Statement of Investment Principles – JMG UK Pension Scheme
(November 2024)

Introduction

1 This document is the Statement of Investment Principles (the “SIP”) made by the Trustee of the JMG UK Pension Scheme (the “Scheme”) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustee will review this SIP at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustee will review this SIP without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took advice from a suitably qualified firm and consulted Lithia Motors Group UK Limited (the “Sponsoring Employer”). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

Investment objectives

3 The Trustee has the following investment objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate an overall level of return that is sufficient to meet all liabilities as and when they fall due, and to ensure the security, quality and profitability of the portfolio as a whole;
- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis; and
- To minimise the costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under the points above.

Investment strategy

4 The Trustee had previously agreed an investment strategy that targeted full funding on a self-sufficiency liability measure (Gilts+0.25% pa) by 2031 with an initial expected return target of Gilts+3.2% pa.

5 Positive experience and a cash injection from the Sponsoring Employer acted to accelerate the timescales to full self-sufficiency funding and, as a result, the Trustee agreed to reduce the level of return targeted to around Gilts+1.3% pa. The Trustee’s ultimate objective is now to target a buy-out of the Scheme by 2026 or 2027. Therefore, the investment strategy and associated return target will be adjusted in line with that objective over time.

6 The Trustee has determined its investment strategy after considering the Scheme’s liability profile and requirements of the Statutory Funding Objective, its own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer’s appetite for risk, and the strength of the Sponsoring Employer’s covenant as well as reflecting the Trustee’s desire to diversify risk exposures and to manage its investments effectively. The Trustee received advice to determine the investment strategy for the Scheme.

7 The Trustee has also received confirmation from the Scheme Actuary during the process of revising the investment strategy that its investment objectives and the resultant investment strategy support the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

8 The investment strategy currently makes use of three key types of investments:

- a range of low-risk instruments that provide a broad match to changes in liability values (including high quality corporate bonds);
- a portfolio of secure income assets; and
- a diversified portfolio of return-seeking assets.

9 The Trustee has appointed an investment manager to manage the Scheme's assets on a discretionary basis and to provide investment advisory services to the Trustee (the "Fiduciary Manager"). The balance within and between these investments will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme's investment strategy set by the Trustee, subject to maintaining risk within a limit agreed by the Trustee. The Fiduciary Manager's discretion is subject to guidelines set by the Trustee in the Fiduciary Management Agreement between the parties as amended from time to time (the "FMA"). In exercising investment discretion, the Fiduciary Manager is required to act in accordance with its obligations in the FMA, including the guidelines and any investment restrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in this SIP. This ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

10 The initial target portfolio following the de-risking activity set out in section 6 is shown below:

Asset class	**Post trade position**
Liability matching	72%*
Secure income	10%**
Diversified return seeking	18%

*The liability matching allocation uses leverage to achieve a high degree of protection from interest rate and inflation risk. The Fiduciary Manager is required under its guidelines to maintain the liability hedge ratio (as a % of liabilities) between 90% and 100%.

** There is planned divestment from the Secure Income Fund which is likely to take place in Q1 2025 with a consequential move to Liability matching.

11 The balance between the asset classes shown in section 10 is expected to be adjusted over time in line with the Trustee's ultimate buy-out objective.

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

13 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.

14 The expected return of all the Scheme's investments will be monitored regularly and will be directly related to the Scheme's investment objective.

15 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the allocation of the Scheme's overall investments, where possible. The Trustee has set explicit liquidity provisions in the Fiduciary Manager's guidelines as follows:

Time frame	**% of total Scheme assets**
% realisable within 1 month	Minimum 50
% realisable within 1 year	Minimum 80

16 The Trustee has an asset backed contribution arrangement with the Sponsoring Employer under which the Scheme receives a specified income stream from properties which the Sponsoring Employer has transferred into the arrangement if funding levels are below broadly technical provisions. The arrangement provides the Scheme with additional security over any contributions payable by the Sponsoring Employer. The details of this arrangement are not set out in this SIP. However, the Trustee has taken advice that confirms that this investment is within legislative requirements, is within the requirements of the Scheme's Trust Deed and Rules and is appropriate from an investment perspective.

Investment managers

17 The Trustee has delegated investment selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustee in the FMA. Investments are made by the Fiduciary Manager on behalf of and in the name of the Trustee.

18 The Trustee considers the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that the Scheme's investment portfolio, in aggregate, is consistent with the policies set out in this SIP, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee expects the Fiduciary Manager to check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies contained in the SIP.

19 WTW has been appointed as Fiduciary Manager since 2022. In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently. The duration of the arrangements with investment managers will be determined on an individual basis taking into account the nature of the relevant investment mandate. In most cases, managers are appointed with the expectation of a long-term relationship but with an ability to terminate where considered appropriate. However, there may be occasions when managers are put in place for a short period or a fixed period, depending on the nature of the investment strategy.

20 The Trustee and Fiduciary Manager are not involved in the investment manager’s day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to the investment managers of certain pooled funds appointed where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long-term objectives.

21 The Trustee expects the Fiduciary Manager to select investment managers with an expectation of a long-term partnership with the Trustee, which encourages active ownership of the Scheme’s assets. When assessing an investment manager’s performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee’s position as a long term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment based purely on short-term performance but recognises that an investment may be terminated within a short timeframe due to other factors such as a significant change in the relevant manager’s business structure or investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the Fiduciary Manager.

22 For most of the Scheme’s investments, the Trustee expects the Fiduciary Manager to select investment managers with a medium to long time horizon, albeit acknowledging the Scheme’s expected time horizon has shortened given the improved funding position and buy-out objective. In particular areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme’s allocation to such mandates is determined in the context of the Scheme’s overall objectives.

23 The Trustee recognises that an investment’s long-term financial success is influenced by a range of financially material factors including environmental, social and governance (“ESG”) issues. The time horizon over which financially material factors are being considered reflects the Scheme’s time horizon and buy-out objective.

24 Consequently, the Trustee (through the selection of the Fiduciary Manager with its approach to ESG issues as set out in the relevant paragraphs below) seeks to be an active long-term investor. The Trustee’s focus is explicitly on financially material factors. The Trustee’s policy at this time is not to take into account non-financial matters in the selection, retention and realisation of investments.

25 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 human and labour rights as key areas of focus for the Trustee. The Trustee assesses that ESG risks (including climate change) pose a financial risk to the

Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. Whilst the Trustee's policy is to delegate several stewardship activities to the Fiduciary Manager and its investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee incorporates an assessment of how well the Fiduciary Manager and investment managers exercise these responsibilities as part of its overall assessment of their performance.

26 The Fiduciary Manager has a dedicated sustainable investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on a periodic basis. The Trustee expects the Fiduciary Manager to assess the alignment of each investment manager's approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustee expects the Fiduciary Manager to engage with the Scheme's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the investment managers' approach to sustainable investment (including engagement) on a periodic basis and engage with the investment managers to encourage further alignment as appropriate.

27 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.

28 The Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable stewardship codes, in keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

29 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to its investment managers. The Fiduciary Manager assesses the voting policies of the investment managers that it appoints on the Trustee's behalf, for consistency with the Trustee's policies and objectives, as appropriate. The Fiduciary Manager has also appointed EOS at Federated Hermes to undertake public policy engagement and company-level engagement on its behalf. EOS at Federated Hermes also assists the Trustee's equity managers with voting recommendations.

30 The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial selection of an investment manager and on an ongoing basis. Investment managers are generally 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. The Trustee expects the Fiduciary Manager to review and report on 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 investment manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Other matters

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

32 The Scheme provided a facility for members to pay for Additional Voluntary Contributions (AVCs) to enhance their benefits at retirement. Although members can now longer pay AVCs, accrued funds remain with the Scheme. Members of the DB section were offered a range of retail funds operated by various insurance companies in which to invest their AVCs.

33 The Trustee recognises a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager.

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.
- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Solvency risk and mismatch risk:

- are measured through a qualitative and quantitative assessment of the expected development of the Scheme's funding level.
- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

Investment Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Scheme's assets to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the investment managers' investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Scheme over a specified period and an assessment of the potential collateral requirements for the liability matching arrangements.
- is managed by the Scheme's administrator assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy, through holding assets of appropriate liquidity and the Fiduciary Manager maintaining sufficient collateral headroom to support an increase in interest rates (UK government bond yields) significantly above the minimum level stipulated by the relevant regulatory bodies.

Credit risk:

- this is the risk associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- the Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly

exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

- direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and the diversification of investments amongst a number of pooled arrangements.

- indirect credit risk arises in relation to underlying bond investments held in the pooled funds. This risk is mitigated by investing in diversified portfolios.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.

- is managed by the implementation of a currency hedging programme (carried out within some of the pooled investment vehicles) which reduces the impact of exchange rate movements on the Scheme's asset value.

Interest rate and inflation risk:

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.

- are managed by holding a portfolio of matching assets (physical bonds and/or derivatives via pooled vehicles) that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing monitoring and consideration of risks (such as derivatives and liquidity risks) of this portfolio is undertaken by the Fiduciary Manager.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

- is managed by regular reviews of the actual investments and through the level of country diversification within the portfolio.

Sponsor risk:

- is measured by the level of ability and degree of willingness of the Sponsoring Employer to support the continuation of the Scheme and to make good any current or future deficit.

- is managed by assessing the interaction between the Scheme and the Sponsoring Employer's business, as measured by a number of factors, including the creditworthiness of the Sponsoring Employer and the size of the pension liability relative to the Sponsoring Employer. Regular updates on the covenant are provided to the Trustee by senior staff of the Sponsoring Employer.

Legislative risk:

- this is the risk that legislative changes will require action from the Trustee so as to comply with any such changes in legislation.

- the Trustee acknowledges that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.