



Nufarm UK Pension Scheme ("the Scheme")

July 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require schemes to detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

In response to the DWP regulation, the Scheme updated its SIP to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments
- policies in relation to investment management arrangements

The SIP can be found online at the web address,
<https://www.isio.com/media/1243/nufarm-sip-2020.pdf>

Further detail on the changes made to the SIP can be found on page 6.

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Trustee has followed policies on engagement covering engagement actions with the Scheme's fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 31 December 2020 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key actions undertaken over the Scheme's reporting year

- The Trustee reviewed the Scheme's investment strategy in 2019 and decided to implement a new strategy, targeting a higher expected return, lower risk and higher levels of liability hedging. The new strategy moved towards its strategic allocation over the period.
- The Trustee appointed Mobius Life as a platform provider to invest majority of the Scheme's assets, except for the Direct Lending mandate which is to be held off-platform. In May 2020, the Scheme's Diversified Growth Fund ("DGF") mandate held with Gatemore successfully novated onto the Mobius Life platform. The Trustee agreed in Q4 2020 to increase the Scheme's allocation to its DGF mandate allowing the Scheme's overall allocation to move further in line with its benchmark – this was completed by investing in a new fund, Schroder Life Intermediated Diversified Growth Fund.
- The Scheme's Direct Lending mandate held-off platform with Partners Group called for capital throughout the year as expected, bringing its allocation further in line with the Scheme's strategic benchmark. The Scheme also has residual holdings in Private Equity and Property, which are held off-platform, and will distribute capital over time. The proceeds from these distributions are expected to be reinvested into the Scheme's Diversified Alternatives mandate that is held on the Mobius Life platform.
- During the year, the Trustee implemented the Scheme's agreed LDI mandate, targeting a liability hedge ratio of c.65% on interest rates and inflation on a Technical Provisions basis. This transition activity was phased over 3 tranches, split weekly to minimise the risk of trading on a bad day. In November 2020, the LDI mandate was reviewed and subsequently topped up to maintain the agreed target hedge level.
- The Trustee updated the Scheme's SIP to include policies in relation to investment management arrangements.
- The Trustee updated the Scheme's SIP to include the Trustee's policies in relation to investment management arrangements, investment manager monitoring and engagement and policies for managing ESG risks.

Implementation Statement

This report demonstrates that the Nufarm UK Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change. We note that some of the manager data was unavailable, but we will work with managers to obtain it for future reports.

Signed

Position Trustee

Date 29 July 2021

Managing risks and policy actions

The Trustee has included a non-exhaustive list of risks and financially material considerations it has considered whilst implementing the Scheme's investment strategy.

On this page we will look at the risks outlined in the Scheme's SIP, the Trustee's policy and any actions in the accounting year taken to address those risks.

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and consistent with the Scheme's funding basis and the sponsoring employer's covenant strength. Investing in a diversified portfolio of assets.	As part of the agreed strategy changes in 2019, the Scheme's assets moved closer towards its strategic benchmark.
Funding	The risk that, at any future time, there are insufficient assets to cover the liabilities.	Funding risk is considered as part of the actuarial valuation and the investment strategy review. The Trustee will agree an appropriate basis, in conjunction with the investment strategy, to target an appropriate journey plan.	No action over the period.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	The strength of the covenant is taken into account when developing the Scheme's investment and funding to ensure adequate covenant support.	No action over the period.
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge these risks, where feasible, through the LDI portfolio.	As part of the agreed strategy update, the Trustee instructed the implementation of the LDI mandate; targeting a liability hedge ratio of c.65% on interest rates and inflation on a Technical Provisions basis.

Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	<p>As part of the agreed actions, the Scheme held a temporary allocation to Absolute Return Bonds which was used for any re-leveraging events, and to fund any capital calls from the Scheme's Direct Lending mandate. This allocation was then subsequently transferred to a daily dealt cash fund in Q4 2020, which is held on the Mobius Life platform to maintain the Scheme's liquidity requirements.</p> <p>The DGF allocation was topped up in December 2020 by investing into a new, more liquid fund, to provide an additional liquidity buffer.</p>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Trustee made an allocation to Schroder Life's Intermediated DGF, a strategic change to increase liquidity within the Scheme and remain appropriately diversified.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	No action over the period.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	ESG is taken into account as part of Isio's standard due diligence and ongoing research and is a consideration in the selection of the Scheme's platform provider / funds.	Details on how the Scheme's current investment managers have implemented ESG factors on the Scheme's behalf can be found in the engagement and voting sections of this report.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No action over the period.

Changes to the SIP

The Trustee updated the Scheme's SIP on 24 September 2020 to include the following:

- The Trustee's policies in relation to investment management arrangements
- The Trustee's policies to investment manager monitoring and engagement (further details can be found on page 10)
- The Trustee's policies for managing ESG risks (further details can be found on page 9)

Policies added to the SIP

Date updated: 24 September 2020

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.

The Scheme's mandate for Direct Lending is subject to a performance related fee.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

The Trustee reviews the investment managers' performance relative to medium and long-term objectives of the funds.

The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.

The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.

The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

The duration is flexible and, from time-to-time, the Trustee will consider the appropriateness of the investments and whether they should continue to be held.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, and the rest of this statement provides an evaluation of the stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the current ESG policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights	The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.	The manager has not acted in accordance with their policies and frameworks.

ESG summary and actions with the investment managers

Isio, as the Scheme's investment consultant, engage with all of the Scheme's investment managers on an ongoing basis. ESG and Engagement are specifically covered in both the initial due diligence and ongoing monitoring of funds that Isio actively monitor.

Engagement

As the Scheme invests via pooled funds, the Trustee delegates all engagement responsibilities to the investment managers. The managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 December 2020.

Fund name	Engagement summary	Commentary
BMO – Dynamic LDI Funds and Equity Linked LDI	Total Engagements: 42	BMO was an early adopter of ESG risk management and have invested a significant amount of time and research in this area.
	Broad Based ESG: 42	
BMO – Sterling Liquidity Fund		BMO appear to have gone beyond peers in the LDI space in terms of action, collaboration, and innovation, and have evidenced that they believe ESG factors are a crucial element of good risk management.
		BMO have shared their list of engagements over the period, demonstrating useful dialogue on matters such as, climate change, labour standards, business conduct and corporate governance. However, it is unclear the impact of these dialogues as BMO await the outcome from their engagements.
	Total Engagements: 13	BMO have shared their list of engagements over the period, predominantly covering Climate Change and Corporate Governance.
	Climate Change: 8	
Ormonde – Multi-Asset Fund (formerly Gatemore Multi-Asset Fund)	Corporate Governance: 3	Whilst BMO aim to have meaningful dialogue with companies, it is unclear the impact of these as BMO await the outcome of their engagements.
	Other: 2	
	Ormonde were unable to provide details of engagement during this period.	
Partners Group – Generations Fund		Ormonde Multi-Asset Fund predominantly invests in other pooled investment funds. Therefore, Ormonde has stated that their focus is on understanding the ESG approach for those underlying positions and engaging with them where they see scope for improvement.
	Partners Group were unable to provide details of engagement during this period.	
		Given the private market nature of the Fund, Partners Group are unable to share appropriate engagement data for the Fund.

Schroder Life - Intermediated Diversified Growth Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	<p>Schroders are a large asset owner with a well-resourced ESG team. At firm level, they appear to have strong ESG-credentials and are actively involved in a wide range of key organisations.</p> <p>In line with peers, ESG risks are taken into account at multiple stages, however clear links to voting and engagement activity are difficult to quantify, as are exposure to ESG risks due to a lack of Fund-level reporting.</p>
Partners Group - Private Markets Credit Strategies 2018 (GBP) S.C.A., SICAV-RAIF	<p>Total Engagements: 6</p> <p>Corporate: 5</p> <p>Monitoring: 1</p>	<p>ESG integration in private credit presents challenges compared to other asset classes. Credit, as opposed to equity, investments provide limited scope to influence management.</p> <p>Partners Group aim to have a seat on the Board of Directors. The representatives work alongside the ESG and Sustainability team to create and implement ESG initiatives at the portfolio companies although there is little evidence of board engagement operating effectively.</p> <p>Examples of significant engagements include:</p> <p>Gong Cha – Partners Group met with the company to discuss the impact of COVID-19 and liquidity management. Following discussions, Partners Group believe that they have successfully established lines of communication for early intervention. Further to this, Partners Group now also receive more frequent updates on performance and other business-related matters.</p>
Harbert - European Real Estate Fund IV	Harbert were unable to provide details of engagement during this period.	Harbert were unable to share any significant data for the Fund.
Lunar Capital IV	Lunar were unable to provide details of engagement during this period.	Lunar had not responded to Isio's request on the Fund's engagement.

Voting

As the Scheme invests via fund managers, the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Partners Group - Generations Fund	<p>Meetings eligible to vote at: 66</p> <p>Resolutions eligible to vote for: 884</p> <p>Resolutions voted on: 95%</p> <p>Resolutions voted with management: 91%</p> <p>Resolutions voted against management: 6%</p> <p>Resolutions abstained from: 3%</p>	-	<p>Whilst the manager was able to complete the template provided, it is unclear of any significant votes that have resulted in any material change.</p> <p>We will continue to work with the manager moving forwards to try and ensure that this information is available.</p>
Ormonde - Multi-Asset Fund	-	-	Ormonde Multi-Asset Fund predominantly invests in other pooled investment funds, and therefore Ormonde is unable to provide the Fund's voting activity.
Schroder Life - Intermediated Diversified Growth Fund	-	-	The manager was unable to provide data in a processable format.
Harbert - European Real Estate Fund IV	-	-	Harbert were unable to share any significant data for the Fund.
Lunar Capital IV	-	-	Lunar had not responded to Isio's request on the Fund's voting activity.

