YMUK Pension Plan

Statement of Investment Principles
September 2020

Contents

1. Introduction

This document constitutes the Statement of Investment Principles (the “SIP”) required under Section 35 of the Pensions Act 1995 for the YMUK Pension Plan (the “Plan”). It describes the investment policy being pursued by the Trustees of the Plan and is in accordance with the Government’s voluntary code of conduct for Institutional Investment in the UK (the “Myners Principles”). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Emma Firth of XPS Pensions Limited and the Investment Adviser is XPS Investment Limited (collectively termed the “Advisers”).

The Trustees confirm that, before preparing this SIP, they have consulted with the employer, Yamazaki Mazak UK Limited (the “Employer”) and the Advisers and have obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan’s assets and the administration of the Plan. Where it is required to make an investment decision, the Trustees always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

Given the size of the Plan, the Trustees have decided to invest in the majority of their assets in pooled funds managed by organisations rather than directly appointing individual investment managers. Decisions about investments are made after receiving investment advice from an FCA regulated firm.

1.1 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the investment strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Plan are invested in accordance with these principles.

Signed [SIGNED BY KATHERINE BALL ON BEHALF THE TRUSTEES ON 29 SEPTEMBER 2020]

For and on behalf of the Trustees of the Plan

2. Plan governance

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the fund / investment managers and relevant advisers. The responsibilities of each of the parties involved in the Plan's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

3. Investment objectives

The long-term objectives of the Plan are:

- To hold suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of the current and future benefits which the Plan provides, as set out in the Trust Deed and Rules.
- To limit the risk of the assets failing to meet the liabilities over the long term, by considering the liability profile of the Plan when setting the asset allocation policy.
- To minimise the long term costs of the Plan by maximising the return on the assets whilst having regard to the objectives shown above.
- To adhere to the provisions contained within the Plan's Statement of Funding Principles.

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

4. Asset allocation strategy

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "return seeking" assets (e.g. equities, property, corporate bonds and credit assets) and "defensive" assets (e.g. index-linked gilts).

The allocation between the asset classes will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Plan. The current benchmark and target allocations set out in Appendix A. Any changes in such allocations will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives.

Due to the size of the assets, the Trustees have decided to use pooled funds for the majority of the Plan's investments.

4.1 Alignment of Incentives

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Plan is invested.

The Trustees will ensure that the Plan's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including its selection / deselection criteria.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Plan. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

4.2 Rebalancing policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Plan on a quarterly basis via the governance report.

4.3 Rates of return

The benchmark and target rates of return are detailed in Appendix A.

4.4 Diversification

The Trustees have sought to achieve diversification by predominantly investing in pooled funds which have investment restrictions (i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers). Generally speaking each asset class would expect to have different issuers and therefore add to the diversification of the Plan. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

4.5 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Plan, given its investment objectives.

The Trustees have chosen to hold some of the Plan's assets in pooled funds invested in gilts to provide some degree of matching with the Plan's benefit obligations. Index-linked gilt funds have been chosen to provide a high degree of price inflation matching with the liabilities.

The aim of the return-seeking assets is to provide additional expected return above that achieved by the matching assets, consistent with the investment objectives.

4.6 Liquidity

The vast majority of the non-cash assets are held in pooled funds with frequent dealing dates.

5. Defined Contribution ("DC") section arrangements

The Plan has a DC section which provides a facility for members to pay additional voluntary contributions ("AVCs") and also includes historic transferred-in payments in respect of some members. With effect from 6 April 2006, the AVC facility was closed, although many members who were already paying AVCs at this date were permitted to continue to do so. The limit of a maximum overall member contribution of 15% of pensionable salary was removed. Existing members are offered a choice of funds in which to invest their AVC payments. The Trustees' objective is to provide vehicles that enable all existing members to generate suitable long-term returns, consistent with their reasonable expectations.

The Trustees consider that, in making a range of investment funds available, they have provided members with funds that reflect the risk profile of most Plan members. The funds available are shown in Appendix B.

5.1 Review process

The choice of AVC providers and funds offered to members will be reviewed by the Trustees in accordance with their responsibilities, based on the result of their monitoring of performance and process. The Trustees commission regular reviews of the Plan's DC arrangements in light of the Pension Regulator's DC Code of Practice 13.

6. Strategy implementation

6.1 Mandate and performance objectives

The Trustees have received advice on the appropriateness of each investment from the Investment Adviser and believe them to be suitable to meet the Plan's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix A.

6.2 Manager agreements

The majority of the Plan's assets are invested in pooled funds but where needed the Trustees will directly appoint individual investment managers.

6.3 Diversification

The assets are predominantly invested in pooled funds with diversification requirements. Further diversification is achieved by investing in funds offered by two or more Investment Managers. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved.

6.4 Custody

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

7. Monitoring

7.1 Investments

The Trustees will receive regular performance monitoring reports from the Investment Adviser which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustee's selection and deselection criteria that the Investment Adviser is aware of will be highlighted, which may lead to a change in the Investment Adviser's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested.

The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable. If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

The Investment Adviser has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

7.2 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

7.3 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

8. Fees

8.1 Funds

The Trustees will ensure that the fees and expenses for the Plan's investments are consistent with levels typically available in the industry. The current fee basis for each of the funds is set out in Appendix A.

The Trustees are aware of the investment manager policy regarding soft commission arrangements. Information about the investment manager's fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority ("FCA") Disclosure Code.

8.2 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

8.3 Custodian

There is no custodian appointed directly by the Trustees.

8.4 Trustees

The Trustees may be paid directly for their duties. Trustee expenses are met and, where applicable, are given time off from their other employment duties to attend the periodic Trustees' meetings.

9. Risks

The Trustees recognise a number of risks involved in the investment of assets of the Plan:

- The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.
- The risk of adverse consequences arising through a mismatch between the Plan's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.
- Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through the asset allocation policy.
- Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.
- Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.
- Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.
- Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

The Trustees regularly commission analysis of the financial risks of the Plan by using Value at Risk ("VaR") analysis. VaR can be used to consider the down-side risks of the Plan under a given investment strategy and the Trustees will review the Plan's VaR on an annual basis.

The Trustees will keep these risks under regular review.

10. Other issues

10.1 Statutory funding requirements

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

10.2 Corporate governance

The Trustees have considered corporate governance issues and have agreed that they will have no specific policy in place. The Trustees have agreed that all corporate governance decisions should be delegated to the Investment Manager.

10.3 Social, environmental and governance issues

The Trustees have considered their approach to environmental, social and corporate governance ("ESG") risks and they believe there can be financially material risks relating to ESG. The Trustees have delegated the ongoing monitoring and management of ESG risks to the Plan's investment managers. The Trustees require the Plan's investment managers to take into consideration ESG risks within their decision-making, recognising that how they do this will be dependent on the characteristics of the asset classes in which they invest.

The Trustees will consider how best to take their views on ESG risks into account in any future investment manager selection exercises. Furthermore, the Trustees, through the Investment Adviser, will monitor the processes and operational behaviour of the investment managers to ensure they remain appropriate and in line with the Trustees' requirements as set out in this statement.

Where practically possible the Trustees are keen to align their policy with the Employer's approach to ESG for both financially material considerations and non-financial matters; where non-financial matters means the views of the members and beneficiaries on items such as: their ethical views, their views in relation to social and environmental impact, and their views on present and future quality of life of the Plan's members and beneficiaries (for example by trying to avoid investments in manufacturers of military equipment). Notwithstanding this the Trustees' general policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

10.4 Voting rights

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the investment managers and encourages them to vote whenever it is practical to do so.

As the Plan invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations, then the Trustees may consider terminating the relationship with that Investment Manager.

11. Responsibilities

Trustees

The Trustees of the Plan are responsible for, amongst other things:

- Determining the investment objectives of the Plan and reviewing these from time to time.
- Taking in to account the advice from their Advisors, agreeing an investment strategy designed to meet the investment objectives of the Plan.
- Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- Assessing the quality of the performance and process of the investments by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- Selecting investments which are consistent with the investment strategy after consultation with the Advisers.
- Assessing the ongoing effectiveness of the Advisers.
- Consulting with the Employer when reviewing investment policy issues.
- Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- Informing the Advisers of any changes to Plan benefits or significant changes in membership.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- Participating with the Trustees in reviews of this SIP.
- Advising the Trustees how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.
- Advising the Trustees of any changes in the funds that could affect the interests of the Plan.
- Undertaking reviews of the Plan's investment arrangements including reviews of the asset allocation policy and current investments and advising on the selection of new funds.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.
- Commenting on the appropriateness of the investment strategy relative to the liabilities of the Plan at the triennial valuations.
- Advising the Trustees of any changes to contribution levels and funding level.

Appendix A: The Plan's asset strategy

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Plan together with their expected timing, the risks of and to the Plan and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation:

Asset class	Fund	Benchmark allocation	Expected return
Index-linked government bonds	*LGIM Treasury 2047, 2050, 2055 Index Linked Gilt Funds*	20.0%	In line with market gilt yields
Diversified growth	*Baillie Gifford Diversified Growth Fund*	28.5%	Aiming to return at least RPI + 2% p.a.
Diversified growth	*LGIM Dynamic Diversified Fund*	28.5%	
Multi sector credit	*Alcentra Clareant Global Multi-Credit Solutions Fund*	13.0%	
Private debt	*StepStone Global Senior Corporate Lending Europe Fund*	10.0%	

The Trustees are aware that the allocations will fluctuate in line with market movements.

Future de-risking plan investment strategy

As the Plan matures, the Trustees are aware that a higher proportion of the Plan's liabilities will be in respect of pensioners. As part of the 2018 actuarial valuation, the Trustees agreed to start a de-risking plan in April 2028, which will aim to transition to a lower-risk / lower-return asset strategy between 2028 and 2038. This is in addition to the de-risking changes made to the portfolio as part of the valuation project.

Manager target returns and performance monitoring

Fund	Benchmark index	Objective	Fee[1] (p.a.)
LGIM 2047 Index Linked Gilt Fund	Treasury 2047 Index Linked Gilt	To perform in line with the benchmark index	0.10%[2]
LGIM 2050 Index Linked Gilt Fund	Treasury 2050 Index Linked Gilt	To perform in line with the benchmark index	0.10%[2]
LGIM 2055 Index Linked Gilt Fund	Treasury 2055 Index Linked Gilt	To perform in line with the benchmark index	0.10%[2]
Baillie Gifford Diversified Growth Pension Fund	Bank of England Base Rate	To out-perform the UK Base Rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annual volatility of less than 10%	0.65%
LGIM Dynamic Diversified Fund	Bank of England Base Rate	To perform in line with the UK Base Rate + 4.5% p.a. (gross of fees) over a full market cycle, with a risk level of approximately 2/3 of the volatility of a global equity portfolio over the long term	0.35%[2]
Alcentra Clareant Global Multi-Credit Solutions Fund	LIBOR	To perform in line with LIBOR + 4.5% p.a. (net of fees) over a full market cycle.	0.60%
StepStone Global Senior Corporate Lending Europe Fund	n/a	Target a net return on the loans issues of 6.0% - 7.5% p.a. (once the capital has been invested).	1.3% - 1.5% + potential performance fees[3]

1. Annual Management Charges, based on the average value of the Plan's holdings.
2. LGIM charge a flat fee of £1,000 per annum in addition.
3. Actual fee depends on underlying private debt managers utilise by StepStone. Historic performance fees have been 0.6%-0.8%.

Cash management policies

From time to time the Trustees will need to invest in or disinvest from the Plan's invested assets to meet the Plan's cashflow requirements. The Trustees' policy for investments and disinvestments is set out below.

The source of investments and disinvestments will be determined by the Trustees after taking investment advice, as appropriate. In making their decision, the Trustees will consider this investment advice, together with other considerations such as:

- the Plan's benchmark allocations;
- investment conditions at the date of investment/disinvestment;
- the need for administrative simplicity; and
- any expected imminent changes to the Plan's investment strategy.

Appendix B: DC Section funds

The funds available in the DC section are shown below.

Manager	Fund	Fee (p.a.)
BlackRock Investment Management UK Limited	*Balanced Growth Fund*	0.45%
	UK Growth Fund	0.45%
	60/40 Global Growth Fund	0.45%
	70/30 Global Growth Fund	0.45%
Legal & General Investment Management Limited	*Global Equity 70:30 Fund*	0.16%
	UK Equity Index Fund	0.10%
	Multi-Asset (formerly Consensus) Fund	0.25%
	Over 15 Year Gilt Fund	0.10%
	Cash Fund	0.125%

Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

Trigon Professional Services Limited, Registered No. 12085392.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).