Marubeni-Komatsu Limited Pension and Death Benefit Scheme

Statement of Investment Principles

as required by the Pensions Act 1995 and the Pension Act 2004

September 2020

The Trustees confirm that the following matters have been taken into account when preparing this Statement of Investment Principles:

The Trustees have considered written advice from the Investment Advisor prior to the preparation of this Statement and have consulted Marubeni-Komatsu Limited, the Principal Employer, before agreeing this Statement and the investment strategy outlined in this document.

All day to day investment management decisions have been delegated to the Investment Managers, where the Investment Managers are authorised and regulated by the Financial Conduct Authority.

The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify and any self-investment.

This Statement of Investment Principles will be reviewed at least every three years, or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken having taken advice, as appropriate, and following consultation with the Principal Employer.

1. General

This statement sets out the principles governing decisions about the investment of the assets of the Marubeni-Komatsu Limited Pension and Death Benefit Scheme (the "Scheme"). It has been prepared on behalf of the Scheme trustees (the "Trustees") to comply with Section 35 of the Pensions Act 1995 (the "Act") as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees will review the Scheme's investment strategy every three years, following each formal actuarial valuation of the Scheme, or more frequently should the circumstances of the Scheme change in a material way.

2. Consulted Parties

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Deloitte Total Reward and Benefits Limited ("DTRB" or the "Investment Advisor") on the suitability of the investments, the need for diversification and the principles contained in this Statement. DTRB is authorised and regulated by the Financial Conduct Authority ("FCA").

The Trustees, in preparing this Statement, have also consulted Marubeni-Komatsu Limited, the Principal Employer (the "Company"), on the Trustees' objectives and investment strategy.

3. Investment Powers

The Trustees recognise that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries. The Trustees have overall responsibility for the prudent management of the Scheme's assets. The strategic management of the Scheme assets is fundamentally the responsibility of the Trustees, acting on advice from Deloitte Total Reward and Benefits Limited ("DTRB") as Investment Advisor, and is driven by its investment objectives as set out in Point 4 below.

4. Investment Objectives

The Trustees' primary objectives for setting the investment strategy of the Scheme are set out below:

- "Funding objective" – for the Scheme to be fully funded on a low risk basis, taking account of the strength of the Company covenant;

- "Stability objective" – to have regard for the Company's ability to meet its contribution payments and to have regard for the volatility of funding; and

- "Hedging objective" – for the assets to hedge a portion of the interest rate and inflation risk associated with the Scheme's liabilities on a Technical Provisions basis.

The investment guidelines outlined in Section 5 have been designed with these considerations in mind.

5. Investment Guidelines

The Trustees have the following strategic investment strategy for the Scheme. In order to reduce volatility in the Scheme's funding position caused by changes in interest rate and inflation expectations, the Trustees made changes to the Scheme's investment strategy in the final quarter of 2019. The Trustees transferred assets from Baillie Gifford to Liability Driven Investment (LDI) funds, World Equity Index Fund and Buy and Maintain Credit funds, all managed by LGIM.

Manager	Fund	%
LGIM	Multi-Asset Fund	30.0
LGIM	All-World Equity Index Fund (Sterling Hedged)	17.0
Baillie Gifford	Managed Fund	16.0
M&G	UK Property	3.0
LGIM	Buy and Maintain Credit Fund	17.0
LGIM	Pooled LDI funds	17.0
LGIM	Sterling Liquidity Fund	0.0*
Total		**100.0**

*zero strategic asset allocation, but used for liquidity management

The Trustees are satisfied that the asset allocation, as detailed above, provides adequate diversification to the portfolio. It also hedges a proportion of the Scheme's interest rate and inflation liabilities.

6. Expected Return

In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

The Trustees expect that over the long-term, the investment strategy selected will deliver a return that meets the return assumptions used by the Scheme Actuary in the Actuarial Valuation.

Over the long-term, the investment strategy of the Plan is intended to deliver a return that will allow sufficient asset growth such that, in combination with the agreed schedule of contributions from the Principal Employer, the technical provisions can be met.

7. Arrangements with Investment Managers

Investment Managers

The day-to-day management of the Scheme's assets is delegated to Baillie Gifford, M&G and Legal and General Investment Management ("LGIM") (together, the "Investment Managers").

Baillie Gifford and M&G Investment Management Limited are authorised and regulated by the FCA.

A large proportion of the Scheme's assets are invested in policies provided by Legal & General Assurance (Pensions Management) Limited where the management of the assets is undertaken by Legal & General Investment Management, who is authorised and regulated by the FCA.

Fees and charges

The fee arrangements agreed with the Investment Managers are summarised in Section 10 of this document. These fees are based on assets under management and are not subject to any performance conditions. The Trustees review the fees charged by the Investment Managers on a regular basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Scheme's size and complexity.

The Trustees also review additional investment manager costs and charges (including portfolio turnover costs) on a regular basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustees monitor the portfolio turnover in the context of what the Trustees believe to be reasonable, given the nature of each mandate. By also monitoring performance and associated costs, the Investment Managers are incentivised to consider the impact of portfolio turnover on investment performance.

Where the Trustees invest in passively managed funds, these replicate benchmark indices and therefore require assets to be bought and sold when the constituents of the underlying index change. To avoid being a forced buyer/seller of stocks and to reduce transaction costs when the index changes, investment managers give themselves some flexibility on exactly when to buy and sell and what proportions of each asset in the index to hold, to minimise transaction costs.

Monitoring

In addition to performance measures, the Trustees will review the engagement activity of the investment managers to ensure that active engagement is taking place where possible to influence positive change in relation to Environmental, Social and Governance factors, including climate change (together referred to as "ESG factors") within investee companies. The Trustees will also monitor the voting activity of the Investment Managers to ensure votes are being used and are aligned to their policy on ESG detailed in Section 8 below.

The Trustees believe that along with the Investment Managers' stewardship policies, which are detailed in Section 8 of this document, the objectives of the funds are aligned with the medium and long term views of the Trustees.

If the Trustees believe that the Scheme's Investment Managers are no longer acting in accordance with the Trustees' policies, including those regarding ESG and engagement with investee organisations to assess and improve their medium to long-term financial and non-financial performance, the Trustees will take the following steps:

- engage with the Investment Managers in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustees' policies and views.

These statements are made noting that the Scheme's assets are invested in pooled funds and as such, the Trustees are restricted in their ability to directly influence its Investment Manager on the ESG policies and practices of the companies in which the pooled funds invest. The remuneration of the Investment Managers are not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustees will review and replace an investment manager if net of fees investment performance and ESG practices are not in line with the Trustees' expectations and views.

The Trustees believe that these steps will incentivise the Investment Managers to align their actions with the Trustees' policies and also for them to act responsibly.

Duration of investment arrangements

The Trustees, with guidance from its Investment Advisor, have chosen to invest in open-ended pooled funds. For these funds, the Trustees' policy is to enter arrangements with no fixed end date. However, the Trustees will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Scheme's open ended investments are daily and weekly dealt. The Trustees will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of the Investment Managers' performance against objectives. The Trustees may also elect to terminate the arrangement with the Investment Managers when performing ongoing reviews of the suitability of the Scheme's asset allocation over time.

8. Risks

In determining its investment policy, the Trustees have considered the following risks:

- *funding or asset and liability mismatch risk* – the Trustees address this through the asset allocation strategy and through regular actuarial and investment reviews. The decision to increase levels of liability hedging was intended to reduce this particular risk;
- *underperformance risk* – this is addressed through monitoring the performance of the Investment Managers and taking necessary action when this is not satisfactory;
- *risk of inadequate diversification or inappropriate investment* – the Trustees address this by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector;
- *sponsor risk* – the Trustees seek to maximise overall investment returns subject to an acceptable level of risk and, as far as possible, is mindful of the impact of any volatility on the rate of contribution;
- *liquidity risk* – the Trustees may need to pay pension and lump sum benefits in the short-term and, therefore, address this risk by investing an appropriate amount in assets that are realisable at relatively short notice;
- *credit and market risks* – the Trustees accept a degree of each of these risks in the expectation of being rewarded by excess returns. Exposure to more volatile assets such as equities is minimised to the extent possible;

- *counterparty risk* - The risk that a counterparty is unable to honour its obligation under a contract agreement causing the Scheme to suffer a loss. Examples of which include derivative contracts within the Scheme's liability driven investment funds. This is managed by the fund manager diversifying exposure across a number of counterparties, using central clearing, collateralising with high-quality collateral (cash or gilts), and ongoing monthly monitoring of counterparty creditworthiness.
- *leverage and collateral adequacy risk* - The Scheme's liability driven investments are leveraged, which will multiply the exposure of these funds to certain assets. These funds may incur transaction costs associated with re-balancing the level of collateral held within the funds. There is a risk that the Scheme will be required to pay additional collateral into these funds in order to maintain the level of interest rate and inflation hedging. Should such an event arise then the Trustees have instructed LGIM to take these additional assets from the Scheme's cash holding in the LGIM Sterling Liquidity Fund, or if this is insufficient the LGIM All World Equity Index - GBP Hedged. Should this still be insufficient to meet the required top up amount, the Scheme's level of hedging will be reduced.
- *environmental, social and governance (ESG) factors* – the Trustees acknowledge that ESG factors can have a financially material impact on the future returns on its investments and the Trustees' actions to mitigate these is detailed in Section 8; and
- *non-financial risks* – the Trustees have not taken these into account when deciding the choice of the Scheme's investments.

The Trustees will monitor these risks from time to time, particularly those deemed to have high likelihood or significant adverse impact, and will look to introduce further control measures as appropriate to contain the overall level and distribution of risks to within acceptable limits.

9. Environmental, social and governance (ESG) policies and stewardship

Trustees' decision making and delegation

The Investment Managers are responsible for managing the Scheme's investments in accordance with the management agreements in place with the Trustees. The Trustees have delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Managers.

The Trustees are responsible for setting the Scheme's investment strategy and implementing that strategy through appointing investment managers and selecting investment funds. When setting investment strategy and selecting investments, the Trustees' first priority is the financial interests of their members. The Trustees regularly review the return objectives, risk characteristics, investment approach and investment guidelines of the Scheme's current investment mandates. The Trustees are satisfied that the existing mandates fulfil the needs of their target investment strategy and by extension, that the Scheme's Investment Managers are managing the Scheme's assets in a manner which is consistent with members' financial interests.

The Trustees acknowledge that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved.

Voting and engagement

The Trustees expect the Investment Managers to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.

The Trustees expect the Scheme's Investment Managers to provide regular updates on how it exercises voting rights and actively engages with the companies in which it invests, including how often it votes against company proposals. The Trustees will review this on an annual basis in line with its monitoring policy.

Monitoring of ESG factors and engagement

The Trustees recognise the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustees have set an appropriate monitoring framework to ensure the Scheme's Investment Managers are regularly reviewed. This is to promote greater transparency in understanding the reasons behind performance trends and key risk exposures, and also engagement activity and compliance with the Trustees' stated ESG policy. Regular monitoring, with specific reference to ESG factors should incentivise the Scheme's Investment Managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial. The Trustees' policy is not to take into account non-financial matters in the selection, retention and realisation of investments. Therefore, no consideration has been given to non-financial matters, nor has the Scheme's membership been consulted on such issues.

The Trustees also recognise the importance of regular monitoring of the Investment Managers' performance, remuneration and compliance against its ESG policy to ensure that the Scheme's assets are being managed appropriately. The Trustees believe that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are quickly identified and concerns communicated with the relevant investment manager.

In addition to performance measures, the Trustees will review the engagement activity of the Investment Managers to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustees also monitor the voting activity of the investment managers to ensure votes are being used and are aligned to its views on ESG.

Where the Scheme's assets are invested in pooled LDI funds, the nature of these assets dictate that the ESG factors are less likely to be financially material. However, the Trustees have confidence that the LGIM management team has adequate governance practices in place to capture key regulatory developments which might influence the future management or performance of these assets.

10. Governance

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions and delegate others. When deciding which decisions to take itself and which to delegate, the Trustees have taken into account whether the Trustees have the appropriate training and knowledge to make an informed decision. The Trustees have established the following decision-making structure:

Trustees • Select and monitor planned asset allocation strategy; • Select and monitor investment advisors and investment managers; • Select and monitor any direct investments; • Responsible for all aspects of the investments of the Scheme's assets, including ESG considerations and implementation.
Investment Advisor • Advises on this statement; • Advises the Trustees on areas of strategy, manager selection, ESG and implementation as required; • Provides required training when engaged on a separate basis by the Trustees.
Investment Managers • Day to day management of the Scheme's assets. Operate in line with written agreements with the Trustees, which the Trustees believe are consistent with the terms of the SIP; • Manages in accordance with the agreement, including decisions around the selection and retention of underlying investments; • Are responsible for the stewardship of underlying investments.

When deciding whether or not to allocate money to any new investment manager, the Trustees will obtain written advice from the Investment Advisor. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement.

The Trustees recognise that, where the Scheme is invested in pooled funds, there is limited scope to influence the controls and restrictions used in the management of the underlying assets and acknowledge that derivatives may be used by the manager within the funds.

The Trustees expect the Investment Managers to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this statement so far as is reasonably practicable.

11. Fees

The Investment Managers are remunerated on a percentage value of assets basis.

The Investment Managers levy the following annual management charges.

Manager	Fund	Annual Management Charge (p.a.)
LGIM	Multi-Asset	0.30%
LGIM	Pooled LDI funds	0.240% p.a. of the first £25m + 0.170% p.a. of the balance
LGIM	Buy & Maintain Global Credit Fund	0.15%
LGIM	All World Equity Index Fund - GBP Currency hedged	0.223% p.a. of the first £5m + 0.198% p.a. of the next £10m + 0.173% p.a. of the next £35m + 0.148% p.a. of the balance
LGIM	Sterling Liquidity Fund	0.125% p.a. of the first £5m + 0.100% p.a. of the next £5m + 0.075% p.a. of the next £20m + 0.050% p.a. of the balance
Baillie Gifford	Managed Fund	0.40%
M&G	UK Property	0.55%

12. Compliance with this Statement

The Trustees will monitor compliance with this Statement of Investment Principles on a regular basis. The Trustees will review the Statement at least every three years and in response to any material change to any aspects of the Scheme.

Trustee

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Date

For and behalf of the Trustees of the Marubeni-Komatsu Limited Pension and Death Benefit Scheme.