

Valeo UK Pension Plan

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Valeo UK Pension Plan (“the Plan”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time. The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments.

Members build up benefits in at least one of the following sections of the Plan:

- Defined Benefit (“DB”) Section
- Defined Contribution (“DC”) Section

In preparing this Statement the Trustees have consulted Valeo Service UK Limited, Valeo Management Services UK Limited, Valeo Air Management UK Limited (DC Section only) and Valeo Engine Cooling UK Limited (DC Section only) (the “Sponsoring Employers”), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan’s investment arrangements. The Trustees have also received and considered written advice from Mercer Limited (“the Investment Consultant”).

2. Process For Choosing Investments

2.1 DB Section

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

The Trustees set the investment strategy, taking advice as necessary. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of the Act (as amended).

2.2 DC Section

In 2018 the Trustees moved the assets for the majority of members in the DC Section to a Master Trust. However, some members invested in self-select funds with Royal London and Equitable Life and all members invested in Equitable Life with-profits funds have remained in the DC Section of the Plan. Following a policyholder vote and High Court approval at the end of 2019 the Equitable Life With Profits Fund was disinvested and “Uplifted” by a 75% - 120% enhancement to transfer values. Since disinvestment these

funds have been invested in the Utmost Secure Cash Fund and from 1st July 2020 will switch, over a 6 month transition period, to the Utmost Money Market Fund, unless members have chosen made an alternative investment choice.

This document sets out the investment principles for the DC Section only; it does not cover the investment principles for the Master Trust as this does not fall under the Valeo UK Pension Plan.

Prior to the move to the Master Trust, the Trustees, taking into account the needs of the membership as a whole, made available a suitable range of investment options sufficient to enable members to tailor their investment strategy to their own needs. There are eight funds available to members for investment plus the 'default' Lifestyle Investment Strategy option (see Section 6.2 for more details), albeit there are now no members remaining in the Lifestyle strategy. The Trustees have historically reviewed the fund range from time to time.

3. Investment Objectives

3.1 DB Section

The Trustees are required to invest the Plan's assets in the best interest of the members, beneficiaries and the Sponsoring Employers and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regard to investment policy are:

- to achieve a long-term return on the Plan's assets which is consistent with the long term assumptions made by the Scheme Actuary in determining the funding of the Plan (under the Plan's Statutory Funding Objective);
- over the shorter term, to achieve an investment return closely related to the benchmark return which is consistent with the adopted investment strategy; and
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due.
- the Trustees and Sponsoring Employers have adopted a secondary objective set on a lower-risk basis of gilts flat with the ultimate target of being 100% funded by 2029.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations in relation to the DB Section of the Plan.

3.2 DC Section

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk and believe that members should make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs.

The Trustees have also recognised that members may not believe themselves qualified to take investment decisions. As such the Trustees made available a default option. The default option is that, in the event that a member is unable to or chooses not to make an investment decision, all contributions related to their membership of the Plan will be invested in the 'Lifestyle' investment strategy. This strategy places the emphasis on aiming to produce a good level of real return over members' working lifetimes but also encompasses a switch into asset classes designed to protect against fluctuating annuity prices and equity markets in the years approaching Normal Retirement Age. Details of the Lifestyle strategy are outlined in Section 6.2.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees consider to be financially material consideration in relation to the DC Section of the Plan. The Trustees believe that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.

4. Risk Management and Measurement

4.1 DB Section

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Plan over its anticipated lifetime.

The Trustees believe that the investment strategy provides for adequate diversification at the asset class level. The Trustees further believe that the current investment strategy is appropriate given the Plan's liability profile.

The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities, particularly in relation to the impact of changes in interest rates and inflation. This is therefore the Trustees' principal focus in setting investment strategy. Currently the Plan is aiming to generate a higher return than the required return assumed under the latest actuarial valuation assumptions, in order to reduce the funding deficit over time. The Trustees recognise that, all else equal, a higher returning investment strategy is likely to result in increased funding level volatility. To manage this risk, the Trustees have implemented a flightpath framework, which allows the Plan to de-risk away from "return-seeking" asset classes, such as equities, into lower risk assets, such as government bonds, over time as the funding level improves.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustees will consider carefully the implications of adopting different levels of risk in light of the objectives noted previously, and will take advice when necessary.
- The Trustees have adopted a flightpath framework which aims to reduce risk in response to improvements in the Plan's funding level by incrementally reducing risk (the allocation to growth assets), and increasing the allocation to matching assets.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the investment manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The investment manager is prevented from investing in asset classes outside its mandate without the Trustees' prior consent.
- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the Plan's current investments. To facilitate this, the Trustees receive regular reports from both the Plan's investment manager and Investment Consultant. These reports include an analysis of the overall level of return, to ensure the risks taken and returns achieved are consistent with those expected.
- There is the risk that the Plan's investment manager underperforms the stated performance objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines. The Trustees regularly review performance of the underlying investment funds to ensure they are performing in line with expectations.
- The Trustees have also given consideration to the risk that the value of assets can go down as well as up (i.e. market risk).
- The Trustees have given consideration to the risk that the Plan has insufficient liquidity to meet its current liabilities. This risk is monitored according to the level of cashflows required by the Plan over a specific period. The majority of the Plan's assets are invested in quoted markets and are as readily realisable as the Trustees feel appropriate given the cashflow position of the Plan and the expected development of the Plan's liabilities, both of which are monitored by the Trustees.
- The Trustees recognise that the Plan is exposed to currency risk, whereby non-sterling investments can give rise to fluctuations in value due to movements in exchange rates. The Trustees seek to hedge part of the Plan's developed market equity exposure against currency movements, with 50% of the Plan's overseas developed equity exposure being hedged back to sterling.
- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change have a financially material impact on return. Section 10 sets out how these risks are managed.
- The Trustees are aware of the risk that the Sponsoring Employers are unable or unwilling to support the Plan with any current or future funding deficit. This risk is managed by assessing the interaction between the Plan and the Sponsoring Employers' businesses, as measured by a number of factors, including the

creditworthiness of the Sponsoring Employers' and the size of the pension liability relative to the Sponsoring Employers'.

Should there be a material change in the Plan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

4.2 DC Section

In considering the range of funds to offer members, the Trustees acknowledge that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire. In designing the lifestyle options, the Trustees have taken the proximity to the target retirement date into account when designing the strategy and the associated financially material risks over the strategy's full time horizon.

The Trustees recognise that there are a number of risks facing members of the DC Section of the Plan and have taken these into consideration when determining the range of funds to offer to members. The Trustees believe that the range of funds provides members with sufficient choice across the risk/return spectrum to allow them to manage the risks they face within the Plan.

The main risks faced by members which the Trustees have taken into account are listed below:

- Inflation risk – This refers to the risk of investments not keeping pace with inflation.

The Trustees offer equity based investments which are expected to achieve a real rate of return over both price inflation and earnings growth in the long term. In addition, an actively managed index-linked gilt fund is offered to maintain purchasing power for members looking for a lower risk alternative to equities.

- Pre-retirement downturn risk – This refers to the risk of a downturn in the equity markets in the period leading up to retirement.

This could lead to members losing much, or all, of the gains built up over their working life. The Trustees therefore offer a "Lifestyle" investment option which invests in assets expected to offer positive real returns in the long term but progressively switches investments into less volatile bonds and cash as the member nears Normal Retirement Age. Details of the Lifestyle investment strategy are given in Section 6.2.

- Active management risk – This refers to the risk that active managers could underperform their benchmark indices.

The Trustees receive performance reports from Royal London and Equitable Life which they use to monitor each fund's performance, comparing the investment returns with the appropriate performance objective to ensure continuing acceptable performance. Passively managed funds are also offered as part of the fund range to provide members with the option of avoiding active management risk.

The documents governing the managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable

investments are held by the Plan. The managers are prevented from investing in asset classes outside its mandate without the Trustees' prior consent.

- Currency risk – This refers to the risk that fluctuations in foreign exchange rates will cause the value of overseas investment to fluctuate.

Members are able to set their own investment allocations, in line with their risk tolerances.

The Trustees have made available a range of unitised pooled funds

- Liquidity risk – This refers to the risk of members not being able to readily realise their investments.

The Trustees have made available a range of unitised pooled funds which deal frequently. The underlying assets are all invested in securities which are in the main highly liquid and marketable.

- Market risk – This refers to the risk that the value of assets can go down as well as up, which may lead to a significant reduction in the anticipated level of benefit.

The Trustees make members aware that they may not get back the amount invested and that this risk is implicit in trying to generate returns above that earned by cash.

- Safe custody of assets – This refers to the safe keeping of assets by the appointed investment managers

The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

- Environmental, Social and Corporate Governance ("ESG") risk – This refers to the risk that ESG concerns, including climate change, have a financially material impact on the return of the Plan's assets.

The management of ESG related risks is delegated to investment managers. Section 10 sets out how the risks are managed.

- Pension Conversion risk – This refers to the risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.

The Trustees have made available eight funds to members, as well as a Lifestyle investment option, so that members can tailor their investment strategy to meet their own risk and return objectives.

The Trustees have historically reviewed the range of funds made available to DC Section members and the structure of the Lifestyle option on a regular basis. This is to ensure they remain appropriate to the Plan's members in general. The Trustees will take advice from the Plan's Investment Consultant as appropriate.

5. Portfolio Construction

5.1 DB Section

The Trustees have structured the Plan's investments subject to the overriding constraint that at the total Plan level the expected level of risk is consistent with the investment objectives. The Trustees have appointed an investment manager, BlackRock, which invests the Plan's assets on a passive basis.

Investment in securities issued by the Sponsoring Employers or affiliated companies is limited to the extent that such securities may be represented within the pooled funds in which the Trustees invest. The passive nature of the Plan's equity investments and the diversification inherent in the overall investment arrangements mean that it is not expected that regulatory limits on such investments will be breached.

5.2 DC Section

The Trustees, taking into account the needs of the membership as a whole, have made available to members three passively managed and five actively managed investment funds so that members can tailor their investment strategy to their own risk and return objectives.

For members who were unable to make an investment choice, or chose not to, the Trustees provided a default option. In this case, the Trustees selected a Lifestyle strategy as the default option. More details regarding this strategy can be found in Section 6.2 of this Statement.

Investment in securities issued by the Sponsoring Employers or affiliated companies is limited to the extent that such securities may be represented within the pooled funds in which the members decide to invest.

6. Investment Strategy

6.1 DB Section

Investment policy can be considered in two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustees and (2) the day-to-day management of the assets, which has been delegated to a professional investment manager.

The Trustees have set a dynamic investment strategy (flightpath framework) which aims to incrementally reduce the allocation to growth assets and increase the allocation to matching assets in response to improvements in the Plan's funding level (measured on a gilts flat basis).

The investment strategy of the Plan is set out below. The table shows the balance between growth and matching assets when the funding level improves (as measured on the gilts flat basis):

	Current 60% Matching (%)	70% Matching (%)	80% Matching (%)	90% Matching (%)	95% Matching (%)	100% Matching (%)
Equities	40.0	30.0	20.0	10.0	5.0	-
Growth	40.0	30.0	20.0	10.0	5.0	-
Corporate bonds	20.0	20.0	20.0	20.0	10.0	-
Government Bonds	40.0	50.0	60.0	70.0	85.0	100.0
Matching	60.0	70.0	80.0	90.0	95.0	100.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Expected Return above Gilts	2.0	1.6	1.1	0.7	0.3	0.0

The Plan's funding level triggers are monitored and once met, the Trustees will implement the above asset allocation as per the process set out in the 'Terms of Reference' document, which sets out the roles, responsibilities, and process of the flightpath framework.

Given the investment objectives, the Trustees have implemented the investment strategy detailed in the table below. This represents the current investment strategy at the time of writing. As shown, all of the Plan's assets are invested in a range of passive funds managed by BlackRock.

Manager	Fund	Asset Class	Benchmark Allocation (%)	Rebalancing Range (±%)	Tracking Error Target Range (±% p.a.)	Benchmark Index
Growth			40.00			
BlackRock	Aquila Life Overseas Consensus Equity Index Fund*	Overseas equities	18.00	16.50 – 19.50	0.4	Composite of FTSE overseas indices
BlackRock	Aquila Life Currency Hedged Overseas Equity Index Fund*	Overseas equities	18.00	16.50 – 19.50	0.6	Composite of FTSE GBP hedged overseas indices
BlackRock	Emerging Markets Index Sub-Fund	Emerging markets equities	4.00	2.50 – 5.50	1.0	MSCI Emerging Markets Index
Matching			60.00			
BlackRock	Aquila Life All Stocks Corporate Bond Index Fund	Corporate Bonds	20.00	18.50 – 21.50	0.3	iBoxx Sterling Non-Gilts Index

Manager	Fund	Asset Class	Benchmark Allocation (%)	Rebalancing Range (±%)	Tracking Error Target Range (±% p.a.)	Benchmark Index
BlackRock	Aquila Life Over 25 Years UK Index-Linked Gilt Index Fund**	Index Linked Gilts	23.50	22.00 – 25.00	0.2	FTSE Actuaries UK IndexLinked Gilts over 25 Years Index
BlackRock	Aquila Life Over 25 Years UK Gilt Index Fund**	Fixed Interest Gilts	16.50	15.00 – 18.00	0.2	FTSE Actuaries UK Conventional Gilts over 25 Years Index
Total			100.00			

* In April 2019, the Trustees agreed to switch the Plan's UK equities into overseas developed market equities (maintaining the 50% currency hedge position) as a result of the uncertainty caused by Brexit negotiations thus far and concern of a consequent sharp fall in UK equities.

** The Trustees agreed to gradually switch assets from All Stock Gilt and Index-Linked Gilt to the Over 25 year versions in two equal phases during 2020. At time of writing, only the first phase had been implemented due to market volatility associated with the Covid pandemic.

BlackRock's performance objective is to approximately track (within the specified tolerance ranges shown in the table above) the relevant benchmark return for each asset class.

Approximately 50% of the currency exposure of the developed markets overseas equity allocation is hedged back to sterling. The emerging markets equity allocation, which has an upper limit of 5.5% of total assets, is not currency hedged.

In normal circumstances, and as long as the BlackRock Pooled Funds are open for subscriptions and redemptions daily, BlackRock within its discretion, aims to review the portfolio on a daily basis and to rebalance it on the next available dealing day if the value of the holding in a BlackRock Pooled Fund falls outside the ranges set in the table above. Any rebalancing to within the ranges will not necessarily be back to the benchmark allocation.

The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk targeted. In addition, the Trustees are satisfied that the spread of underlying assets by type and the investment manager's policy on investing in individual securities within each type provides adequate diversification of investments.

6.2 DC Section

The Trustees, having taken advice from its Investment Consultant, took the decision to appoint Royal London to provide the administration and investment services required for the DC Section (with the exception of some historic Utmost funds). The Trustees, having taken regard of the investment objectives of the membership as a whole, have made available to the Plan's DC Section members a number of funds from the range of funds available on the Royal London fund platform. The funds from the Royal London fund range are shown in the tables below.

Passively managed funds

Manager	Fund	Asset Class	Benchmark Index	Objective
BlackRock	Royal London / BlackRock Aquila Global Equity Index (60:40)	Global Equities	60% FTSE All Share Index, 13.32% FTSE USA Index, 13.32% FTSE All World Developed Europe (ex UK) Index, 6.68% FTSE Japan Index and 6.68% FTSE All World Developed Asia Pacific (ex Japan) Index	The fund aims to track the benchmark within a range of 1%
BlackRock	Royal London / BlackRock Aquila UK Equity	UK Equities	FTSE All Share Index	The fund aims to track its benchmark
BlackRock	Royal London / BlackRock Aquila Consensus Fund	Balanced/Managed	ABI UK - Mixed Investment (40-85% Shares) Sector Average	The fund aims to track its benchmark.

Actively managed funds

Manager	Fund	Asset Class	Benchmark Index	Objective
Rathbone Unit Trust Management Limited	Royal London Global Blend Core Plus (Rathbone Global Alpha)	Global Equities	50% FTSE All Share, 50% FTSE World ex UK	The fund aims to produce investment returns within a tracking error range of between 1% and 5% of a composite benchmark of the FTSE All Share Index and the FTSE All World ex UK Index.
Close TEAMS	Royal London UK Equity Core Plus Fund (Close TEAMS UK Equities (2%))	UK Equities	FTSE All Share Index	The fund aims to produce investment returns within a range of between 1% and 5% of the FTSE All Share Index
Royal London Asset Management	Royal London Medium (10 year) Gilt Fund	Fixed Interest Gilts	The benchmark is based on a combination of FTSE Actuaries British Government Gilt indices that reflect the ten year time horizon. This combination is reviewed and updated quarterly to ensure it remains equivalent to a ten year gilt.	The fund aims to maximise returns over the benchmark for investors with a ten year time horizon.
Royal London Asset Management	Royal London Medium (10 year) Index Linked Fund	Index Linked Gilts	The benchmark is based on a combination of FTSE Actuaries (Index Linked) British Government Gilt indices that reflect the ten year time horizon. This combination is reviewed and updated quarterly to ensure it remains equivalent to a ten year index linked gilt.	The fund aims to provide returns which are linked to the rate of inflation for investors with a ten year investment term.
Royal London Asset Management	Royal London Deposit Fund	Cash/Cash equivalents	LIBID GBP 7 Days Index	To outperform the benchmark.

Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerance. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings / issuers.

Default Option and Lifestyle Investment Strategy

Contributions for members who were unable to or did not make an investment choice have historically been invested in the Lifestyle Investment Strategy (i.e. the 'default' option for the Plan's members). Members can also actively choose to switch into (and out of) the Lifestyle Investment Strategy at any time, but must note that if they opt to do this they are required to transfer all of their Retirement Account into (or out of) this strategy.

In designing the Lifestyle strategy, the Trustees have explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The default investment option utilises a diversified strategic asset allocation consisting of traditional and alternative assets. The Trustees took advice from their Investment Consultant when deciding on this asset allocation. The asset allocation is consistent with the expected amount of risk that is appropriate given the age of a member and when they expect to retire.

This strategy progressively transitions members from a 'growth' fund into less volatile investments as the member nears retirement. Details for this strategy are shown in the table below.

Age	Royal London / BlackRock Global Equity Index (60:40)	Royal London Medium (10 year) Gilt	Royal London Medium (10 year) Index Linked	Royal London Deposit
60	100%	0%	0%	0%
61	80%	10%	10%	0%
62	60%	20%	20%	0%
63	40%	26%	26%	8%
64	20%	32%	32%	16%
65 (NRA)	0%	37.5%	37.5%	25%

As shown, in the final five years before retirement money is gradually switched from the passive Global Equity Core Fund into the actively managed Gilt Fund, Index Linked Fund and Deposit Fund. As a member's DC pension account grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.

The Trustees have historically reviewed the structure of the Lifestyle fund on a regular basis, taking advice as appropriate, to ensure they remain appropriate to the Plan's members in general. If any changes are made, individual accounts are adjusted as necessary following any communication to members, as required, on such changes.

The Trustees note that, following the move to a Master Trust in August 2018, no members remain in the Lifestyle strategy.

7. Expected Return

7.1 DB Section

The Trustees expect to generate an investment return that is closely related to the fixed benchmark and, over the long term, a return at least equal to the assumption underlying the Plan's Statutory Funding Objective.

7.2 DC Section

The Trustees have made eight funds available to members, as well as a Lifestyle investment option, so that members can tailor their investment strategy to meet their own risk and return objectives.

8. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets of the Plan's DB Section and DC Section to investment managers. The Trustees have taken steps to satisfy themselves that the investment managers have the appropriate knowledge and experience for managing the Plan's investments and are carrying out their work competently.

The Trustees will regularly review the continuing suitability of the Plan's DB Section and DC Section investments, including reviewing the appointed investment managers. Any adjustments will be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

The investment managers chosen for the DB Section and the DC Section of the Plan are regulated by the Financial Services Authority.

8.1 DB Section

BlackRock has been appointed as the investment manager for the Plan's DB assets. The Trustees have determined a benchmark mix of asset types and ranges within which the appointed investment manager may operate.

8.2 DC Section

Royal London provides the administration and investment services required for the DC Section and Executive Section. As shown in Section 6, the funds chosen by the Trustees from Royal London's fund platform to be made available to members include funds managed by Royal London Asset Management, BlackRock, Close TEAMS and Rathbone Unit Trust Management Limited.

9. Realisation of Investments

The investment managers used for the DB Section and the DC Section of the Plan have discretion in the timing of realisation of investments and in considerations relating to the

liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

10. Investment Manager Appointment, Engagement and Monitoring

10.1 Aligning manager appointments with investment strategy

The investment managers are appointed based on their capabilities and, therefore, its perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

Ahead of investing, the Trustees undertake due diligence¹ and seeks the views of its investment consultant to support decisions around selection (and retention). Should an investment manager make changes to any of these factors, the Trustees will assess the impact and (where no longer aligned) consider what action to take.

The Trustees currently only invest in pooled investment vehicles. The Trustees therefore accepts it cannot specify the risk profile and return targets of the manager, but pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

10.2 Incentivising Medium and Long Term Manager Performance

The Trustees aim to meet with the investment managers as deemed appropriate, to discuss performance and other investment related matters (including integration of ESG and climate change into the investment process and voting and engagement activities). As part of this, the Trustees will challenge decisions that appear out of line with the Plan's stated objectives and/or policies.

To assist with this, the Trustees consider its investment consultant's assessment of how each investment manager embeds ESG considerations into its investment process and explores how it aligns with its responsible investment policy. This is monitored on a quarterly basis as part of the Plan's performance reporting.

The Trustees considers the method of remunerating investment managers to be consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of the issuer of debt or equity. By encouraging a medium to long-term investment time horizon, it will in turn encourage the investment managers to engage with issuers of debt and equity in order to improve their performance in the medium to long-term.

The investment managers are aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed over the long term.

¹ Which includes but not limited to: the underlying assets held and how they will allocate between them; risks associated with the underlying mix of assets and the steps the Manager takes to mitigate them; expected return targeted by the Managers and details around realisation of the investment; and impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on the investment over the long term.

Consistent periods of underperformance could lead to the investment manager being terminated.

10.3 Aligning Manager Performance Evaluation and Remuneration with Trustees' Policies

The Trustees review the performance of the investment managers on a regular basis versus agreed benchmarks and targets, over multiple time periods, with an emphasis on the long-term.

The Trustees take a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made solely based on short-term performance concerns. Instead, changes would be driven by a number of factors that may lead to significant reduction in the Trustees' confidence that the investment manager will be able to perform in line with the stated objective of a strategy over the long term.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. For DC section investments, the Trustees review the investment manager fees as part of the annual Value for Members ("VfM") assessment.

10.4 Monitoring Portfolio Turnover Costs

Portfolio turnover costs refer to those incurred due to the buying, selling, lending or borrowing of investments.

The Trustees receive MiFID II reporting from the investment managers, which provides this information, but does not monitor portfolio turnover costs and has not set ranges in respect of them. This position is kept under review.

For DC section investments, the Trustees consider portfolio turnover costs as part of the annual Value for Members ("VfM") assessment.

10.5 Manager Arrangement Duration

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

In respect of the DB Section, assets are invested in open-ended vehicles and expect to retain them unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the trustees have decided to terminate – see policy statement on realisation of assets.

For DC section investments, all the funds are open-ended with no set end date for the arrangement. The Fund Range and Default Strategy are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range.

11. Environmental, Social and Governance Issues, Stewardship, and Climate Change

The Trustees believe that ESG issues have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustees accordingly consider these issues in the context of the anticipated time horizon over which the assets will be held.

The Trustees do not directly manage its investments and the investment manager has full discretion to buy and sell investments within the various portfolios, within the guidelines of its mandates. ESG considerations are however taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustees consider the ESG research ratings published by its investment advisors, Mercer, when monitoring the Plan's investment manager's capabilities. These ratings are also considered as part of any new selection of investment funds.
- In meetings with the Plan's investment manager, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustees for mandates where this is relevant.
- Whilst members' views are not explicitly taken into account in the selection, retention and realisation of investments, the Trustees welcome views from members.

The Trustees recognise that when the Plan's DB and DC Sections invest in pooled funds, they have no voting rights attached to the underlying investments. The Trustees have therefore given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments. The Trustees review the annual stewardship report, prepared by the investment manager, to understand the actions taken in these areas.

Similarly, the Plan's voting rights are exercised by its investment manager in accordance with its own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The investment manager is expected to provide voting reports to the Trustees on request.

The Trustees are satisfied that this policy corresponds with its responsibilities to the beneficiaries of the Plan.

Equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis. The Trustees have not set any investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

12. Additional Voluntary Contributions ("AVCs")

Under the terms of the trust deed the Trustees are responsible for the investment of AVCs paid by members. Assets in respect of members' AVCs are held separately from the main Plan assets and are invested with Equitable Life Assurance Society and Royal London.

The Plan's AVC arrangements were closed to new contributors in April 2006 and reopened to DB Section members on 1 April 2011 with Royal London. DC Section members were also previously able to make AVC investments in the funds on the Royal London platform.

As of April 2018, all ongoing AVC payments for both the DB and DC Sections are paid into the Master Trust.

The Trustees will review these arrangements from time to time to ensure that they remain consistent with the needs of the members, and will seek advice from the Scheme Actuary and the Investment Consultant, where necessary.

13. Custodian and Advisors

Custodians

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that the investment managers have procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Jenny Cruxton of Mercer Limited is the appointed Scheme Actuary.

The actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The next valuation is being performed by the Scheme Actuary, with an effective date of 5 April 2020. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Sponsoring Employers' contribution rate.

Investment Consultant

Whilst the day-to-day management of the Plan's assets is delegated to an investment manager, the Trustees will consult with Mercer Limited as the Trustees' investment consultant, where necessary, on other investment decisions including strategic asset allocation and selection and monitoring of investment managers.

14. The Trustees will measure the performance of the Investment Consultant on an annual basis. In the absence of quantitative market data for this purpose, the review will be on a qualitative basis. Fee Structures

The investment manager for the DB Section of the Plan, BlackRock, is paid a management fee on the basis of assets under management, as detailed below, payable on a quarterly basis. This is subject to a minimum fee of £15,000 per annum.

Fund	Annual Management Charge (%p.a.)
Aquila Life Overseas Consensus Equity Index Fund	0.12
Aquila Life Currency Hedged Overseas Equity Index Fund	0.23 on the first £15m 0.13 on the next £85m 0.09 thereafter
Emerging Markets Index Sub-Fund	0.35
Aquila Life All Stocks Corporate Bond Index Fund	0.12
Aquila Life All Stocks UK Index-linked Gilt Index Fund	0.12
Aquila Life Over 25 Years Gilt Index-Linked Gilt Fund	0.08 on the first £15m 0.04 on the next £85m 0.03 thereafter
Aquila Life All Stocks UK Gilt Index Fund	0.12
Aquila Life Over 25 Years Gilt Index Fund	0.08 on the first £15m 0.04 on the next £85m 0.03 thereafter

The eight funds offered to DC Section members through Royal London currently charge a minimum annual management charge of 0.58% p.a. of assets held in the Retirement Account, although this may vary from time to time. In addition to this, some investment funds have additional charges. This includes:

- Global Blend Core Plus (Rathbone Global Alpha)
 - Additional charges that apply under this fund option are currently 0.45% p.a.
- UK Equity Core Plus Fund (Close TEAMS UK Equities (2%))
 - Additional charges that apply under this fund option and are currently 0.60% p.a.

15. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written or verbal confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005. The Trustees undertake to advise the investment manager promptly and in writing of any material change to this Statement.

16. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in the Plan, its liabilities, finances, and the attitude to risk of the Trustees and the Sponsoring Employers which they judge to have a bearing on the stated Investment Policy.

In addition, the Trustees will review the default strategy of the DC Plan once every three years and without delay after any significant changes occur in the investment policy or to the demographic profile of relevant members.

Any such review will be in consultation with the Sponsoring Employers and any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Simon Harris – Chair

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Trustee

September 2020

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Date

For and on behalf of the Trustees of the Valeo UK Pension Plan