



RIVER AND MERCANTILE

# Equinor UK Limited Employee Benefits Plan

Statement of investment principles

November 2021

## Introduction

This document constitutes the Statement of Investment Principles (“the SIP”) required under Section 35 of the Pensions Act 1995 (as amended) for the Equinor UK Limited Employees Benefits Plan (“the Plan”). It describes the investment policy being pursued by the Trustees of the Plan (“the Trustees”) and is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (“the Myners’ Principles”) and the Pensions Regulator’s Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure)(Amendment and Modification) Regulations 2018.

Details of how the Plan’s investment strategy is implemented are set out in a separate Statement of Investment Implementation (“SII”) that is maintained by the Trustees.

The Plan Actuary is Matthew Plail of XPS Pensions Group (“XPS”) and the Investment Adviser is River and Mercantile Solutions (collectively termed ‘the Advisers’).

The Trustees confirm that, before preparing this SIP, they have consulted with the Principal Employer (“the Employer”) and the Plan Actuary and obtained and considered written advice from the Investment Adviser. The Trustees believe the Advisers to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the investments of arrangements such as the Plan.

The Trustees are responsible for the investment of the Plan’s assets and arranges administration of the Plan. Where it is required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 (“FSMA”), the Trustees set general investment policy, but have delegated the day-to-day investment of the Plan’s assets to professional Investment Managers. The Investment Managers are authorised under FSMA and provide the expertise necessary to manage the investments of the Plan competently.

## Plan Governance

The Trustees are responsible for the governance and investment of the Plan assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Plan, as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers or the Advisers as appropriate. The responsibilities of each of the parties involved in the Plan’s governance are detailed in the SII.

The Trustees believe that they should be collectively involved in the investment decision-making function; for the purposes of execution, however, a subset comprising any three trustees (including one member-nominated trustee) will convene from time to time to implement investment decisions.

The Trustees will consult in writing with the Principal Employer with regards any changes to the investment arrangements. The Trustees will give the Principal Employer 10 business day’s written notice of any proposed changes but will use its best endeavours to give warning prior to this notice. If the Trustees don’t receive any written objections to the proposed changes then the Trustees will proceed to implement as notified.

## Suitability

The Trustees have taken advice from the Advisers to ensure that the asset allocation strategy is suitable for the Plan, given its liability profile and the other considerations for the Plan, such as legal requirements and other requirements specified in the Trust Deed.

## Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and the investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any Statutory Funding Requirement. The funding position is reviewed periodically by the Plan Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with any Statutory Funding Requirement.

## Investment Objectives

The Trustee has delegated the investment of the Scheme assets to the Investment Manager, which has discretion

In quantitative terms, the overall investment objective of the Plan is to achieve a rate of return of 1.5% net of investment management fees, in excess of the total real return on the Liability Benchmark (“LB”). The LB is calculated by River and Mercantile using Plan cash flow information provided by the Plan Actuary from time to time, further details can be found in the SII.

Furthermore, the Trustees’ have the following objectives for the Plan:

- To hold suitable assets having regard to the risks set out in this SIP which will generate income and capital growth to meet, together with any new contributions from the Employer, the cost of current and future benefits which the Plan provides.
- To pay due regard to the Employer’s requirement with regard to the size and incidence of any contributions.
- To the extent that the objectives may from time to time be mutually incompatible, the Trustees will seek a policy to get the best balance of income and risk in the long term interests of the members.

## General Policies

The Trustees’ approach to investment strategy is to allocate the assets into two pools – ‘Off-risk’ and ‘On-risk’ assets. The investment objective is then translated into the strategy and assets are allocated to these two components:

- ‘Off-risk’ assets, or “Liability Hedging Assets”, support the Plan’s liability hedge. Assets are invested in fixed interest gilts, index-linked gilts and cash, which can act as collateral for derivatives. On the Liability Hedging Assets, the Trustees are targeting a return of 0.0% per annum, net of investment management fees, in excess of the return on the LB.

The Plan’s liability hedge is designed to mitigate at least 80% of the interest rate and inflation risk inherent in the Plan’s liabilities, as measured on an insurance solution basis provided by the Plan Actuary from time to time.

- ‘On-risk’ assets, or the “Investment Fund” or “Growth Assets”, aim at return generation. Assets are invested in, but not limited to, equities, structured equity solutions and investment grade corporate bonds. Over the long term the Trustees are targeting a rate of return on the Growth Assets of at least 3% per annum, net of investment management fees, in excess of the total return on cash (where the return on cash is defined as the compounded SONIA rate over the period plus 0.125% p.a.).

The overall level of the Trustees’ investment objective influences the split of assets between these two components. To target the investment return objective, the Trustees currently invest 50% of the Plan’s assets in the Growth Assets (targeting cash+3% p.a.) and the remaining 50% in Liability Hedging Assets (targeting LB + 0% p.a.). Note the overall investment return target of LB + 1.50% reflects the Trustees’ expected return for a 50% Growth Assets/50% Liability Hedging Assets portfolio. This will be reviewed over time, in conjunction with the progress towards achieving long-term objectives including full funding on a self-sufficiency basis and on a pensions buy-out basis.

Further information on the implementation of the Plan’s investment strategy can be found in the SII.

## Diversification

The choice of asset classes is designed to ensure that the Plan’s investments are adequately diversified and liquid. The Trustees monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

The assets are invested in a diversified range of suitable investments of different types in order to reduce investment risk given the circumstances of the Plan. The Trustees monitor the strategy regularly to ensure that it is comfortable with the level of diversification being achieved.

The range of, and any limitation to, the proportion of the Plan’s assets held in any asset class will be determined by the Trustees and will be specified in the SII. They may be revised from time to time according to appropriate investment strategy advice provided to the Trustees and having regard to the investment powers of the Trustees as defined in the Trust Deed.

## Liquidity

The majority of the assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustees so require.

## Custody

The Trustees have arranged for custody of their assets via their Investment Managers. Details of the custody relationships are described in the SII and the Trustees will monitor the relationship with the custodians regularly, with the help of the Advisers.

## Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute in derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the relevant investment managers to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio. From time to time the Trustees may mandate a manager, including transition managers, to affect short term derivative mandates to reduce risk in the portfolio, as part of efficient portfolio management or to aid a transition process. The Trustees will take suitable advice as part of the decision and implementation

process, but owing to the potentially market sensitive nature of such transactions may not detail these, or the specifics of the short term manager mandates within this SIP.

## Corporate Governance and Stewardship

The Trustees and the investment managers have agreed, and will maintain, formal Manager Agreements and fund documentation setting out the scope of each Investment Manager's activities, its charging basis and other relevant matters. The investment managers with whom the Trustees have a Manager Agreement have been provided with a copy of this SIP and are required to exercise their powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

As part of the appointment of the investment managers to the Plan, the Trustees have entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of each investment manager's and pooled investment vehicle's activities, their charging basis and other relevant matters. The appointment of the investment managers is ongoing. The Trustees periodically review the overall value-for-money of using the Investment Adviser (as specified in the Plan's Investment Consulting objectives) and investment managers.

The Plan's investments are generally made via pooled investment funds, in which the Plan's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the investment managers. The Trustees are aware of the policy of the investment managers concerned regarding corporate governance and have delegated the responsibility for activity in this area to the investment managers. The Trustees have asked for voting actions to be reported to them on an annual basis so they can be formally reviewed.

The Trustees and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustees review the governance structures of the investment managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustees and Investment Adviser assess whether the investment manager remuneration arrangements are aligned with the Trustees' objectives. The Trustees expect the investment managers:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement or pooled fund investment documentation, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuers of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the

Plan's performance, which are reflected and measured relative to the Trustees' long-term performance objectives.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustees and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflict of Interest policy is available publicly here: [https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate\\_Governance/RMG\\_Conflicts\\_of\\_Interest\\_Policy.pdf](https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf)

The Trustees oversee the turnover costs (where available) incurred by the investment managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Where there are material deviations the Trustees engage with investment managers to understand the rationale for such deviations and take appropriate action.

### **Non-financial matters**

The Trustees do not at present take into account non-financial matters factors (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

The Trustees are seeking to maximise overall investment returns subject to an acceptable level of risk. When selecting and monitoring an investment the Trustees will take into account financially material factors. These are factors that can affect the long-term financial performance of investments and can include (but are not limited to) social, environmental and ethical factors.

### **Strategy implementation**

The Trustees have delegated the day-to-day investment of the Plan's assets to professional Managers. The details of the Managers are shown in the SII.

The Trustees have elected to adopt a passive strategy for the entire portfolio with the exception of Corporate Bonds and Property. The Trustees recognise that the use of a passive manager in these assets will mean that the Plan will not significantly out-perform the relevant benchmark in these areas. A passive strategy will also result in lower investment management fees.

The Trustees have selected pooled funds for the investment of the Plan's assets to achieve good diversification given the size of the assets invested for each mandate. A pooled fund is one where the Trustees, along with other investors, buy units in a larger pool of investments run by the Manager.

### **Mandates and Performance Objectives**

The Trustees have received advice on the appropriateness of each Investment Manager's targets and benchmarks from the Advisers and believe them to be suitable to implement the Plan's investment principles. Each Investment Manager has been mandated by the Trustees to manage the investments in a particular way, and details of these mandates are described in the SII.

## Monitoring

The Trustees will monitor the performance of the Investment Managers against the agreed performance objectives.

On behalf of the Plan, River and Mercantile Solutions will regularly review and meet with each investment manager to ensure that they are carrying out their work competently. The Trustees will review the activities of the Investment Managers on a quarterly basis (and meet with each of them when appropriate) to satisfy themselves that each Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of the Plan.

As part of this review, the Trustees will consider whether or not each Investment Manager:

- Is carrying out its function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with an Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustees' requirements, they will remove the Investment Manager and appoint another.

The Trustees will monitor the performance and the value of advice given by the Advisers on a regular basis.

The Trustees will review the appropriateness of the Plan's investment strategy during the first quarter of each calendar year.

The Trustees will review this SIP triennially and modify it if deemed appropriate, in consultation with the Advisers. There will be no obligation to change this SIP or any Investment Manager or Adviser as part of such a review.

## Contingent Contribution Mechanism

The Advisers will take responsibility for providing the relevant information required, in a timely manner, for the calculation of the ongoing funding position to understand if a contribution is payable by the sponsor at any time. Specifically, the Investment Adviser is responsible for providing asset valuation updates and the Actuary will provide updated liability values. The funding position will be monitored on an ongoing basis.

## Risks

The Trustees recognise a number of risks involved in the investment of assets of the Plan. These risks, and how they are measured and managed, include:

- i. Funding and asset/liability mismatch risk –
  - Considered by use of a liability benchmark or 'LB' as a proxy for the liabilities in order to measure the performance of the investments relative to broad changes in the liabilities (due to changes to the relevant gilt yields only). The Trustees monitor this relative change in the asset and liability values on a quarterly basis. The LB is reviewed following each actuarial review.

- The Trustees also recognise the risk of a negative impact on the funding level from changes to the actuarial assumptions used to calculate the liabilities and experience variation. This is managed through aiming for a higher overall investment return than implied by the liabilities.
  - Managed by the use of a liability hedge.
  - Monitored also through regular actuarial and investment reviews.
  - After consulting with the Employer and in light of the special contribution mechanism that was in place before the 30 June 2018 Actuarial Valuation, the Trustees have not adopted the use of interest rate and inflation swaps.
- ii. Underperformance risk – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
- Appropriate diversification across asset classes.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The use of passive management for assets classes where the downside risk of active management is considered too high.
- iii. Concentration risk – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of assets.
- iv. Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- v. Currency risk – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme’s investments when compared to a Sterling benchmark
- vi. Risk of inadequate diversification or inappropriate investment – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- vii. Default risk – addressed through the restrictions for the Investment Managers, in particular sterling corporate bonds are managed using a diversified portfolio of bonds.
- viii. ESG risk – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the ESG assessment at the point of investment with the investment managers and as part of the ongoing investment manager monitoring process.
- ix. Mismanagement risk – the risk of unsuitable investment activity by the investment managers. This is addressed in the agreements with the investment managers, which contain restrictions on the proportion and type of asset classes that the investment managers may invest in.
- x. Organisational risk – addressed through regular monitoring of the Investment Managers and Advisers.
- xi. Cash flow risk – addressed through monitoring the cash flow requirements of the Plan to control the timing of any investments/disinvestments of assets.
- xii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Employer.
- xiii. Counterparty risk – the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection

mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

The Trustees will keep these risks and how they are measured and managed under regular review and have put in place a training schedule which will, in part, assist with this process.

**Additional Voluntary Contributions (AVCs)**

The Plan provides a facility for members to pay Additional Voluntary Contributions (AVCs) to enhance their benefits at retirement. The Trustees will review these arrangements annually having regard to their performance, the objectives and investment advice.

**Declaration**

The Trustees confirm that this SIP reflects the Investment Strategy they have implemented for the Plan. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Plan are invested in accordance with these Principles.

Signed:.....

Date:.....

Signed:.....

Date:.....

For and on behalf of the Trustees of the Equinor UK Limited Employees Benefits Plan.