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# BASF Ireland Limited Defined Benefit Plan

## Statement of Investment Policy Principles

Prepared for        The Trustees  
Prepared by        Aon  
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# Statement of Investment Policy Principles

## **Background**

The purpose of this document is to comply with the EU directive on the Activities and Supervision of Institutions for Occupational Retirement and satisfy the subsequent changes in the Pensions Act, 1990.

This statement has been agreed by the Trustees of The BASF Ireland Limited Defined Benefit Plan (the Plan).

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## **Plan Structure**

BASF Ireland Limited Defined Benefit Plan (the Plan) is a Defined Benefit (DB) arrangement. The Plan was established to provide benefits for members and their dependants on retirement, death or ill-health.

BASF Ireland Limited is the Plan Sponsor. The Trustees are charged with primary responsibility for the management and oversight of the Plan and are responsible for overseeing all aspects of the Plan's operation. The day-to-day administration and operation of the Plan is undertaken by Aon.

The Trustees have overall responsibility for the investment of Plan assets and make the key asset allocation decisions. The Trustees appoint external Investment Managers to manage the Plan's assets. Aon also provides investment support services as required and supports the work of the Trustees. The Trustees have taken expert advice from their consultants, Aon, in preparing this document and setting out their Investment Principles and Objectives.

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## **General Principles and Objectives**

The responsibility for setting investment policy lies with the Trustees.

The overall investment objective is to seek sustained long-term growth sufficient to meet the liabilities, within appropriate levels of risk, over a prolonged period and taking account of the nature and timing of those liabilities. The adequacy of the Plan's assets to achieve this objective is measured every three years through a formal valuation by the Plan Actuary.

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**Investment Strategy**

The Trustees aim to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided.

The Plan's current investment strategy was reviewed in 2019, and the Trustees set a **strategic asset allocation strategy** following the review, which is set out in the table below:

<b>Asset Class</b>	<b>Target Benchmark (September 2019) (%)</b>
Euro Hedged World Equity	8.3
Minimum Volatility Equity	4.1
Fundamental Equity	4.1
Absolute Return	19.2
Property	2.8
Euro Government Fixed Interest AAA/AA > 10 Year Bonds	45.0
Unconstrained Bonds	16.5

A transition to the benchmark, as set out in the table above, was implemented in June 2019. Also arising out of the review, it was agreed that the 16.5% strategic allocation to Indexed Global Equities would be split between Euro Hedged World Equity (8.3%), Minimum Volatility Equity (4.1%), and Fundamental Equity (4.1%). It was also agreed that the holdings with Aberdeen Standard Investments GARS would be divested, with the proceeds to be reinvested in the BNY Mellon Global Real Return Fund.

Actual asset allocations vary from the above from time to time, reflecting market movements and related factors. The Trustees monitor the asset allocation and makes appropriate adjustments, taking account of the target long-term allocations.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position and the liability profile. The Trustees considered written advice from their investment advisers when choosing the Plan's planned asset allocation strategy. It is the Trustees' policy to consider:

- A full range of asset classes
- The risks and rewards of a range of alternative asset allocation strategies
- The suitability of each asset class
- The need for appropriate diversification

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## Risk Measurement & Management

The Trustees have considered the following risks when setting the investment strategy:

1. **Market Risk:** The risk that the return from the assets held is not in-line with the changes in liabilities. *This has been addressed by carrying out an investment strategy review to determine the appropriate asset mix relative to the liabilities, and by holding a diversified portfolio of assets.*
2. **Longevity Risk:** The risk that trends of improvement in mortality lead to higher than expected pension costs. *This risk is addressed as part of the regular actuarial valuation, where improvements in mortality is considered in determining the liabilities of the Plan and the required contribution rate.*
3. **Manager Risk:** The risk that the chosen investment manager does not meet its investment objectives, or deviates from its intended risk profile. An associated risk is Active risk, where the Plan is exposed to the actions or decisions of one manager. *This risk has been addressed by investing the assets of the Plan with more than one manager, thus diversifying the exposure of the Plan assets to the active management skill of one manager. This risk has also been addressed by investing the equity and government bond assets of the Plan on a passive basis.*
4. **Interest Rate Risk:** The risk that changes in interest rates results in a change in the liabilities that is not reflected in the change in assets. *This risk has been addressed by investing in an appropriate proportion of bonds, with due consideration to the liability characteristics of the Plan.*
5. **Cashflow Risk:** The risk that the cashflow needs of the Plan requires a disinvestment of assets at an inopportune time. *This risk has been addressed by holding a high proportion of the Plan assets in liquid assets. This risk will need to be considered in more detail as the Plan matures.*
6. **Inflation Risk:** The risk that the inflation linked liabilities of deferred members grows at a faster rate than the assets held. *This risk is addressed by investing in an appropriate proportion of assets with returns that is expected to exceed inflation.*
7. **Operational Risk:** The risk of fraud or poor advice. *This is addressed by regular monitoring and review of investment managers and advisers.*
8. **Covenant Risk:** The risk that the sponsor is unable to provide sufficient funding when required. *This risk is addressed as part of the investment objectives, where due regard is paid to the interests of BASF Ireland Limited in relation to the ability to continue paying employer contributions.*

Due to the complex and interrelated nature of the above risks, the Trustees consider these risks in a qualitative, rather than quantitative manner as part of each formal investment strategy review (normally

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triennially). Some aspects of these risks may be modelled explicitly. In addition, investment risk is considered as part of the actuarial valuation.

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**Implementation**

The Trustees have employed multiple investment managers to implement the agreed investment strategy set out on page 2. The managers, their investment objectives and the target proportions of the total fund that each will manage is set out in Appendix A.

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**Governance**

The Trustees of the Plan are responsible for the investment of the Plan assets. The Trustees take professional advice from the Investment Consultant, and based on this, make decisions on the asset allocation to be adopted and investment managers to be appointed.

The Trustees have established the following decision-making structure:

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**Trustees**

- Set structures and processes for carrying out their role
- Select and monitor planned asset allocation strategy
- Select Investment Advisors and Fund Managers
- Decide on the structure for implementing investment strategy
- Make ongoing decisions relevant to the operational principles of the Plan's investment strategy
- Monitor Investment Advisors and Fund Managers
- Continue to ensure that the Trustees have sufficient training to enable them to make appropriate decisions with the help of the investment advisers

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**Investment Consultant**

- Advises on all aspects of the investment of the Plan assets, including implementation
- Advises on this statement
- Monitors Investment Managers and Investment Risk as requested
- Provides required training as requested

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**Fund Managers**

- Operate within the terms of this statement and their written contracts
- Select individual investments with regards to their suitability and diversification

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**Review of Investment Managers**

The Trustees will periodically review each investment manager and will formally review the investment managers every three years with advice from the Plan's Investment Consultant.

These reviews will focus on the following:

- Business Issues
- Organisation and Staff

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- Investment Process
- Risk Management
- Systems
- Performance
- Client Service and Fees


The current investment managers, mandates and benchmarks for each manager is listed in Appendix A.

**Review of this Statement**

This Statement of Investment Policy Principles may be revised by the Trustees at any time. The Trustees will formally review this Statement at least every three years. Any necessary changes will be made in consultation with the Sponsor.

**Signed on behalf of the Trustees**

Signed on behalf of the Trustees of the BASF Ireland Limited Defined Benefit Plan

DocuSigned by:  
  
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23rd April 2020

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
Date

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
Date

*This Statement of Investment Policy Principles is produced to meet the requirements of the Occupational Pension Schemes (Investment) Regulations, 2006.*

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## Appendix A — Manager Details and Investment Guidelines

Asset Class	Fund	Benchmark	Objective	Target Proportion
Global Euro Hedged Equity	ILIM Indexed World Equity Hedged Fund	FTSE World Index (Euro Hedged)	To perform in line with the benchmark	8.3%
Global Fundamental Equity	ILIM Indexed Fundamental Equity Fund	FTSE RAFI Developed 1000 Index	To perform in line with the benchmark	4.1%
Global Minimum Volatility Equity	ILIM Minimum Volatility Equity Fund	MSCI Minimum Volatility Index	To perform in line with the benchmark	4.1%
Absolute Return	BNY Mellon Newton Global Real Return Fund	1m Euribor +4% p.a. gross of fees	To outperform the benchmark over rolling 3 year periods	19.2%
Property	ILIM Irish Property Fund	Average Irish Property Fund	To outperform the benchmark	2.8%
Eurozone Fixed Interest AAA/AA Government Bonds	ILIM AAA/AA Eurozone > 10 Year Bond Fund	Merrill Lynch EMU Government Bond > 10 Year AAA/AA Index	To perform in line with the benchmark	45%
Unconstrained Bond Fund	PIMCO Unconstrained Bond Fund	1m Euribor Index	To outperform the benchmark	16.5%

### Manager Contracts

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practical.



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**Investment Guidelines**

Due to the size and nature of the Plan's investments, investments are currently on a unitised basis. While the Trustees recognise that they cannot restrict investments in unitised vehicles, the Trustees may require all investment managers (with the exception of investment managers with Government Bond mandates) to furnish, on an annual basis, a statement confirming that the investments comply with the following list of principles. In the event that the fund is not compliant with any particular principle, the investment manager will report on and explain the rationale on an at least annual basis.

1. Investment portfolios will be well diversified;
2. The assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole so far as is appropriate having regard to the nature and duration of the expected liabilities of the Plan;
3. There will be no further investment in a security where the value of the security as a proportion of the total value of a fund exceeds 5%\*. Furthermore, the investment manager may be required to report quarterly on any securities that, by virtue of market movements, become more than 5%\* of the total value of a fund; (\*excluding government bonds)
4. There will be no investment which accounts for more than 5% of the issued capital of any one company;
5. Subject to point (3) above, investing in un-listed securities (with the exception of other unitised vehicles which is not restricted) is permitted up to a limit of 7.5% of a fund;
6. Investment in derivative instruments may be made only in so far as they (a) contribute to a reduction of risks; or (b) facilitate efficient portfolio management, including the reduction of cost or the generation of additional capital or income with an acceptable level of risk. Any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations;
7. Investments should be predominantly on regulated markets;
8. The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. These duties include:
  - a) Realisation of investments
  - b) Taking into account socially responsible factors in so far as they relate to the financial potential of the Plan's assets
  - c) Voting and corporate governance in relation to the financial potential of the Plan's assets

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The Trustees may, from time to time, ask the manager to report on their approach to these issues.

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