, including ESG-related issues where relevant.
- 6.6 The exercise of ownership rights is also an integral part of the investment management delegation. The Trustee's policy is to delegate responsibility for the stewardship activities (including voting rights and engagement activities) attaching to investments to the Investment Managers. The Trustee encourages the Fund's Investment Managers to adopt the voluntary code, the UK Stewardship Code, published by the Financial Reporting Council in July 2010 and updated in September 2012 intended to promote shareholder activism. On an annual basis, the Investment Committee of the Trustee reviews the voting policies of the Managers.
- 6.7 The Trustee periodically reviews reports from Investment Managers to ensure that the policies outlined above are being met and explores these issues with its Investment Managers as part of the ongoing monitoring of the ESG integration and stewardship activities of its Investment Managers.
- 6.8 The Trustee is satisfied that the active Investment Managers' policies on the above matters are compatible with its own policy.
- 6.9 Where the Trustee has chosen to hold units in a pooled vehicle, or agreed that an active Manager may do so, the Trustee is satisfied that the policy objectives of the pooled vehicle relating to the above matters are compatible with its own policy.
- 6.10 At present, the Trustee does not explicitly take account of non-financial matters in Fund investments.

7 Monitoring

- 7.1 The appointment of the Investment Managers is reviewed by the Trustee from time to time, based on the results of the Trustee's monitoring of their performance and investment process and of the Investment Managers' compliance with the requirements in the Pensions Act concerning diversification and suitability, where relevant. The Investment Managers have been provided with a copy of this Statement and the Trustee will monitor the extent to which the Investment Managers give effect to the policies set out in it.
- 7.2 An independent performance monitoring agency measures the Fund's and the Investment Managers' performance against objectives.
- 7.3 The Investment Committee of the Trustee holds regular meetings (normally on an annual basis) with the Investment Managers to satisfy themselves that the Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Fund.
- 7.4 The Trustee believes that custodian services are a vital part of the management of the Fund's assets and recognises the importance of monitoring the custodial arrangements.
- 7.5 The Trustee recognises and monitors a number of risks involved in the investment of the assets of the Fund:
- *Solvency risk and mismatching risk:*
 - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current investment policy
 - are managed through the asset allocation strategy and through ongoing triennial actuarial valuations.
 - *Investment Manager risk:*
 - is measured by the expected deviation of the prospective risk and return, as set out in the Managers' objectives
 - is managed through the diversification of the Fund's assets across a range of Investment Managers with different styles.
 - *Currency risk:*
 - is measured by the level of concentration of any one non-Sterling currency leading to the risk of an adverse influence on investment values arising from currency movements
 - is managed through the Fund's currency hedging programme.
 - *Liquidity risk:*
 - is measured by the level of cashflow required by the Fund over a specified period
 - is managed by the Plan Administrator assessing the level of cash required in light of the forecasted level of payments. In addition, upcoming investment cash flow movements and current cash holdings are reviewed at Investment Committee meetings and the projected level of illiquid assets within the Fund is monitored annually.
 - *Concentration risk:*
 - is measured by the level of concentration of assets in a single manager, strategy or asset class

- is managed through the selection of diversified assets that show internal diversification across a range of Investment Managers.
- *Fraud risk:*
 - is measured by the level of concentration to any one investment organisation
 - is managed through: (1) regular meetings with the Investment Managers, (2) reviewing each Manager's audit reports, (3) limiting the Fund's exposure to any single investment management organisation
- *Political risk:*
 - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
 - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy
- *Custodian risk:*
 - is measured by assessing the custodian's ability to settle trades on time and provide secure safekeeping of the assets under custody
 - is managed through the agreement with the third party Custodian and ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise the transfer of cash and the account to which transfers can be made.
- *Counterparty risk:*
 - is measured through the level of concentration with any one counterparty leading to the risk of an adverse influence on investment values arising from a default on obligations
 - is managed through the Investment Manager guidelines and internal procedures as appropriate.

A Current Advisers and Investment Managers

<i>Fund Actuary:</i>	Richard Campbell FIA
<i>Investment Consultant:</i>	Willis Towers Watson Investment
<i>Equities:</i>	Coronation Global Fund Managers (Ireland) Limited Legal & General Investment Management Blue Harbour Group
<i>Long/Short equities</i>	Lansdowne Partners Developed Markets fund
<i>Bonds:</i>	Ashmore Investment Management EMLIP fund Legal & General Investment Management
<i>Macro:</i>	Bridgewater
<i>Managed futures:</i>	AHL Partners LLP and Man Investments Limited
<i>Other Hedge Funds:</i>	Blackstone Alternative Asset Management BlackRock Capital Management Davidson Kempner
<i>Reinsurance:</i>	Credit Suisse Asset Management Nephila Capital Limited
<i>Infrastructure:</i>	Global Infrastructure Partners
<i>Real Estate:</i>	Brockton Capital
<i>Infrastructure debt:</i>	Macquarie Financial Products Management Limited
<i>Private Equity:</i>	Warburg Pincus Permira Ashmore Investment Management Special Situations fund Vårde Partners
<i>Direct Lending:</i>	HayFin Management Limited
<i>Secure Income Alternatives:</i>	Alpha Real Capital LLP Aviva Investors Global Services Limited Equitix Investment Management Limited Greencoat Capital Henley Investment Management Limited

	MedicX Advisor Limited
	Legal & General Limited
	M&G (Guernsey) Limited
<i>Buy-in policy:</i>	Phoenix Life Limited
<i>Custodian:</i>	Bank of New York Mellon
<i>Currency management – passive:</i>	Legal & General Investment Management
<i>Overlays:</i>	Inflation swap programme (Overseen by Legal & General Investment Management)
	Interest rate swap programme (Overseen by Legal & General Investment Management)
	Payer swaption programme (Overseen by Legal & General Investment Management)
<i>Performance measurer:</i>	BNY Mellon Asset Servicing
<i>Solicitors:</i>	Allen & Overy LLP
<i>Fund Auditors:</i>	KPMG
<i>Administrator:</i>	Willis Towers Watson TAS

B Division of responsibilities

Investment Managers

The Investment Managers' responsibilities include:

- For active Managers at their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios
- Informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the Fund and managed by the Investment Manager or an associated company
- Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments
- Giving effect to the principles contained in the Statement as far as reasonably practicable.

Custodian

The Custodian's responsibilities include:

- The safekeeping of assets of the Fund held in segregated accounts
- Processing the settlement of all transactions relating to assets in their custody
- Providing the Trustee with consolidated and individual quarterly statements of the assets and the cashflows
- Undertaking all appropriate administration relating to the Fund's assets
- Processing all dividends and tax reclaims in a timely manner
- Dealing with corporate actions.

Performance Measurer

The Performance Measurer's responsibilities include:

- Providing the Trustee with external independent performance statistics on a quarterly basis in accordance with the requirements of the Trustee.

Investment Consultant

The role of the Investment Consultant is to make recommendations or give advice to the Trustee and Investment Committee in the following areas:

- The formulation of an efficient governance structure
- The regular updating of the Statement of Investment Principles
- The development of a clear investment strategy for the Fund
- The asset-liability modelling process
- The construction of a strategic asset allocation benchmark given the liabilities of the Fund and the risk and return objectives of the Trustee
- The construction of an overall investment management structure that meets the objectives of both the Trustee and Employer
- The selection and appointment of appropriate investment management organisations
- The Consultant's current views of the Investment Managers employed by the Fund
- Potential new areas or tools of investment

- Commentary on investment performance and risk taken by the Investment Managers
- Trustee education
- General advice in respect of the Fund's investment activities.

Fees will be calculated primarily by reference to the time spent on any particular assignment. The Trustee believes that this time-based fee arrangement is suitable for professional advisors as it provides a framework for ensuring a suitable amount of attention is paid to the Fund's matters while allowing the Trustee appropriate control over fees. Where new Investment Managers are appointed, basis point fees (based on the assets invested) are charged to reflect a contribution to the cost of researching the universe of products to identify 'best in class' opportunities.

Fund Actuary

The Fund Actuary's responsibilities, as they relate to investment matters, include:

- Liaising with the Investment Consultant on the suitability of the Fund's investment strategy given the financial characteristics of the Fund
- Assessing the funding position of the Fund relative to the Technical Provisions and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

Administrator

The Administrator's responsibilities include:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustee's instructions

Investment Committee

The Investment Committee's responsibilities include:

- Monitoring of performance, including compliance with guidelines
- Setting asset allocation that is consistent with the expected return of the portfolio set out in the Recovery Plan
- Choice of number and identity of Managers within each asset class (including active/passive decisions)
- Designing and setting Manager benchmarks and targets; Manager agreements.
- Fee structure negotiations

The Investment Committee consists of two management appointed Trustees, a member selected Trustee, and a representative of The Law Debenture Pension Trust Corporation plc.

The Investment Committee is advised by the Investment Consultant. Employer representatives attend Investment Committee meetings.

C Current asset allocation and hedging programmes

Asset allocation

The asset allocation is set based on an ongoing assessment of investment strategy and further advice from the Investment Consultant. The Trustee does not target a specific asset allocation, but aims to build a portfolio with an expected return consistent with the Journey Plan and Recovery Plan adopted as part of the 2018 actuarial valuation.

Liability-hedging portfolio

This portfolio is managed by Legal & General Investment Management. In addition to holding physical bonds, the Fund employs a range of 'liability-matching' derivatives, currently interest rate swaps, inflation swaps, and (selling) payer swaptions, to hedge a proportion of the Fund's interest rate and inflation risks. It is the intention of the Trustee to increase the size of these instruments over time (conditional on market conditions) to achieve up to a 50% hedge of these risks. In addition to selling payer swaptions, the Trustee has yield triggers in place at which it will consider increasing the Fund's interest rate hedge ratio, to reflect the belief that interest rates will rise faster and/ or higher than currently priced into swap yields.

Buy-in policy

In August 2019 the Fund purchased a buy-in policy with Phoenix Life Limited. This policy matches the cash flows from a specified portion of the Fund's pensioner liabilities and provides a hedge against the interest rate, inflation and longevity risks associated with the liabilities covered by the policy.

Currency hedging programme

In terms of the Fund's currency hedging programme, it is the policy of the Trustee to hedge a proportion of the Fund's overall exposure to the US Dollar, Euro and Yen. This is implemented either through investing in a manager's Sterling hedged vehicle or through a full or partial (60%) hedge of US Dollar, Euro and Yen exposures through a bespoke currency hedging overlay programme. The choice of implementation method and currency hedge ratio to be applied to any particular investment is determined on a case-by-case basis, however it is typical for:

- the Fund's long-only equity and US Dollar-denominated emerging market investments to be hedged at a 60% hedge ratio
- the Fund's hedge fund managers to be hedged at 100%
- the Fund's global bond investments to be hedged at 100%
- the Fund's Limited Partnership (eg private equity) allocations to remain unhedged (due to difficulties in hedging investments which have less predictable cash flows).

Performance measurement benchmarks

The Trustee measures the success of the Fund against two comparators: a liability proxy, and a weighted average of the benchmarks that underly each fund.

The Trustee measures the success of the Fund against a liability proxy. Changes in the value of the liabilities are estimated based on a cashflow-based model of the Fund's liabilities. The model is based on Fund-specific cashflows generated as at 31 March 2018. The benchmark is calculated by adding the liability proxy to the targeted additional return above this proxy (i.e. in 2018 this return target would be gilts + 2.8%).

The Trustee also measures the value created by the active Managers through assessing the performance of the Fund against a weighted average of the individual Managers' benchmarks.

D Current Manager mandates

Measurable objectives have been developed for the Investment Managers consistent with the achievement of the Fund's overall longer-term objectives. Their individual benchmarks and performance objectives are, in aggregate, consistent with the overall Fund benchmark.

Fee basis

The majority of the Investment Manager fees for the Fund are on an ad-valorem basis and were set with reference to prevailing market rates at the time of appointment. A number of the Managers are paid incentive fees based on the performance achieved.