

# *Addendum to the Statement of Investment Principles*

**For the Marubeni UK Pension & Life Assurance Fund**

**Effective from: May 2024**

**This addendum to the Statement of Investment Principles (“SIP”) for the Marubeni UK Pension & Life Assurance Fund has been produced by the Trustees of the Marubeni UK Pension & Life Assurance Fund (the “Fund”). It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Fund’s investment arrangements. In this document, we refer to Marubeni Europe plc and the Fund’s other participating employers (the “Company”).**



# Part 1:

## *Investment governance, responsibilities, decision-making and fees*

**We have decided on the following division of responsibilities and decision making for the Fund. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Fund overall. Our investment powers are set out within the Fund's governing documentation.**

### 1. Trustees

Our responsibilities include:

- developing a mutual understanding of investment and risk issues with the Company;
- setting the investment strategy, in consultation with the Company
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Act
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.

### 2. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Fund or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

### 3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- assisting us with reviews of this SIP.

## 4. Fee structures

The provision of investment management and advisory services to the Fund results in a range of charges to be met, directly or indirectly, by deduction from the Fund's assets. We have agreed terms with the Fund's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The Trustees have appointed BNY Mellon as a custodian in respect of the Fund's investments with BlackRock. BlackRock has confirmed that, under the "facilitated" arrangement with BNY Mellon, it will cover the associated custody fees. Should the Trustees wish to appoint a different custodian, BlackRock will not pay the related fees. The custodian fees are calculated on a per transaction basis. The fee rates are believed to be consistent with the custodian's general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Fund. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.

## 5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Fund's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

## 6. Working with the sponsoring Company

When reviewing matters regarding the Fund's investment arrangements, such as the SIP, we seek to give due consideration to the Company's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the Company, we believe that better outcomes will generally be achieved if we work with the Company collaboratively.

# Part 2:

## Policy towards risk

### 1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the Company covenant and how this may change over time
- the agreed journey plan and Company contributions
- the Fund's long-term and shorter-term funding targets
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the Fund's cash flow and target return requirements
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following implementation of the Fund's current investment strategy, the Fund's 1 year 95% Value at Risk is estimated to be £1.3m as at 30 September 2023. This means that there is estimated to be a 1 in 20 chance that the Fund's funding position will worsen by £1.3m or more, compared to the expected position, over a one year period. When deciding on the current investment strategy, we believed this level of risk to be appropriate given the Fund's objectives.

### 2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

#### Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

#### Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Fund's assets. We believe that the Fund's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Fund's investment arrangements.

#### Credit risk

The Fund is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers.

#### Currency risk

Whilst the majority of the currency exposure of the Fund's assets is to Sterling, the Fund is subject to currency risk because some of the Fund's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy, and believe that it diversifies the strategy and is appropriate.

#### Interest rate and inflation risk

The Fund's assets are subject to interest rate and inflation risk because some of the Fund's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Fund's assets provides protection (hedges) part of the corresponding risks associated with the

Fund's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

The multi-asset credit fund managed by M&G may have some sensitivity to changing interest rates, but this sensitivity will vary over time as the underlying investments change, and it is not expected to be a significant driver of returns due to the investment approaches of these funds.

### **Investment manager risk**

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

### **Climate-related risks**

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

### **Other environmental, social and governance (ESG) risks**

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately, and from time to time review how these risks are being managed in practice.

### **Illiquidity/marketability risk**

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due, or that the Fund will become a forced seller of assets in order to meet benefit payments. We are aware of the Fund's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Fund's investments and by investing in income generating assets, where appropriate.

### **Counterparty risk**

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation.

This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, BlackRock make use within its LDI funds of derivative and gilt repos contracts, and these funds are used to match efficiently a portion of the Fund's liabilities. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

### **Collateral adequacy risk**

The LDI manager may call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that we are not able to post additional cash to the LDI fund within the required timeframe when requested. A potential consequence of this risk is that the Fund's interest rate and inflation hedging could be reduced and that the Fund's funding level could suffer subsequently as a result. In order to manage this risk, our objective is that the Fund has a sufficient allocation to cash and other highly liquid assets that could be used to meet LDI collateral calls.

### **Other non-investment risks**

We recognise that there are other non-investment risks faced by the Fund. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring Company is unable to support the Fund as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

# Part 3:

## Investment manager arrangements

Details of the investment managers are set out below.

### **M&G – Total Return Credit Investment Fund**

The Fund invests in multi-asset credit via a pooled fund called the M&G Total Return Credit Investment Fund.

- The fund has no manager nominated performance target, however the Trustees expect the Fund to provide a return of 1 month SONIA +3-5% per annum, before the deduction of fees, over rolling three-year periods.
- The fund is priced daily. The fund is open ended and is unlisted.

M&G is responsible for custody of the assets of the fund. Responsibility is delegated to State Street. The Fund does not have a direct relationship with the custodian.

### **BlackRock – Sterling Short Duration Credit Fund**

The Fund invests in a short dated credit via a pooled fund called the BlackRock Sterling Short Duration Credit Fund.

- The fund's performance target is to return 1.5% p.a. gross of fees over a 1 to 3 year rolling period.
- The fund is priced daily. The fund is open ended and unlisted.

### **BlackRock – Institutional Sterling Liquidity Fund**

The Fund invests in cash and cash-like assets via a pooled fund called the BlackRock Institutional Sterling Liquidity Fund.

- The objective of the fund is to maximise income on investments consistent with maintaining capital and ensuring its underlying assets can easily be bought or sold in the market (in normal market conditions).
- The fund is priced daily. The fund is open ended and unlisted.

### **BlackRock – Liability Driven Investment**

The Fund invests in leveraged pooled LDI funds called the BlackRock Liability Matching Funds ("LMFs"). There are four BlackRock LMFs, characterised by the liabilities they are designed to match, namely: long and short duration, both real and nominal. The Fund invests in two of these funds, the LMF Long Nominal LDI and LMF Long Real LDI.

- The objectives of these funds are to match movements in value of their target liability profiles due to changes in interest rates and inflation expectations by investing in a range of instruments such as swaps and gilts.
- The funds are priced daily. The funds are open ended and are unlisted.

### **Custodian**

The role of a custodian is to ensure safe keeping of the assets and facilitate all transactions in respect of the portfolios for which it provides custody. We have appointed BNY Mellon as a custodian in respect of the Fund's investments with BlackRock.

### **Additional Voluntary Contributions**

The Trustees have made available the following investment options:

- With profits funds managed by Utmost Life and Pensions (previously Equitable Life Assurance Society) (closed to new monies); and
- Unit linked funds managed by Aviva Life Services UK Limited.

# Part 4:

## Monitoring and engaging with managers on voting and engagement

This section sets out our effective system of governance (“ESOG”) in relation to stewardship. This includes monitoring the voting and engagement activities that our investment managers undertake on our behalf, engaging with them regarding our expectations in relation to stewardship, and encouraging improvements in their stewardship practices. We will review this ESOG periodically, and at least triennially.

On a regular basis we will also undertake an own risk assessment (“ORA”) which assesses how well our ESOG is working and whether any changes should be made.

### Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring of investment managers’ voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are:

- climate change and biodiversity loss; and
- corporate governance and business ethics.

We chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore, we believe it is in our members’ best interests that our managers adopt strong practices in these areas.

We will write to our investment managers to notify them of our stewardship priorities and remind them of our expectations of them in relation to responsible investment.

### Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes. We therefore favour investment managers who are signatories to the Principles for

Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant’s assessment of potential managers’ capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

### Manager monitoring

We receive information regularly to enable us to monitor our managers’ responsible investment practices and check how effective they’re being.

This information includes metrics such as our investment consultant’s responsible investment grades for each manager and whether they are signatories to responsible investment initiatives.

### Implementation statement including most significant votes

Following the end of each Fund year, we prepare a statement which explains how we have implemented our Statement of Investment Principles during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The Trustee Board selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- whether it relates to one of our stewardship priorities;
- the potential financial impact of the vote;
- any potential impact of the vote on our investor rights or influence;
- the size of our holding; and
- whether the vote was high-profile or controversial.