Valeo UK Pension Plan

Statement of Investment Principles – July 2023

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.

In preparing this Statement the Trustees have consulted Valeo Service UK Limited, Valeo Management Services UK Limited (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

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).

3. Investment Objectives

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 Plan.

4. Risk Management and Measurement

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.

5. Portfolio Construction

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.

6. Investment Strategy

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 funding level triggers will change over time, and further details can be found in the De-Risking Terms of Reference document.

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 (%)	**95% Matching (%)**	**100% Matching (%)**
Equities	10.0	5.0	-
Growth	**10.0**	**5.0**	**-**
Corporate bonds	25.0	27.5	30.0
Government Bonds	65.0	67.5	70.0
Matching	**90.0**	**95.0**	**100.0**
Total	**100.0**	**100.0**	
Expected Return above Gilts*	**1.1**	**0.8**	**0.6**

* Expected return above gilts calculated as part of the 2022 investment strategy review based on the Plan's funding position as at end July 2022 and the investment Consultants capital market assumptions as at 30 June 2022.

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.

Following the implementation of the 'Current' strategy, in conjunction with the Sponsoring Employers, the Trustees agreed to suspend the dynamic de-risking strategy pending completion of the 2023 Valuation and affirmation of the Plan's secondary funding objective.

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	**10.00**			
BlackRock	Aquila Life Overseas Consensus Equity Index Fund*	Overseas equities	5.0	3.50 - 6.50	0.4	Composite of FTSE overseas indices
BlackRock	Aquila Life Currency Hedged Overseas Equity Index Fund*	Overseas equities	5.0	3.50 - 6.50	0.6	Composite of FTSE GBP hedged overseas indices
		Matching	**90.00**			
BlackRock	Buy and Maintain UK Credit Fund	Corporate Bonds	25.00	23.50 – 26.50	0.2	Due to the nature of the mandate, the strategy is not managed with reference to a benchmark**
BlackRock	Aquila Life Over 5 Years Index Linked Gilt Index Fund	Index Linked Gilts	18.0	16.50 – 19.50	0.3	FTSE Actuaries UK IndexLinked Gilts over 5 Years Index
BlackRock	Aquila Life Over 25 Years UK Index-Linked Gilt Index Fund**	Index Linked Gilts	22.0	20.50 – 23.50	0.3	FTSE Actuaries UK IndexLinked Gilts over 25 Years Index
BlackRock	Aquila Life All Stocks UK Gilt Index Fund	Fixed Interest Gilts	18.0	16.50 – 19.50	0.3	FTSE Actuaries UK Conventional Gilts All Stocks Index
BlackRock	Aquila Life Over 25 Years UK Gilt Index Fund**	Fixed Interest Gilts	7.0	5.50 – 8.50	0.3	FTSE Actuaries UK Conventional Gilts over 25 Years Index

Manager	Fund	Asset Class	Benchmark Allocation (%)	Rebalancing Range (±%)	Tracking Error Target Range (±% p.a.)	Benchmark 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 stated aim of the strategy is to access attractive credit spreads via security selection and focussing on avoiding downside risk on individual securities. Therefore, the Trustees assume that the actual performance equals benchmark for purposes of performance measurement.*

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.

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.

7. Expected Return

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.

8. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets of the Plan to an investment manager. The Trustees have taken steps to satisfy themselves that the investment manager has 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 investments, including reviewing the appointed investment manager. Any adjustments to the investment arrangements will be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

The investment manager chosen to manage assets of the Plan is regulated by the Financial Conduct Authority.

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

9. Realisation of Investments

The investment manager used by Plan has 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. Cashflow Management Policy

The Trustees have agreed to automatically invest any cash surplus, identified in the Administrator, at the end of June and December each year.

However, between these periods, the Trustees will monitor the Trustees Bank Account balance (via the Plan's quarterly investment reports) and may instruct an 'ad hoc' investment of cash should the surplus exceeds a pre-determined level (currently 0.5% of total Plan assets).

11. Investment Manager Appointment, Engagement and Monitoring

11.1 Aligning manager appointments with investment strategy

The investment manager is appointed based on its 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 diligence[1] and seek the views of its investment consultant to support decisions around selection (and retention). Should the 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 accept that they cannot specify the risk profile and return targets of the investment manager, but pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

11.2 Incentivising Medium and Long Term Manager Performance

The Trustees aim to meet with its investment manager at least every eighteen months, to discuss performance and their responsible investment initiatives (including, but not limited to, integration of ESG and climate change into the investment process, firm wide actions

[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 investment 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.

and public commitments as well as 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 its 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 and, on an annual basis, the investment manager is reviewed relative to its peers.

The Trustees considers the method of remunerating the investment manager 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 manager to engage with issuers of debt and equity in order to improve their performance in the medium to long-term.

The investment manager is aware that its continued appointment is based on the success in delivering the mandate for which they have been appointed over the long term. Consistent periods of underperformance could lead to the investment manager being terminated.

11.3 Aligning Manager Performance Evaluation and Remuneration with Trustees' Policies

The Trustees review the performance of the investment manager 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 manager, 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.

11.4 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.

11.5 Manager Arrangement Duration

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

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.

12. 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 their 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 invests 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.

13. 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 Utmost...

Since April 2018, all ongoing AVC payments 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.

14. 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 Scheme Actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements, with an effective date of 5 April. 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.

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.

15. Fee Structures

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

<table>
<tr><th>Fund</th><th>Annual Management Charge (%p.a.)</th></tr>
<tr><td>Aquila Life Overseas Consensus Equity Index Fund</td><td>0.12</td></tr>
<tr><td>Aquila Life Currency Hedged Overseas Equity Index Fund</td><td>0.15</td></tr>
<tr><td>Buy and Maintain UK Credit Fund</td><td>0.15 on the first £50m
0.12 thereafter</td></tr>
<tr><td>Aquila Life Over 5 Years Index Linked Gilt Index Fund</td><td rowspan="2">0.08 on the first £15m
0.04 on the next £85m
0.03 thereafter</td></tr>
<tr><td>Aquila Life Over 25 Years Gilt Index-Linked Gilt Fund</td></tr>
<tr><td>Aquila Life All Stocks UK Gilt Index Fund</td><td rowspan="2">0.08 on the first £15m
0.04 on the next £85m
0.03 thereafter</td></tr>
<tr><td>Aquila Life Over 25 Years Gilt Index Fund</td></tr>
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16. 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.

17. 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.

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	**Jeremy Marshall**
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Trustee	Trustee

Date: **July 2023**

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