SSPF Statement of investment principles

September 2023

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1. Introduction

This statement of investment principles (hereinafter: Statement) gives a brief outline of the investment policy of Stichting Shell Pensioenfonds (SSPF). This policy is determined by the Board of SSPF. The investment policy is elaborated on in detail in the Actuarial and Technical Commercial Memorandum (ATCM) and the Investment Plan.

SSPF will make this statement available to entitlement and pension beneficiaries when requested to do so. This statement is also published on the SSPF website: www.shellpensioen.nl/downloads.

The Board adopted this statement on 21 September 2023 and it will be reviewed every three years as well as after every important change to the investment policy.

Below, a brief profile of SSPF is followed by a description of how investment policy is determined and how the Board renders account about policy and its implementation. Attention then turns to investment policy. This statement ends by setting out how investment policy is implemented.

2. Profile of SSPF

2.1 Organisation

SSPF is a company pension fund of the Shell Group in the Netherlands and is responsible for administering the pension schemes that SSPF member group-companies have provided for the employee categories in question. SSPF administers a pension scheme for employees who joined SSPF prior to 1 July 2013. SSPF is a separate legal entity (foundation), because of which it is legally independent of the Shell Group. The composition of the SSPF membership base is recorded in the most recently published SSPF annual report which is available on the SSPF website.

2.2 No secondary activities

SSPF limits its activities to the administration of pension schemes and activities directly connected to the administration of these schemes. In accordance with 116 of the Pensions Act ('Pensioenwet'), SSPF does not engage in any secondary activities.

2.3 The pension scheme

The pension scheme is an unconditionally indexed average salary scheme. According to the provisions of the Pensions Act, the pension scheme is characterized as a benefit agreement. The pension scheme provides a retirement pension on retirement, a partner's and orphan's pension on the death of the participant/former participant or retiree, and a disability pension and premium waiver upon disability or incapacity for work. The latest pension scheme is recorded in Regulations VI and is published on the SSPF website.

3. Investment policy: Areas of responsibility of the Board

The Board specifies the strategic investment policy after hearing from Shell Petroleum N.V. and after advisement from the Accountability Body. Every year the Board reports on the determining and execution of the investment policy in the annual report.

Shell Pensioenbureau Nederland B.V. (SPN) supports the Board in the supervision of the asset management and in the area of risk management.

The management of assets has been outsourced to Shell Asset Management Company B.V. (SAMCo) under an Investment Management Agreement (IMA). In turn, SAMCo, on behalf of SSPF, has appointed a number of external asset managers to manage some SSPF assets.

The Board retains, at all times, ultimate responsibility for the investment policy pursued. When determining and executing the investment policy, the Board takes advice from an investment organisation, which consists of an investment committee, an external investment advisor, SPN and SAMCo. This means the Board can make certain that it conducts discussions in the correct manner and that it has the proper 'countervailing power' and experience to make well-founded decisions.

SSPF has a suitability plan regarding (among other things) asset management in respect of the Board, the Accountability Body, SPN employees and others.

The Board of Supervisors, which consists of external experts, continuously monitors the investment policy and the execution of the investment policy, amongst other things. The Board of Supervisors reports on the execution of its tasks in the annual report.

In addition, the Board is accountable to the Accountability Body for the investment policy and the execution of the investment policy in the previous calendar year and the manner in which the policy has been executed, among other things. The assessment of the Accountability Body and the response of the Board to that is recorded in the SSPF annual report.

4. SSPF investment policy

4.1. Strategic investment policy

Subject to risks acceptable to the Board and dependant on the funding ratio at any time, the focus of SSPF's strategic investment policy is on striving for investment results that put SSPF in a position to realise a healthy financial position in the long term.

Risk Attitude and Investment Beliefs

The risk capacity of SSPF is mainly determined by the risk appetite of Shell Petroleum N.V. (SPNV) and its commitment in the event of a funding shortfall (phased) to supplement up to a funding ratio of 105%. When determining the own risk appetite, the Board has taken the SSPF goals the Board is aiming towards as the point of reference, thereby considering to what extent the Board is prepared to call on the supplemental payment commitment of SPNV and thereby also taking into account the investment beliefs formulated by the Board ('SSPF Investment Beliefs'):

1. Expertise combined with strong countervailing power leads to robust investment decisions.
2. Engaged shareholdership promotes good governance and corporate social responsibility. Integration of ESG factors contributes positively to the risk/return profile.
3. In order to generate returns, investment risks must be taken consciously and unremunerated risks must be hedged where it makes sense.
4. The Strategic Asset Allocation determines to a large extent the return potential and risk profile of the investment portfolio.
5. Diversification improves the risk-return profile of the investment portfolio while explicitly taking into account the underlying sources of risk and return.
6. The long-term investment horizon allows short-term risks, such as volatility and illiquidity, to be borne in order to achieve a higher return.
7. Risk premiums vary over time and across markets, meaning that judicious implementation of dynamic policy adds value.
8. Not all markets are always efficient and this offers opportunities to add value through active management.
9. Investment risks have multiple dimensions that need to be considered from different angles and perspectives.
10. Additional costs are acceptable for generating additional returns and/or better risk management.

Journey Management Plan

The Board has established a Journey Management Plan (JMP) that provides guidelines for a de-risking path to the target funding ratio. The most important design principles behind the JMP are as follows:

- The JMP provides guidelines for the pension fund with the aim of ultimately achieving – and then maintaining – a financial position that allows the fund, with a high degree of certainty, to pay out the commitments assumed plus the relevant indexation without having to incur significant investment risks.
- The JMP has a realistic target funding ratio of 107%.
- The JMP contains realistic funding ratio 'triggers' where, upon reaching those triggers, a de-risking step is then implemented in the investment portfolio. The 'increment' between funding ratio triggers is 3-4% points.
- The final portfolio in the JMP – the investment portfolio at the target funding ratio of 107% – has a target return of 0.5% above the euro swap rate and therefore a limited percentage of return-seeking assets and a high degree of hedging against both interest rate risks and inflation risks.

In the JMP, guidelines are provided for various levels of the realistic funding ratio for the allocation to variable-yield securities on one hand and matching, liquidity and IG assets on the other hand. In addition, there are guidelines for the degree of hedging of both nominal and realistic interest risk.

Strategic investment mix

SSPF fine tunes the strategic investment policy to its obligations (observing a three-year cycle) by means of an Asset Liability Management study (ALM study). This is a fine-tuning for the long term, which responds to changes in the risk profile of the pension commitments and in the long-term risk perception of SSPF. In addition, SSPF keeps a constant eye on the investment risks in the short term, and fine tunes the investment mix if needed (temporarily) to any changes arising in that context.

The portfolio is spread at the highest level over Return-Seeking Assets on the one hand and Matching Assets and Liquidity & Investment Grade (IG) Assets on the other hand. There is a standard distribution over the various investment categories within these portfolios.

The goal of Matching Assets is to match the interest rate sensitivity of the cash flows of the nominal and realistic commitments. The interest rate hedging is implemented as an allocation of fixed-income investments designated for this to the Matching Assets, supplemented by derivatives.

The goal of Liquidity Assets is to provide the (other parts of the) portfolio with liquidity and collateral. The goal of IG Assets is to achieve a return from LIBOR plus 50 basis points (0.50%) with limited exposure to fundamental credit risk (low risk for permanent loss of invested capital). This portfolio invests in both liquid corporate bonds and in less liquid instruments such as mortgages and so forth. All investments in this portfolio have 'investment grade' characteristics.

The goal of Return-Seeking Assets is to generate returns higher than the minimum required return that is needed to be able to realise the nominal obligations, and thereby to be able to realise the indexation target.

The strategic investment policy and the level of nominal and realistic interest rate hedges were set as follows:

Portfolio component	Strategic target weighting
Return Seeking Assets	40%
Matching Assets (MA) and Liquidity & IG Assets	60%

The Return Seeking Assets portfolio is composed as follows:

Portfolio component	Strategic target weighting
Listed equities	16%
High yield	6%
Emerging market debt	7%
Private equity	5%
Real estate	3%
Hedge funds	3%
Total	**40%**

In the Matching Assets portfolio the nominal interest risk and realistic interest risk are hedged as follows:

Matching Assets	Hedging percentage
Nominal interest hedge	60%
Realistic interest hedge	20%

Hedging of currency risks
The currency policy involves not hedging, partially hedging, or fully hedging the currency risk, where the degree of hedging is determined in principle by the investment category. For listed equities and private equity, 60% of the currency exposure in USD, GBP and JPY is strategically hedged. The currency risk in the fixed-income portfolio and for property, hedge funds and other alternative investments is 100% hedged for all direct currency exposure for USD, GBP, JPY, HKD, SGD and NZD. The currency risk of investments in local currencies in emerging markets is not hedged.

Temporary deviation from the strategic investment policy
The Board can, at any point in time, make a reasoned decision to temporarily deviate from one or more components of the strategic investment policy.

Risk management
SSPF ensures that its business operations are conducted in a controlled and ethical manner, and in that context is responsible for the management of the investment risks and other risks. SSPF has set up a Control Framework, the guiding principle of which is to have a control structure that fits the profile of SSPF and the risks that SSPF faces. The policy of SSPF is thereby aimed at managing risks in such a way that there is a careful, responsible and balanced weighing up between the risks on the one hand and, on the other, the returns, stability in the premiums and chance of additional payment, efficiency in administration and costs.

Every quarter or, if prompted by market developments or other relevant circumstances, as often as SSPF considers necessary, SSPF will assess its investment-related risks (including the development of such risks) and adjust the investments where necessary, with due observance to the policy described above.

4.2 Responsible Investment
SSPF has adopted a policy on investing responsibly. SSPF defines ‘responsible investment’ as investments in which the interests of participants, inactive participants, retirees and society are all represented in the long term. Besides financial considerations, environmental, social and governance (ESG) aspects are also taken into account. SSPF strives to create long-term value through its investments. SSPF’s vision is that responsible investment contributes to long-term value creation.

The full policy on responsible investment is published on the SSPF website. The responsible investment policy is, in principle, evaluated annually by the Board and adjusted if necessary.

Objectives
The following objectives have been formulated for responsible investment policy at SSPF:

- To ensure that policy and its implementation are in compliance with current treaties, conventions, legislation, guidelines, codes and covenants on the subject of investment policy;
- To ensure that choices and results are transparent for and explainable to all SSPF stakeholders;
- To commit itself to achieving sustainable improvements in respect of the environment, society and governance. For example, a reduction in its CO_2 footprint and improved governance performance;
- To make a positive contribution to the risk and return profile of SSPF investments, with due observance of the thematic preferences of participants.

Strategic tools
The decision to take long-term value creation as a guiding principle has been integrated into various parts of the overall policy and investment cycle, as well as in the selection criteria for external managers. If possible, SSPF monitors the strategy, financial and non-financial performance and risks, capital structure, social and ecological impact and corporate governance of the companies in which it invests. SSPF actively exercises its voting rights as much as and wherever possible. If necessary, SSPF collaborates with others, or external service providers, to seek active dialogue with companies in which it is investing, in order to achieve improvements in environmental and social policy and governance ('good governance') and, as such, also achieve better results, remedy and/or recourse. The above is done by an external asset manager and specialist service providers.

SSPF asks external fiduciary managers, ESG service providers and/or asset managers to act in accordance with SSPF policy and objectives and strives to collaborate with them in the long term, in order to achieve long-term value creation through responsible investment. In its responsible investment policy, SSPF prioritises thematic focus areas, which are based in part on its own risk assessment and the preferences of participants.

Monitoring
SSPF monitors the progress and impact of its responsible investment policy by means of quarterly reporting, which it receives from and discusses with its external asset manager or service provider. SSPF then makes any adjustments necessary.

Transparency and reports
Once every quarter, SSPF reports on its implementation of voting and engagement policy on its website. It specifies the engagements initiated and voting policy per region, the votes cast and items that SSPF voted against or in relation to which it abstained from voting. The policy is applied worldwide. As part of this policy, SSPF does not issue any (public) communications about individual companies it invests in or that have been excluded by SSPF. SSPF reports on its responsible investment activities in its annual report.

SSPF has set out the full details of the ESG policy and its anchoring in the investment cycle in a separate policy document 'SSPF ESG Policy', which is published on its website.

4.3 Investments in the Shell Group

The investment policy allows SSPF to have securities in Shell plc, by means of passive management positions, subject to the applicable legal and statutory limits. Active investment in, "shorting" of or taking specific derivative positions in these securities is not allowed.

4.4 The use of derivatives

Derivatives are used to reduce the risk profile or to facilitate efficient portfolio management. For example, use is made of interest rate swaps (to partially hedge interest risk) and credit derivatives and the currency policy is implemented with forwards.

4.5 Custody of securities and securities lending

SSPF has appointed an independent depository ('custodian') who holds the capital and who handles securities lending for SSPF. The custodian's service provision is periodically assessed.

4.6 Valuation principles

SSPF values the assets at the current value.

4.7 Risk management in the investment policy

An important part of the investment policy is the management of investment risks. SSPF reduces investment risks primarily by ensuring a healthy diversification of investments across - and within - the various investment categories. Limiting the 'risk of lack of diversification' is an essential element when establishing the strategic investment policy. Diversification works well in normal market conditions, but in times of crisis (such as in 2008) this diversification effect may be (considerably) smaller or may even (temporarily) no longer apply.

SSPF differentiates between, among others, the following investment risks with the specified risk management (in outline):

- **Market risk**
  Investments are inextricably linked with risk, but the risk can be limited - in normal market conditions at least - by spreading the investments. SSPF's market risk is a consequence of the choice to invest or more specifically of the choice for the strategic investment mix that is partly based on the findings of the ALM study. The market risk is broadly determined by the shares risk, the interest risk due to the duration mismatch (the interest rate sensitivity of the obligations is higher than the interest rate sensitivity of the investment portfolio) and the currency risk.

- **Variable-yield securities risk**
  Investing in variable-yield securities (shares and alternative investments such as hedge funds, private equity and property) brings risks which are limited by spreading (diversifying) over countries and regions, sectors, and specific shares within these sectors as much as possible.

- **Interest risk and inflation risk**
  Interest and inflation risk is the potential impact on the value of the investments and the obligations as a consequence of uncertainty in interest rates and inflation. By implementing interest rate hedges and inflation hedges, the interest risk and inflation risk in the investments and obligations, in conjunction with the SSPF goals, can be partially hedged.

- **Currency risk**
  SSPF faces currency risks because the pension liabilities are in euros, while the investments are also in other currencies. For the fixed-income portfolio and property investments, the foreign currencies (other than euro) are strategically fully hedged, with the exception of currencies in emerging markets. For listed equities and private equity, the American dollar, the British pound and the Japanese yen are strategically partially hedged. The currency risk for hedge funds and other alternatives is strategically fully hedged.

- **Credit risk**
  Credit risk, also known as counterparty risk, is, among other things, the risk that the issuer of an obligation can no longer meet their payment obligation. Investment guidelines that facilitate as much spreading as possible over creditworthiness (ratings) and exclude or limit some ratings in the portfolio should mitigate this risk.

- **Liquidity risk**
  Liquidity risk is the risk of the pension fund not having sufficient (liquid) reserves to cover the pension payments and collateral requirements, with the ultimate risk being a default. Under normal circumstances this does not pose a risk. But because there may also be times when market conditions are not normal, where significant market movements could take place, and where normal pricing may no longer be possible, with markets actually 'drying up', this is one of the risks that the Board pays extra attention to. This risk is mitigated by carrying out periodic stress tests and by always keeping an adequate amount of (extremely) liquid investments. The Board monitors the liquidity of the investment portfolio through the aforementioned stress tests and using the Liquidity Coverage Ratio.

- **Concentration risk**
  There is concentration risk if there is an inadequate distribution of investments. This risk is mitigated through diversification of the investments at operational and tactical level.

- **Operational risk**
  The operational risks when implementing the policy are varied and include risks such as ineffective oversight, insufficient segregation of duties, fraud, system failures, system interruptions, inadequate procedures and incomplete or incorrect provisions in contracts whereby financial and reputational damage may arise. The Board pays attention to this risk in the selection and evaluation of parties to whom activities are outsourced or who have an advisory role.

The processes and activities are described in detail. The risks have been identified by the Board and are mitigated through various control measures. However, some risks can manifest themselves differently than estimated and/or expected beforehand, for example risks of wage inflation and developments in the financial markets.

- **ESG risk**
  ESG risks are that SSPF potentially suffers a loss on an investment because the financial status or reputation of a business is harmed by ESG questions or controversies. This risk is mitigated by: a. Periodically assessing the portfolio for these (potential) risks, b. SSPF's activities as 'engaged shareholder' in terms of exercising voting rights, engaging in dialogue and exclusion, and c. allowing ESG factors to be a component of the manager selection process and portfolio construction within the internally managed mandates (from SAMCo).

4.8 Execution of the investment policy and risk monitoring

The strategic investment mix is translated into a mandate for SAMCo, to whom the implementation of the investment policy has been outsourced. This mandate is recorded in an Investment Management Agreement (IMA) and corresponding power of attorney.

In terms of the management of the active investment risks, the IMA contains specific guidelines, including risk criteria and permitted investment instruments.

The IMA is the framework within which SAMCo is allowed to take investment decisions on a daily basis. SPN carries out risk and investment control on this.

SAMCo monitors compliance with these investment guidelines and provides reports on this to the Investment Committee and the Board of SSPF every quarter.

In principle, agreements between SSPF and asset managers, including the IMA with SAMCo, are entered into for an indefinite period of time. SSPF has the option, within a period of 1 to 12 months, to terminate these agreements without stating the reason, depending on the asset category in which the asset manager invests on behalf of SSPF.

The remuneration for asset managers to whom SSPF has outsourced investment activities is based on the costs incurred for the management of SSPF's investments. No additional costs are charged by means of transaction fees. Investment advisors of SSPF are remunerated on the basis of a fixed fee supplemented with any performance fees in accordance with agreements made in advance with the SSPF Board of Directors.

The periodic monitoring of asset managers by SSPF also includes the monitoring of costs. The costs associated with the investment portfolio turnover rate are part of this. Costs are reported to SSPF as part of the asset manager's obligations under the MiFID and are assessed in relation to the duration and objectives of the pension fund's investment strategy. Given the contractually agreed fee structure and long-term orientation of the investment portfolio, there is little to no incentive for asset managers to accelerate the portfolio's turnover rate.

4.9 Evaluation of the investment result

Detailed performance evaluations are carried out daily by SAMCo.

The external asset management companies report to SAMCo on the investment result and the investment activity every quarter at a minimum.

Management at SAMCo regularly evaluate the management of assets, including management by external managers, bringing in external advisors if required.

The investment results are reported on a quarterly basis to the Investment Committee and the Board of SSPF. In addition, SSPF evaluates the strategic choices made by the Board as well as SAMCo's excess performance on an annual basis through the Strategic Performance Evaluation. Finally, every year SSPF evaluates the investment results over a longer period, also in relation to the 'peer group' universe (the 'peer group analysis').

Every quarter the Investment Committee evaluates one investment category, including the applied benchmarks, so that the whole portfolio is assessed each calendar year. The Board appoints external advisors to periodically assess SAMCo and the custodian.

4.10 Prudent person

The Board believes that the strategic investment policy set out in the ATCM and elaborated on in the Investment Plan ensures that the investment portfolio is invested such that the safety, quality, liquidity and return achieved by the portfolio as a whole are safeguarded. The expectation is that the portfolio and policy will put SSPF in a position to be able pay out the nominal pension. The expectation is also that the expected return will be sufficient to enable the realisation of the indexation target to a satisfactory extent.