JCB Finance Limited Pension Scheme

Statement of Investment Principles

Introduction

1 This document is the Statement of Investment Principles (‘SIP’) made by the Trustee of the JCB Finance Limited Pension Scheme (the ‘Scheme’), in accordance with Section 35 of the Pensions Act 1995 ("the Act"), including the amendments laid down in the Pensions Act 2004. The SIP sets out the investment principles for the Scheme as decided by the Trustee.

2 The Trustee will review this SIP at least every three years and following any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Scheme’s Investment Consultant (Towers Watson Limited, a WTW company) and consulted JCB Finance Limited (the ‘Company’). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Division of Responsibilities

3 The Trustee’s investment responsibilities are:

- approving the overall investment objectives of the Scheme;
- approving the asset allocation of the Scheme;
- approving the appointment and removal of investment consultants, investment managers and custodians, as may be required.

Investment objectives

4 The general investment objectives of the Trustee are as follows:

a Take account of current market conditions when positioning the portfolio at any time

b The acquisition of suitable assets of appropriate liquidity which can generate income and capital growth to meet, together with any new contributions, the liabilities of the Scheme.

c To maintain an acceptable level of risk of the Scheme’s assets failing to meet its liabilities over the long term and to maintain an acceptable level of volatility of various measures of the funding level.

d To keep the long term costs of the Scheme to a satisfactory level.

5 The Trustee’s policy is to seek to achieve the objectives through investing in a suitable mixture of real assets (e.g. equities) and monetary assets (e.g. bonds). The Trustee recognises that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. The Trustee expects that diversification across asset classes should provide the level of returns required by the Scheme to meet its liabilities within acceptable risk tolerances.

Investment strategy

6 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently.

7 The investment strategy makes use of two key types of investments:

- Using a range of passively managed instruments that provide a broad match to changes in liability values, and

- return-seeking assets comprising of a Diversified Growth Fund

8 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme's investment objective.

9 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

10 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

11 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.

12 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Asset Allocation

13 The target asset allocation is set out below:

Investment Manager	Asset class	Benchmark	Target asset allocation
BlackRock	Nominal Gilts	FTSE Actuaries UK Conventional Gilts over 25 years Index	40.0%
BlackRock	Index-linked Gilts	FTSE Actuaries UK Index-linked Gilts over 5 years Index	14.0%
BlackRock	Index-linked Gilts	FTSE Actuaries UK Index-linked Gilts over 25 years Index	13.0%
LGIM	Diversified Growth Fund	LIBOR plus 3.5% (gross of fees)	33.0%
	Total		**100.0%**

14 The actual asset allocation will be reviewed quarterly against the target allocation set out above.

Fee Structure

15 The investment managers are remunerated by a fee related to the value of the assets under management or a fixed fee.

16 The investment consultant is remunerated on a time-cost basis or on a fixed fee basis as appropriate for certain projects.

17 These fee structures are considered by the Trustee to be in line with best market practice and are reviewed from time to time to ensure they continue to be appropriate.

Scheme Specific Funding Standard

18 The Act, requires that the value of the assets of pension schemes is not less than the value of their liabilities as calculated using asset return assumptions developed and approved by the Scheme Actuary, and sets out the procedure for dealing with shortfalls. The Trustee will consult the Scheme Actuary and the Company when deciding upon the appropriate response to any shortfall. The Trustee considers that the investment principles described in this statement are consistent with complying with

their obligations under the Act. In addition, the Trustee will review its investment policy in the light of actuarial valuations and certificates and schedules of contributions produced in order to comply with the Act.

Manager Structure

19 The Trustee has appointed two investment managers, Legal & General Investment Managers (“LGIM”) and BlackRock Investment Management (UK) Limited (“BlackRock”) . The managers have been selected, and the portfolio structured, taking regard of the overall objectives of the Scheme, the level of skill of the managers and the overall risk tolerance of the Trustee.

Investment managers

20 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager. The investment manager shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

21 The Trustee is not involved in the investment manager’s day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme’s investment manager to its Investment Consultant.

22 The Trustee understands that sustainability factors (including those related to ESG and climate change) and stewardship may impact the Scheme’s financial outcomes.

23 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers, as well as the responsibility for the exercising of ownership rights (including voting rights) attaching to the investments. The Trustee recognises that with a passive portfolio, the managers take no material decisions on the holdings to be included in the portfolio. However, the Trustee expects the managers to engage with the companies and issuers in which they invest in relation to the financial and non-financial implications of sustainability issues.

24 Accordingly, the Trustees’ policy is to engage with the managers, with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, in order to understand their policies on sustainability and stewardship, and review these policies regularly to ensure that the managers are carrying out their delegated responsibilities. The Trustee will also review monitoring reports on sustainability and stewardship from the managers (e.g. voting records) on at least an annual basis. When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations taking into account the nature of the assets held under the relevant investment mandate, but has identified climate and diversity, equity and inclusion as key areas of focus for the Trustee.

25 In addition, the Trustee will seek to incorporate sustainability and stewardship amongst the criteria used when considering the Scheme’s investment strategy and the selection of investment managers, provided that the inclusion of these does not negatively impact the Scheme’s long-term objectives.

26 The Trustee does not take into account non-financial factors as part of their investment considerations.

27 The Scheme may use different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where

appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

28 To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

29 Should the Trustee's monitoring process reveal that an investment fund's objectives and guidelines are not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

30 For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

31 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

32 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

33 The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Expected Rate of Return

34 The Trustee expects the long-term return on the assets to provide a positive real rate of return (a return above price inflation). Given the current asset distribution, the Trustee also expects to achieve a return equal to or in excess of the return used by the Scheme Actuary to determine ongoing liabilities over the longer term.

Other matters

35 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

36 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme, and monitors these risks on a regular basis:

- **Deficit risk -** Is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

- **Liquidity risk** - Is measured by the level of cashflow required by the Scheme over a specified period and is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

- **Currency risk** - Is measured by the level of exposure to non-Sterling denominated assets and could be managed by assessing how much non-sterling currency exposure is associated with each of the Scheme's investments and agreeing how much of this exposure should be hedged.

- **Interest rate and inflation risk -** Is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates and could be managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Scheme's assets to better-match movements in the value of the liabilities due to inflation and interest rates. The Scheme currently holds fixed interest gilt assets which provide some hedging against changes in interest rates and index-linked gilt assets which provide some hedging against its exposure to inflation risk

- **Sponsor risk** - Is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit, and taking account of the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor. This is managed by assessing the interaction between the Scheme and the sponsor's business.

- **Diversification** - The choice of benchmark and ranges are designed to ensure that the Scheme's investments are adequately diversified. In addition, the specific investment funds within the portfolio ensure that the Scheme avoids undue concentration at a stock selection level.

- **Solvency risk and mismatching risk** - Is managed through periodic assessment of progress of the actual growth of the liabilities relative to the selected investment policy and assessment of the expected development of the liabilities relative to the current and alternative investment policies.

- **Underperformance and manager risk** - Is managed by monitoring the deviation of the return of the investment funds versus their respective benchmarks.

- **Suitability** - The Trustee has taken advice from the Investment Consultant regarding the suitability of the benchmarks, ranges and currency exposures adopted for the Scheme taking account of given its liability profile as calculated by the Scheme actuary.

- **Appropriateness of investments** - Is managed through appropriate guidelines within each relevant investment management agreement regarding the use of derivatives, gearing, specific asset limits and other restrictions. Additionally, investment in shares of NatWest plc is only permitted within passive equity index tracking portfolios and within pooled funds.

- **ESG (including climate change) risk** – This is the potential for non-financial factors to adversely impact the value of the assets or overall funding position. This is managed as part of the regular monitoring of the portfolio to ensure ESG risks are being appropriately considered in ongoing investment decisions.

Investment Manager Monitoring

37 The Trustee regularly monitors the investment managers as a means of ensuring the performance objectives are met.

Investment Manager Selection Criteria

38 Selection criteria for investment managers will include:

- Business
  - supportive ownership from a parent committed to investment management
  - evidence of clear strategic direction
- People

- high calibre, experienced professionals
  - relatively low staff turnover
  - evidence of clear commitment to culture
  - strong recruitment/training plans
- Process
  - effective approach to accessing/interpreting research
  - robust, repeatable process
  - process consistent with the stated philosophy
- Performance
  - acceptable variability in relation to manager's style
  - past performance acts as a further secondary consideration in investment manager selection

Investment Manager De-selection Criteria

39 Investment managers may be replaced if:

- the Trustee believes that the investment manager is not capable of achieving the performance objectives (both return and volatility) in the future; and/or
- the Trustee considers that it is desirable in the interest of the Scheme.

Additional Voluntary Contributions

40 The Trustee's policy is to seek to provide a range of funds which together offer a suitable mixture of real and monetary assets. The Trustee recognises that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile.

41 It is the Trustee's policy in relation to AVC options to:

- Ensure that an appropriate range of fund choices are available to members;
- Review the operation of AVC investments to ensure compliance with relevant jurisdictional legislation / regulation and best practice;
- Monitor the investment performance of the funds;
- Change the AVC fund choices as and when considered necessary.

July 2023

Authorised for and on behalf of the Trustee of the Scheme

Signed: Rob Heldreich

Date: July 2023