The Motability Defined Benefit Pension Scheme

Statement of Investment Principles

Seventh Edition

1.0 Introduction

This Statement of Investment Principles (the "Statement") has been prepared by the Trustees of the Motability Defined Benefit Pension Scheme (the "Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Scheme (Investment) Regulations 2005, as amended.

This is the seventh edition of the Statement and, taken with the document "Investment Managers and Advisers", replaces all other versions and addenda.

In preparing this Statement the Sponsoring Employer (the "Company") has been consulted.

2.0 Investment Governance Structure

The Trustee Board ("the Trustees") comprises an appropriate number of company and member nominated trustees in accordance with the prevailing legislation, and includes an independent Professional Trustee.

The Trustees' primary role is to act in the best interests of the Scheme members.

The Trustees of the Scheme take investment decisions as a complete body, with advice from their investment adviser, and do not feel it necessary to set up an Investment Sub-Committee. This more straightforward approach recognises the input that each of the Trustees is able, and wishes, to make in the formulation of the Scheme's investment policy. The Trustees meet formally three times a year but, if required to do so, will arrange conference calls or have "virtual meetings" to ensure a proactive and efficiently run investment strategy.

The duties of the Trustees include, but are not limited to, the following:

- Agreeing the journey plan and overall asset allocation;
- Fund manager selection and deselection;
- De-risking with reference to liabilities and the Company covenant;
- Currency hedging programmes;
- The use of derivatives for risk management purposes;

Once an investment decision has been made, the Trustees have delegated the day-to-day implementation of the investment strategy to their investment adviser via a Power of Attorney. The adviser's role includes, but is not limited to:

- Recommending changes to asset allocation, including adhering to a rebalancing framework;
- Recommending changes or deviations from a Plan;
- Recommending changes to fund managers and custodians;
- Operational and investment due diligence on investment opportunities as appropriate;
- Completion of documentation on the Trustees' behalf in respect of appointment and removal of fund managers and custodians;
- Implementation of any currency or liability hedging programmes;
- Performance reporting;
- Attendance at Trustee meetings.

The Trustee has set clear objectives for the adviser, which are monitored each year. Details of the investment adviser's remuneration is in a separate document entitled, "Investment Managers and Advisers".

The Trustees will undertake training where it is required to enable informed decisions to be made. The Trustees will also formally review the contents of this Statement following any significant change in investment policy, Company covenant, liability profile, or market event, and no less frequently than triennially.

3.0 Investment Beliefs

The Trustees have a separate document which includes reference to, for example, active versus passive investment, diversification, ESG, and stewardship. This is a detailed document that is held externally to this Statement, and which can be amended more frequently if needed.

The Trustees do not have strong beliefs on non-financial matters that they feel should constrain or influence their decision-making process and are not aware of any such beliefs within the membership of the Scheme or from the Sponsor.

4.0 Investment Objectives

Investment objectives are set with reference to the liability profile of the Scheme and the Company covenant. Trustee meetings focus on the investment strategy and performance against objectives is monitored.

The Trustees have set out three main objectives for the investment strategy:

1. To ensure sufficiently realisable investments to meet capital calls, including member payments, when they fall due;
2. For the value of the assets to be in excess of the value of the liabilities on a Technical Provisions basis, within the timeframe of the Recovery Plan;
3. To reach a low dependency portfolio, with a targeted 70% allocation to assets that reflect the characteristics of the liabilities in respect of cashflow, and interest rate and inflation sensitivities by March 2028.;

The Trustees recognise that the current strategy does not reach full low dependency until the last member of the Scheme retires given the nature of the actuarial valuation but are discussing bringing this forward.

These objectives are the key driver of all decision making and overarch all other policies and beliefs.

The Trustees, together with their investment adviser, have discussed the investment objectives and the resultant investment strategy with the Scheme Actuary to ensure it is consistent with the actuarial valuation methodology and assumptions. The Trustees have also had confirmation from the Company that these objectives are consistent with their own.

5.0 Environmental, Social and Governance (ESG) Policy

The Trustees believe ESG, including climate change, to be an important long-term investment decision making factor. It is therefore considered as part of the selection and retention of asset classes and fund managers, using analysis provided by their investment adviser.

A separate ESG policy detailing the approach to ESG has therefore been produced that references the Trustees' investment beliefs.

The ESG Policy will be reviewed at least annually.

6.0 Stewardship

The Trustees do not have the necessary skills to vote or engage individually with the companies in which they invest through their fund managers. They also recognise that by investing via pooled funds they are unable to directly influence the underlying securities in which their fund managers invest.

However, portfolio managers are expected to engage and influence the companies in which they invest as well as exercise their right to vote.

The Trustees have a separate Stewardship Policy, including the engagement and monitoring of pooled fund managers, with respect to, for example, conflicts of interest and performance.

7.0 Risk Management

7.1 Integrated Risk Management

The Trustees fully understand the need to align the interests of all stakeholders of the Scheme. Specifically, the Trustees ensure that the Actuarial assumptions, investment strategy and risk appetite of the Company are balanced as far as possible.

The Company is involved in actuarial assumption and investment strategy discussions, and their views have been incorporated into the objectives.

No formal covenant review has been undertaken given the high level of reserves available to the Company and the low significance of the pension scheme on its overall financial position.

7.2 Risk Appetite

The Company has expressed a desire to reduce, insofar as possible, the impact of adverse interest rate and inflation movements on the Scheme's funding level. The Trustees have taken this view into account in setting a Journey Plan to maximise the interest rate and inflation hedges over time, within the confines of the actuarial assumptions and Scheme liquidity requirements.

The Trustees provide value-at-risk information to the Company and monitor risk on a quarterly basis. Given the size of the Scheme and the spurious accuracy of risk metrics, the Trustees have not set an absolute risk level for the Scheme, nor has the Company expressed a desire for one. However, all parties are aware of "value-at-risk" and monitor it.

7.3 Risk Reduction Strategies

The Trustees embrace diversification as a means to reduce portfolio risk. They seek to invest in asset classes with different drivers of return to achieve this and are willing to consider all asset classes and funds provided they are consistent with this Statement.

In addition, risk mitigation strategies, such as adding to pooled funds that generate cashflow to broadly match liability payments and/or have interest rates and inflation sensitivities that mirror those of the liabilities, are considered and utilised where it is appropriate and cost-effective to do so.

It is recognised that full matching of liabilities can only be achieved through buy-in or buy-out and this will be considered by the Trustees when appropriate.

7.4 Cashflow Management

One of the key elements when setting investment strategy is the liquidity requirements of the Scheme. The Trustees monitor ongoing liquidity needs quarterly and assess whether there are sufficiently liquid assets available in the short term by stressing capital calls, for example from private equity, member payments and hedging strategies.

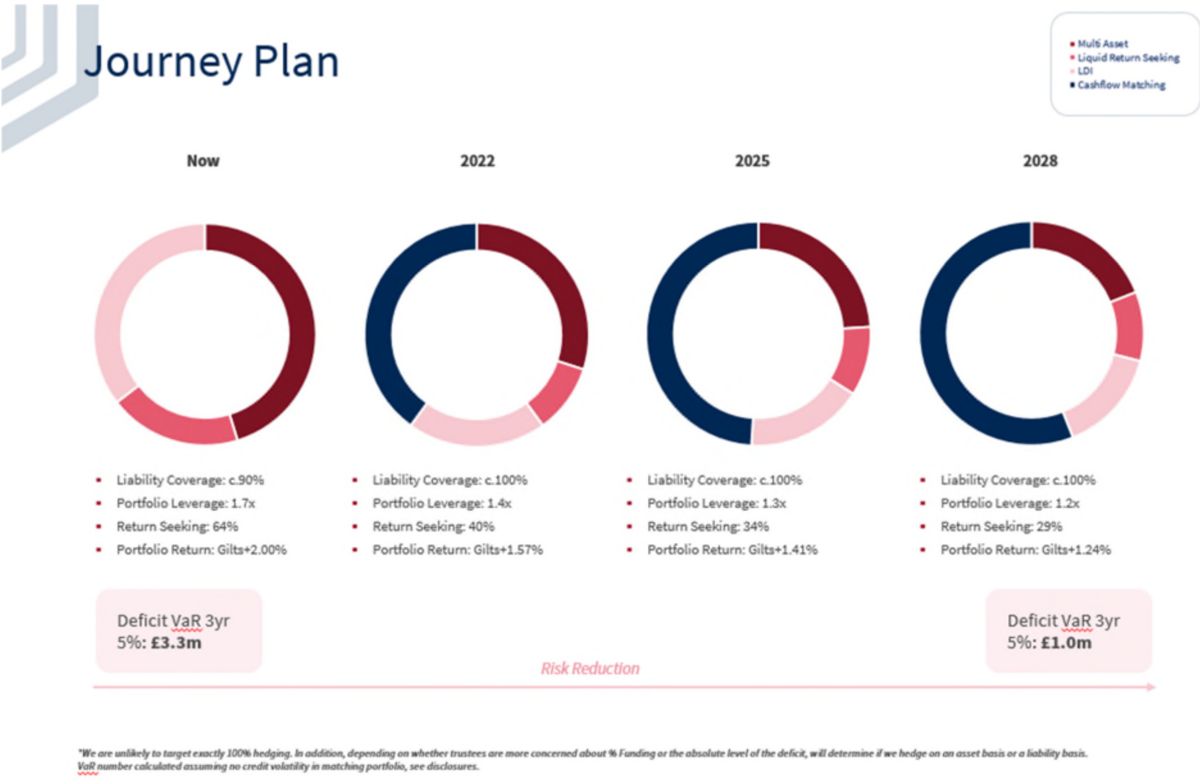
The Trustees are also allocating to funds that specifically generate cashflow to meet liability payments.

8.0 Long Term Journey Plan

The Trustees have set central journey plan that aims to reduce risk over time in line with the maturing of the Scheme, following a gradually reducing required return from the assets. The following broad strategies will be allocated to a:

- Cashflow Driven Investment ("CDI") portfolio to meet a proportion of liability cashflow (this is particularly important for the Scheme given that it becomes cashflow negative in 2022 and assets will be consistently required to meet liability payments for the first time);
- liquid growth portfolio to meet unexpected cash calls;
- multi-asset portfolio as a diversifier and to achieve the additional returns over Gilts required to meet actuarial assumptions;
- Liability Driven Investment ("LDI") funds to hedge interest rate and inflation risk over and above that achieved within the CDI portfolio.

The next 7 years of portfolio allocations, at three year intervals is highlighted in the chart below:



The initial moves to the "2022 portfolio" are the most significant in terms of change and will be spread over 24 months.

The Trustees may decide that derisking can be slowed or suspended, as discussions with the Scheme's Sponsoring Employer evolve and market conditions change. They also recognise that further strategic discussion will come in 2022 as part of the Triennial Actuarial Valuation, at which point a new Statement may be required. The plan therefore highlights the general direction of travel rather than a firm commitment around asset allocation and timing, which will be finalised through 2022.

9.0 Asset Allocation

9.1 Growth Assets

The Trustees have not restricted themselves by asset class and are also willing to consider illiquid investments, provided they fit within a framework of diversification across different drivers of return. This will include allocations to hedge funds, listed equity, private equity, commodities, property and credit. Cash equivalent instruments and bonds will be held to meet short term capital calls within the growth portfolio.

Given the size of the Scheme, the majority of growth assets will be held through multi-asset funds.

The target return is as set in the actuarial valuation and the Trustees aim to achieve this with lower volatility than that of equities (as defined by the MSCI World Index), net of fees.

9.2 Bond Assets

The Trustees have set a strategy that targets coverage of interest rate and inflation risks that reflect the actuarial valuation methodology, whilst retaining sufficient liquidity to meet capital calls and without impinging on the Scheme's ability to meet return requirements.

The Trustees recognise that an exact hedge is not possible, given the size of the Scheme, and that a full hedge is not possible given the actuarial valuation assumptions, without the use of leveraged products.

A combination of physical bonds (both corporate and government) and derivatives (swaps) will be used within the pooled fund universe to achieve a broad hedge based on the duration of the liabilities (PV01 and IE01) as well as to meet broad liability payments. Instruments will be both inflation linked and fixed in nature.

10.0 Expected Return on Investments

The portfolio of assets is expected to achieve at least the return assumed within the Actuarial Valuation basis, plus a margin of 0.3%. Each fund manager has a benchmark which they are expected to achieve, and these are set out in a separate Investment Managers and Advisers document.

11.0 Fund Manager Selection

Fund manager selection is made by the Trustees following recommendations made by their investment adviser. As part of the fund research process the investment adviser will consider each fund manager's approach to environmental, social and governance (ESG) issues, alongside other factors which may be considered financially significant Whilst this does not restrict the investment to only managers who have strong ESG principles, it will form part of the selection process.

Implementation of any agreed investment/redemption is made by the investment adviser who completes the required documentation. Fund managers are selected after full due-diligence has been undertaken.

The Trustees will consider funds managed by their adviser and recognise the potential conflict. Where an adviser fund is used, there needs to be clear advantages, either financial or operational, to the investment.

A full list of the fund managers and their mandates is in a document entitled, "Investment Managers and Advisers".

12.0 Performance Monitoring

The Trustees review the performance of the Scheme on a quarterly basis. Consolidated reporting is provided by their investment adviser, which covers market commentary, asset allocation, and Scheme performance, including performance against the actuarial liabilities.

In addition, the Trustees delegate monthly monitoring to their investment adviser, who is charged with bringing any significant issues to their attention outside the regular Trustee meetings.

The Trustees also measure the advice received and look to align interests through performance related fees where appropriate.

The key measure of success of the Trustees' decisions and the advice given is through the improvement in the funding level, although it is recognised that there is likely to be short term volatility outside their control. This volatility may stem from demographics, investment markets and the inability to hedge yields and inflation entirely, however the position will be monitored quarterly.

13.0 Transparency

Information is available to Scheme members, including this Statement. It is the Trustees' aim to be transparent and free from conflicts as fiduciaries to the Scheme.

14.0 Compliance

This Statement has been drawn up with reference to current legislation and best practice. In particular, the Trustees have considered the Myners Principles and The Pensions Regulator's Investment Guidance for Defined Benefit Pension Schemes, as appropriate to the Scheme.

The Statement will be reviewed annually and following any significant changes to the Company's ability, or willingness, to support the Scheme or significant changes to the liability profile.

Date 28 October 2021

Signed on behalf of the Trustees by:

Name Donald Brereton Signed *Donald Brereton*

Appendix I – Authorised Advice

The Statement has been written after obtaining and considering advice from Premier Investment Consulting Limited, the Trustees' investment adviser, and prior to that from Ormonde Advisory Limited. Premier Investment Consulting Limited is regulated as a Designated Professional Body by the Institute and Faculty of Actuaries.

In my professional opinion, the strategy as set out in this Statement is broadly appropriate, taking into account the suitability of investments, the need for diversification and the nature and profile of the Scheme liabilities.

The Trustees regularly review the investment strategy, taking into account revisions to the actuarial valuation, changes to liability profile and funding level, and changing investment market conditions, and are proactive in their decision making.

Date 29 October 2021

Name Mark Hodgson

Signed *Mark Hodgson*

Appendix II – 2021 Target Asset Allocation

We set out below our target asset allocation by 31 December 2021, recognising that the long-term Journey Plan will be reviewed through 2022.

	Allocation %
Growth	45.0%
Liquid	9.5%
Cash & Equivalents	1.0%
Short-Dated Corporate Credit	4.0%
Cash & Equivalents	1.5%
Listed Alternatives	3.0%
Semi-liquid	30.0%
Diversified Growth Fund	30.0%
Illiquid	6.5%
European Bank Risk Transfer	0.5%
Property (Europe)	0.3%
Property (Europe)	2.0%
Private Equity (China)	2.0%
Property (Asia)	1.8%
LDI	55.0%
Pooled LDI (Long) - Real	15.0%
Pooled LDI (Short) - Real	10.0%
LDI Cash and Equivalents	7.5%
Corporate Bonds/CDI	22.5%
TOTAL	100.0%

Once the allocation has been achieved, the expected return on the portfolio will be approximately Gilts plus 1.8%.

THE MOTABILITY DEFINED BENEFIT PENSION SCHEME

Investment Beliefs, ESG and Stewardship Policies

September 2020

1. Introduction

The trustees of the Motability Defined Benefit Pension Scheme (the "Trustees") set out in this document, their investment beliefs and policy on how ESG factors will be incorporated into their investment decision making. It also includes their Stewardship Policy.

It is in our members' best interests to deliver the returns necessary to meet all capital payments (including to members) when they fall due, within an acceptable risk framework. Investment decisions are made with members' best interests at their core. Provided this primary goal is met, decisions are made within the confines of our stated investment beliefs and policies.

However, it is recognised that the size of the Scheme means that investment is made via pooled funds. We will apply our beliefs and policies in selecting and monitoring the funds in which the Scheme invests as far as is practicably possible.

2. Trustee Investment Beliefs

- It is preferable to take a long-term approach to investing; trying to time the markets in the short term can be highly risky.
- Managing investment risk in absolute terms and against liabilities is more appropriate than not, provided it is cost-effective to do so.
- Diversification across different drivers of return is key to delivering strong risk-adjusted returns.
- In very efficient markets, passive investment provides a cost-effective way of gaining market exposure. However, investing actively can be financially beneficial in less efficient markets.
- Provided liquidity is well managed against Scheme circumstances and stress tested at a portfolio level, it may be financially beneficial to invest in illiquid assets such as real estate and private equity.
- Reliance on assumptions within complex investment models provides false comfort and should provide guidance to investment decision-making, not become the key determinant.
- Investments that have a positive ESG impact, including in respect to climate change, are more likely to outperform those that do not, and may reduce risk over the long term.
- Well governed businesses are more likely to outperform poorly governed businesses.
- Fund managers who take an active approach to company engagement, are transparent in their reporting and are considered good stewards of assets will generally perform better than those that do not.

3. ESG Policy

- We will engage with our sponsoring employer on our ESG policy and consider any views they may have.
- We believe that climate change is a financially material consideration when investing. We will engage with our managers on the issue and encourage them to consider the impact climate change may have on their portfolios.
- We may consider non-financially material ESG factors where we believe there is a majority membership preference or where the financial impact is unlikely to be detrimental to returns.
- Where there is choice, we will invest in fund managers with a superior ESG approach, as rated by our investment adviser, provided it is not detrimental to returns.
- We expect our fund managers to report on ESG issues and developments.

Investments will not be excluded based purely on ESG factors or this policy but they will be part of the investment decision-making process.

4. Stewardship Policy

We expect our pooled fund managers to engage and influence the companies in which they invest and exercise their right to vote where it is possible to do so.

Although fund managers are appointed for the long-term, we recognise that there will be short-term performance volatility, which we will monitor. In addition, we will engage with our fund managers in the following way and, where possible, monitor responses on at least an annual basis, to ensure our beliefs and polices are being met:

- We expect our managers to report fully on voting and engagement activity.
- We expect any conflicts of interest or changes in ownership to be declared in advance.
- Incentivisation of fund managers to align ESG and liability interests will be considered but the use of pooled funds may restrict the ability to achieve this.
- Our manager appointments are expected to be for the very long term, although we keep them under regular review via our investment adviser.
- Managers are expected to provide transparency on the costs of running pooled funds, including transaction costs.