

The Panasonic Manufacturing UK Limited Pension & Assurance Scheme (the “Scheme”)

Statement of Investment Principles (the “Statement”)

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is May 2021. The Trustee will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations Made

The Trustee consults with the employer in relation to any amendments to this Statement and will take the employer’s comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the Panasonic Manufacturing UK Limited Pension & Assurance Scheme. It has obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. From January 2021, advice has been provided by Deloitte Total Reward and Benefits Limited who are authorised and regulated by the Financial Conduct Authority.

Objectives and Policy for Securing Objectives

The Trustee’s investment strategy objectives have been set with regard to the Scheme’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustee’s primary objectives are:

- “funding objective” - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy; and
- “security objective” – to ensure that the solvency position of the Scheme is expected to improve. The Trustees will take into account the strength of employer’s covenant when determining the expected improvement in the solvency position of the Scheme.

Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustee's objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The day to day management of the Scheme's assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Scheme.

The Trustee exercises its powers of investment (or delegation where these powers have been delegated to a fund manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

The Trustee will implement a Liability Driven Investment portfolio in 2021/22 so that assets are invested with closer reference to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Balance Between Different Kinds of Investments

The Trustee is responsible for setting asset allocation and takes expert advice as required from its professional advisers.

The Trustee is currently reviewing the Scheme's investment strategy and will continue to implement changes over 2021 and therefore the asset allocation set out in the Appendix to this Statement may change.

Within the current asset allocation, a broad range of available asset classes have been considered so as to achieve a diversified portfolio. This includes consideration of "alternative" asset classes (namely property, opportunistic property, high yield debt, infrastructure and insurance-linked securities).

Investment Risk Measurement and Management

The review of the investment strategy is ongoing and as part of this analysis the main investment risks for the Scheme will be re-assessed.

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- Mismatching risk – the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustee and its advisers will consider this mismatching risk when setting the investment strategy.
- Cashflow risk – the risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustee and its advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- Manager risk – the failure of a fund manager to achieve the rate of investment return assumed by the Trustee. This risk is considered by the Trustee and its advisers on an ongoing basis.
- Risk of lack of diversification – the failure to spread investment risk. The Trustee and its advisers consider this risk when setting the Scheme’s investment strategy.
- Covenant risk – the possibility of failure of the Scheme’s sponsoring employer. The Trustee and its advisers consider this risk when setting investment strategy and consult with the sponsoring employer as to the suitability of the proposed strategy.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially).

The Trustee monitors the risks arising through the selection or appointment of fund managers on a regular basis via reports prepared by the fund managers and the Investment Consultant. Expected deviation from the benchmark (for a passive manager) or out-performance target (for an active manager) is detailed in the Investment Policy Implementation Document. The Trustee has requested that its investment adviser alerts them on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

The Trustee acknowledges that investment returns achieved outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets. The managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the fund's assets.

Expected Returns on Assets

As part of the ongoing investment strategy review, the Trustee will assess the appropriate return target for the Scheme's asset portfolio, taking into account the funding position of the Scheme.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustee in consultation with its advisers and fund managers.

Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

Arrangements with Investment Managers

The Trustee receives quarterly reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio.

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies. The Trustee is supported in this monitoring activity by its investment adviser. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives and assesses the investment managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its investment managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new investment manager, the Trustee's advisers (legal and investment) will review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment of investment managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Cost Transparency

The Trustee is aware of the importance of monitoring the Scheme's investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost incurred by their investments.

The Trustee uses ClearGlass to collect annual cost transparency reports covering all of their investments. This data is provided in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustees to understand what the Scheme is paying the investment managers. The Trustee works with their investment adviser and investment managers to understand these costs in more detail where required.

Evaluation of performance and remuneration:

The Trustee assesses the performance of the Scheme's investment managers on a quarterly basis and the remuneration of their investment managers on an annual basis using Clearglass who collect cost data from the Scheme's investment managers in line with the CTI templates.

Portfolio turnover costs:

The Trustee is aware of the portfolio turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated to their underlying investments through the information provided by their investment managers. The monitoring of the target portfolio turnover and turnover range is monitored annually with the assistance of the Scheme's investment adviser.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. The Trustee does not define a targeted portfolio turnover range but where the Trustee identifies a lack of consistency, the mandate will be reviewed.

The Trustee is supported in its cost transparency monitoring activity by their investment adviser.

Environmental, Social and Governance (ESG) considerations

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

The Trustee will review its ESG approach from time to time and following any significant changes in regulation and best practice.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustee expects the investment managers underlying the Scheme's assets to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee reviews the continuing suitability of the appointed managers and take advice from the investment adviser about any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Trustee reviews information provided by its investment adviser on the stewardship activities of its investment managers on an annual basis, covering both engagement and voting actions. Specifically, as part of its delegated responsibilities, the Trustee expects the Scheme's investment managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where

relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with its investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of either the Trustee or the asset manager.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly consider the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"¹).

Additional Voluntary Contributions ("AVCs") Arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of the AVC provider are included in the Appendix to this Statement.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

**The Panasonic Manufacturing UK Limited Pension & Assurance Scheme (the “Scheme”)
Appendix to the Statement of Investment Principles**

This Appendix sets out the Trustee’s current investment strategy.

1. Asset Allocation Strategy

Asset Class	Weight (%)
Global Equities	25 - 45
Corporate Bonds	15 - 25
Insurance Linked Securities	0 - 7
Distressed Credit	0 - 10
High Yield Bonds	0 - 10
Alternatives: Infrastructure	0 - 15
Multi Asset ("Diversified Growth") Funds	0 - 10
Property	0 - 20
Opportunistic Property	0 - 10

The Trustee is currently reviewing the Scheme’s target strategic asset allocation and therefore the asset classes and weights in the table above are likely to change later in the year.

The Trustee may decide to allow the asset allocations to deviate outside of the ranges shown above. For example, the allocations may drift due to market movements, or it may be difficult to trade the less liquid assets within the portfolio.

2. Additional Voluntary Contributions

The Trustee has made available a range of investment options with Prudential, with the specific Funds selected by the individual.