Jungheinrich UK Limited Retirement Benefit Scheme

Statement of Investment Principles

## Investment objective

The Trustees invest the assets of the Jungheinrich UK Limited Retirement Benefit Scheme ("the Scheme") with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles, and the Scheme's funding position is monitored quarterly to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme's circumstances.

The Scheme's investment objective is to achieve a best estimate return of 0.9% per annum above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities).

## Investment strategy

The Scheme's present strategy is to invest according to the following broad asset allocation:

| **Asset Class** | **Proportion %** | **Expected Return[(1)] (relative to fixed gilts) %** |
|---|---|---|
| UK Equities | 12.0 | 4.0 |
| European Equity (GBP Hedged) | 8.0 | 4.0 |
| Corporate Bonds | 10.0 | 1.0 |
| Index-Linked Gilts | 35.0 | 0.0 |
| Fixed-Interest Gilts | 35.0 | 0.0 |
| **TOTAL** | **100.0** | **0.9** |

1) 10 year assumptions as at 30 June 2020 net of investment manager fees.

The above table shows the Trustees' long-term expectation of the returns for each asset class above UK government bonds. However the Trustees accept that short-term returns will exhibit considerable variability.

The above investment strategy was derived from careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme, and also the strength of the sponsor's covenant.

The Trustees recognise that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. The assets of the Scheme wholly consist of investments admitted to trading on regulated markets.

At the request of the sponsoring employer, and in line with the Trustees' understanding of the views of the wider Group, the Trustees do not make use of derivatives to deliver return.

### Investment mandate and rebalancing

The Trustees have appointed L&G Investment Management ("L&G") to manage the assets of the Scheme in passively managed pooled funds. The fund manager is regulated under the Financial Services and Markets Act 2000. The table below sets out the fund structure and quarterly rebalancing instructions provided to L&G.

| Portfolio (% of assets) | Fund structure | Rebalancing and sector exposures |
|---|---|---|
| Government Bonds (70%) | • 14% 2037 Index-Linked Gilt Fund<br>• 10.5% 2047 Index-Linked Gilt Fund<br>• 10.5% 2068 Index-Linked Gilt Fund<br>• 17.5% 2055 Gilt Fund<br>• 17.5% 2068 Gilt Fund | Gilts will not be sold to purchase corporate bonds or equities. |
| Equity (20%) | • 12% UK Equity Index Fund<br>• 8% European Equity (Ex-UK) Index Fund (currency hedged) | **Maximum exposure:** The Trustees have decided to automatically rebalance by selling equities if they rise above 22.5% of the total portfolio at the quarter end (but not rebalance by selling gilts at any point). New money will be used to aid rebalancing and with no new money being allocated to equities if their value exceeds 20% of the overall portfolio.<br>The exposure will be allowed to rise above 20% in between formal quarter end rebalancing points.<br>**Sector exposure:** The Trustees monitor the sector allocation of the equity assets to ensure that they remain comfortable with the exposure to individual sectors. |
| Corporate Bond (10%) | • 10% Investment Grade Corporate Bond All-Stocks Index Fund | **Maximum exposure:** The Trustees have decided to rebalance by selling corporate bonds if they rise above 12.5% of the total portfolio at the quarter end (but not rebalance by selling gilts at any point). New money will be used to aid rebalancing and with no new money being allocated to corporate bonds if their value exceeds 10% of the overall portfolio.<br>The exposure to will be allowed to rise above 10% in between formal quarter end rebalancing points.<br>**Sector exposure:** The Trustees monitor the sector allocation of the corporate bond assets to ensure that they remain comfortable with the exposure to individual sectors. |

### Investment Manager Monitoring and Engagement

The Trustees review and engage with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

| Areas for engagement | Method for monitoring and engagement | Circumstances for additional monitoring and engagement |
| --- | --- | --- |
| Performance, Strategy and Risk | • The Trustees receive a quarterly performance reports which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.<br>• The Scheme's investment managers are not invited to present to the Trustees as all of the funds in which the Scheme's invests are index-tracking in nature. | • There are significant changes made to the investment strategy.<br>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations.<br>• Underperformance vs the performance objective over the period that this objective applies. Specifically if funds do not track their relevant benchmark within a suitable tolerance. |
| Environmental, Social, Corporate Governance factors and the exercising of rights | • The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.<br>• The Trustees receive information from their investment advisers on the investment managers' approaches to engagement. | • The manager has not acted in accordance with their policies and frameworks.<br>• The manager's policies are not in line with the Trustees' policies in this area. |

There is expected to be a limited focus by the investment managers on ESG factors due to the funds in which the Scheme invests being index-tracking in nature. c.70% of Scheme assets are invested in UK government bonds where ESG factors are not applicable.

**L&G management fees**

L&G charge the following management fees for each fund held:

- UK Equity Index Fund: 0.075% pa
- Europe (ex UK) Equity Index – GBP Hedged: 0.200% pa
- 2055 Gilt Fund: 0.040% pa
- 2068 Gilt Fund: 0.040% pa
- Investment Grade Corporate Bond – All Stocks Index: 0.080% pa
- 2047 Index-Linked Gilt Fund: 0.040% pa
- 2037 Index-Linked Gilt Fund: 0.040% pa
- 2068 Index-Linked Gilt Fund: 0.040% pa

The fund manager's remuneration is based upon a percentage value of the assets under management. The fees are competitive in comparison to other alternative providers.

**Custodian**

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the fund manager. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends.

**Social, environmental and ethical considerations**

The Trustees primary consideration on formulating investment strategy is to act in the best financial interests of the beneficiaries of the Scheme, and to seek the best return that is consistent with taking a prudent/appropriate level of risk. However it is recognised that social, environmental and ethical considerations can have an impact on financial performance.

Day to day management of the Scheme's investments is delegated to the investment manager, who take account of social, environmental and ethical considerations in so far as they have an impact on performance, in selecting and retaining investments and in the exercise of voting and other rights. This will involve the manager considering companies' policies on these issues alongside other issues that may affect long-term performance. However, this may not be possible where the Scheme is utilising index-tracking funds (which currently account for 100% of the Scheme's assets).

**Exercise of rights**

The Trustees believe that the exercise of rights (including voting rights) attaching to investments should be exercised by the investment manager to whom the day to day responsibilities have been delegated. The Trustees believe that this will ultimately be in the best interests of the Scheme.

**Realisation of investments**

The Scheme's assets are invested in quoted markets and are as readily realisable as the Trustees feel appropriate given the cashflow position of the Scheme and the expected development of the Scheme's liabilities. The investment manager can be required to realise investments as soon as it becomes appropriate to do so.

**Employer-related investments**

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 [except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value].

## Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

The Trustees do not currently hold any direct investments.

## Governance

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, Isio, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

## Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in investment policy.

Date: 28 September 2020

**For and on behalf of the Trustees of the Jungheinrich UK Limited Retirement Benefits Scheme**

## Appendix A – Investment Beliefs

### 1. Investment strategy is the most important decision and should be based on clear objectives

Our long term goal is to generate returns required to fund our members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are our central considerations.

Our strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

### 2 There's more to robust portfolio construction than diversification alone

Excessive diversification can introduce inefficiency, cost and fail to protect our portfolio in a downturn.

***Pay-off profile of assets:*** We tailor the expected payoff profile of the Scheme's investments around our required objectives.

***True diversification*****:** We optimise true diversification of underlying risk drivers.

### 3 We aim to select the most appropriate opportunities in the market

A strategy that buys the right asset, at a fair price, will serve us better than buying the wrong asset at a cheap price.

We consider the most appropriate potential market opportunities in order to help us achieve our long-term objective.

### 4 A long term mind-set can be used to enhance returns

As a long term investor we pursue incremental growth that rewards adherence to our strategic plan, rather pursuing short term opportunities rewarding speculation.

We will mitigate or manage risks that we are not rewarded for.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

### 5 Excessive costs will erode performance

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

### 6 Good governance improves our decision making

We continuously strive to enhance our knowledge of the investment opportunities and risks facing the Scheme.

We monitor the performance of our strategy and investment managers to improve our decision making.

## 7 Our investment process reflects our beliefs on responsibly investing.

We recognise that positive ESG factors can have a positive influence on the long term stability and returns of investments. However, mandates are selected with the purpose of maximising the chance of achieving the return objectives as set out in their mandates, which in combination aim to optimise the chance of achieving the Scheme's overall strategic objective.

The extent to which ESG and ethical considerations are taken into account in these decisions is delegated to the investment managers. The Trustees have very limited scope to influence this decision making as the Scheme's investments are in index-tracking funds.

## Appendix B – Risks

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

| Risks | Definition | Policy |
|---|---|---|
| Investment | The risk that the Scheme's position deteriorates due to the assets underperforming. | • Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.<br>• Investing c.70% of the Scheme's assets in UK government bonds. |
| Funding | The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows. | • Funding risk is considered as part of the investment strategy review and the actuarial valuation.<br>• The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time. |
| Covenant | The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme. | • When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support. |

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

| Risk | Definition | Policy |
|---|---|---|
| Interest rates and inflation | The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations. | To target an investment of 70% of the Scheme's assets in long dated UK government bonds (both fixed and index-linked 50/50). |
| Liquidity | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment. | To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values). The Scheme invests in weekly dealt funds. |

| | | |
|---|---|---|
| Market | Experiencing losses due to factors that affect the overall performance of the financial markets. | Limited allocation to equity markets (20% target of total Scheme assets). Hedge away unrewarded risks, where practicable. |
| Credit | Default on payments due as part of a financial security contract. | To diversify this risk by investing across different sectors. |
| Environmental, Social and Governance | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments. | Receive updates from investment advisors regarding ESG factor risk, noting that all of the Scheme's assets are invested in index-tracking funds.<br><br>A target of 70% of Scheme assets are invested in UK government bonds where ESG factors are not applicable. |
| Currency | The potential for adverse currency movements to have an impact on the Scheme's investments. | Exchange rate risk is hedged on the Scheme's European equities. |
| Non-financial | Any factor that is not expected to have a financial impact on the Scheme's investments. | Non-financial matters are not taken into account in the selection, retention or realisation of investments. |

**Appendix C**

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

| | |
|---|---|
| **How the investment manager is incentivised to align its investment strategy and decisions with the Trustees' policies.** | • As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective. |
| **How the investment manager is incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.** | • The Trustees review the investment manager's performance relative to medium and long-term objectives as documented in the investment management agreements. As the Scheme is invested in passive funds the objective for each fund is to match the performance of the appropriate index.<br>• The Trustees monitor the investment manager's engagement and voting activity as part of the implementation statement which is included in the Trustee Report and Accounts. This will first be included in the Trustee Report and Accounts for the period ending 5 April 2020.<br>• The Trustees do not incentivise the investment manager to make decisions based on non-financial performance. |
| **How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for their services are in line with the Trustees' policies.** | • The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.<br>• The Trustees evaluate performance over the time period stated in the investment manager's performance objective, which is typically 3 to 5 years. The Trustees receive quarterly investment monitoring reports which detail short and longer term performance of the Scheme's investments.<br>• Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive. The Trustees note that the current investment manager fees are very low and are discounted from standard rates as the Scheme has been a long-term client of L&G. |
| **The method for monitoring portfolio turnover costs incurred by the investment manager and how they define** | • The Trustees do not directly monitor turnover costs. However, the investment manager is incentivised to minimise costs as they are measured on a net of cost basis. High turnover |

| | |
|---|---|
| **and monitor targeted portfolio turnover or turnover range.** | costs would therefore be borne out through underperformance of the relevant market index. The Scheme holds a number of "bullet" maturity fixed and index-linked gilts which are buy and hold investments – i.e. turnover is zero. |
| **The duration of the Scheme's arrangements with the investment manager.** | • The Scheme only invests in open-ended funds with weekly liquidity, as such the holding periods are flexible. The Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held. |