Claas UK Limited Retirement Benefits Plan

Statement of Investment Principles

June 2021

Contents

Glossary

AVCs	Additional Voluntary Contributions
ESG	Environmental, Social and Governance (including, but not limited to, climate change)
Plan	Claas UK Limited Retirement Benefits Plan
Schroder	Schroder Investment Management Limited
Trustees	The Trustees of the Plan
UNPRI	United Nations Principles for Responsible Investment

1. Introduction

This statement is made in accordance with the requirements of legislation[1] and, in determining a suitable investment strategy for the Plan, the Trustees have considered the Pension Regulator's Investment Guidance for defined benefit pension schemes.

The main body of this statement sets out the principles and policies that govern investments made by the Trustees of the Plan. Details of the specific investment arrangements in place are set out in the Appendices.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustees.

[1] In particular, the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

2. Investment Governance Structure

Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees will obtain and consider written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

Legal Advice

Whenever deemed necessary, the Trustees will seek advice from their legal adviser on investment matters.

Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

Investment Managers

Day-to-day management of the Plan's assets is delegated to one or more investment managers.

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

Members' Views

The Trustees recognise that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustees will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustees do not directly take such views into account when determining the Plan's investment strategy.

The Trustees believe that their duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

Conflicts of Interest

The Trustees are satisfied that the investment strategy described in this Statement meets their responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustees and are reflected in the Plan's investment strategy.

Appropriate Time Horizon

In determining investment objectives and a suitable investment strategy for the Plan, the Trustees take into account an appropriate time horizon. The appropriate time horizon will be reviewed periodically noting the inherent uncertainties in the length of time that benefits are expected to be paid from the Plan.

Risk versus Reward

Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Plan's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Plan's assets, it is expected that pooled funds will typically be a more practical way of implementing the Plan's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of ESG risks.

For each asset class, the Trustees will consider whether the higher fees associated with active management are justified.

ESG

The Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the appropriate time horizon.

Assessment of how ESG risks are mitigated will be one of the factors considered by the Trustees when selecting and monitoring investment managers.

4. Investment Objectives and Strategy

Defined Benefit Assets – Investment Objectives

The Trustees' primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due;
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members; and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustees' investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments;
- expected levels of investment return on different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position;
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

Defined Benefit Assets – Investment strategy

The Trustees have taken advice from their investment advisor to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material over the appropriate time horizon.

The Trustees do not take account of non-financial matters when determining the Plan's investment strategy.

AVCs

AVCs are held separately from the Plan's other investments and are used by members to take tax-free cash at retirement. From time to time the Trustees review the ongoing suitability of the AVC arrangements.

Details of the current AVC arrangements are provided in Appendix 1.

5. Use of Investment Managers

Investment Manager Selection

The Trustees delegate the day to day management of the assets, including selection, retention and realisation, to professional investment managers.

When considering the suitability of an investment manager, the Trustees (in conjunction with their investment adviser), will take account of all matters which are deemed to be financially material. In particular, the Trustees will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG matters.

When selecting investment managers, the Trustees may also take into account matters which are not financially material such as the investment manager's administrative capabilities and the liquidity of the investments.

Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Plan.

The Trustees will normally select investment managers who are signatories to the UNPRI and who publish the results of their annual UNPRI assessment. This principle may be waived if a fund offered by a non-signatory manager is deemed to have investment characteristics which are particularly important for meeting the Trustees' investment objectives.

Manager Implementation

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

Use of Derivatives

The investment managers are permitted to use derivative instruments to reduce risk or for efficient portfolio management. Risk reduction would include mitigating the impact of a potential fall in markets or the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

6. Stewardship

The Trustees invest in pooled investment vehicles and accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies on such matters.

When considering the suitability of investment managers, the Trustees (in conjunction with their investment adviser) will take account of any particular characteristics of that manager's engagement policy that are deemed to be financially material.

The Trustees recognise that the membership might wish the Trustees to engage with the underlying companies in which the Plan invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustees' priority is to select investment managers which are best suited to help meet the Trustees' investment objectives. In making this assessment, the Trustees will receive advice from its investment adviser. The Trustees recognise that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

7. Risk Mitigation

When determining suitable investment objectives and when designing the Plan's investment strategy, the Trustees (in conjunction with their investment adviser), will take into account all risks that are assessed to be financially material. The principal investment risks are listed in the Trustees' *Annual Report*. This also provides an explanation of how the investment risks are managed.

Risk Capacity and Risk Appetite

In determining a suitable investment strategy, the Trustees consider how the volatility of the funding position is likely to be affected by changes to the asset allocation. An important consideration for the Trustees is whether a potential investment strategy is consistent with the ability of the sponsoring employer to address any future increase in deficit that may arise due to market movements.

Self-Investment Risk

Legislation imposes a restriction that no more than 5% of a pension scheme's assets may be related to the sponsoring employer. The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

ESG Risks

The Trustees (in conjunction with their investment adviser) have considered the likely impact of the financially material ESG risks associated with all of the Plan's investments and have assessed the mitigation of such risks implemented by each of the investment managers. In making this assessment, the Trustees recognise that, where pooled investment vehicles are held, the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

Liquidity Risk

The majority of the Plan's investments will be liquid and will be realisable for cash at relatively short notice without incurring high costs. However, the Trustees recognise that the liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

Details of the liquidity characteristics of the funds held are provided in Appendix 2.

8. Monitoring

The Trustees regularly review the Plan's investments for all matters considered to be financially material over the future period for which benefits are expected to be paid from the Plan. This includes reviewing that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustees monitor the position of the investment managers with regards to ESG matters.

The Trustees receive quarterly updates from the fund managers providing an update on performance, asset allocation decisions and ESG factors and shareholder engagement.

The Trustees meet with representatives of their investment managers every year.

The Trustees regularly consider whether fund manager performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

9. Future Amendments

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

Signed: .... Date: 7th July 2021

For and on behalf of the Trustees of the Claas UK Limited Retirement Benefits Plan.

as authorised + minuted at Trustee Meeting 6/July/2021

Appendix 1: The Trustees' Investment Strategy

Strategic Asset Allocation

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets** – Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.

2. **Liability Matching Assets** – Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Plan.

In addition, the Trustees may hold cash. Cash will normally be held in the Trustees' bank account if it is to be used to make payments due in the short-term whereas cash that is to be held for more than a few weeks will normally be held in a cash fund.

At the time of preparing this statement, the split of the Plan's assets between Growth and Liability Matching Assets was 50% Growth and 50% Liability Matching. This split is not regularly rebalanced and will vary over time as market conditions change.

The Trustees will review the strategic asset allocation periodically, and at least every three years, to ensure that the investment strategy remains consistent with the Trustees' funding objectives. As part of such a review, the Trustees will consider the risks associated with the investment strategy.

Investment Strategy Implementation

The Trustees have selected funds managed by Schroder Investment Management Limited to implement the Plan's investment strategy. The Trustees have appointed JP Morgan Chase Bank as custodian to hold all of the Schroder assets.

Further details of the investment strategy and the funds used are provided below.

Appendix 1: The Trustees' Investment Strategy (continued)

Design of the Growth Asset Portfolio

The structure of the Plan's Growth Assets has been designed to offer diversification across a range of underlying asset classes.

The strategic allocation for the Plan's Assets is as follows:

Pooled Fund	Strategic Allocation of the Assets
Schroder Life QEP Global Sustainable Fund	9%
Schroder Prime UK Equity Fund	21%
Schroder All Maturities Corporate Bond Fund	20%
Total Growth Assets	***50%***
Schroder LDI (Including Cash)	50%
Total Matching Assets	***50%***
Total Assets	***100%***

The allocation of the Growth Assets is not automatically rebalanced but will be monitored and rebalanced at the discretion of the Trustees.

Design of the Liability Matching Portfolio

The Plan's Liability Matching Assets are invested in leveraged Liability Driven Investment (LDI) funds managed by Schroders. The funds used are:

- SMP Synthetic Nominal Gilt Funds
- SMP Synthetic Index-Linked Gilt Funds
- SLM Nominal Gilt Funds
- SLM Index Linked Gilt Funds

The targeted level of matching, expressed as proportion of the sensitivity of funded liabilities to changes in long term interest rates and inflation expectations, is 100% and 100% respectively.

Cash

The Trustees may invest in Schroder Cash and the Schroder Sterling Liquidity Plus Fund.

Appendix 1: The Trustees' Investment Strategy (continued)

LDI Leverage Management Policy

In an environment of rising yields, leverage increases, and if the leverage of Schroder LDI fund breaches the upper threshold, Schroders will require a recapitalisation to lower the leverage of the relevant fund. This will ensure that leverage within the LDI funds remains within a permissible range. The custody arrangement covers all of the Plan's assets held by Schroders meaning any of these assets can be used to recapitalise the LDI funds. In practice, a cash fund held alongside the LDI will be used for such payments. The payment will be managed automatically by J P Morgan without requiring input from the Trustees.

In an environment of falling yields, leverage falls, and if the leverage of Schroder LDI fund falls below a minimum threshold, Schroders will make a cash payment from the relevant fund to raise the leverage. This will ensure that leverage within the LDI funds remains within a permissible range. The custody arrangement covers all of the Plan's assets held by Schroders meaning the LDI funds could pay-out cash to any of these assets. In practice, a cash fund held alongside the LDI will receive such payments. The payment will be managed automatically by J P Morgan without requiring input from the Trustees.

Cashflow Management Policy

Any investments or disinvestments will be made at the discretion of the Trustees, but the Trustees will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Plan's assets remains closely aligned with the strategy described in this statement.

To ensure the Plan operates efficiently, the Trustees may share the *Cashflow Management Policy* with the individual(s) responsible for processing payments from the Plan.

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustees and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Plan's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustees without consulting the sponsoring employer.

Additional Voluntary Contributions

The Plan's AVC arrangements are held with Prudential.

Appendix 2: Fund Details

This Appendix provides a summary of the funds used to implement the Plan's investment strategy. The details provided below were correct as at March 2021.

The following points should be noted:

- **AMC**: The Annual Management Charge applicable to each fund represents the fee payable to the fund manager.
- **Additional expenses**: These are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.
- **Legal Structure**: An explanation of the different types of fund legal structures is provided in the Trustees' *Investment Risk Policy* document.
- **T**: Trade Date

Schroder Life QEP Global Sustainable Fund		
Objective	The investment objective of the fund is to provide capital growth by investing at least 70% of assets in equities and equity-related securities. As the fund is index-unconstrained, it is managed without reference to an index.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Daily	
Notice Period	T	
Settlement Period	T+4	
Fee	AMC:	0.50% p.a.

Appendix 2: Fund Details (continued)

Schroder Prime UK Equity Fund	
Objective	To achieve capital growth primarily through investment in UK equities. Performance is benchmarked against FTSE All Share Index.
Legal Structure	Unit Trust
Trading Frequency	Daily
Notice Period	T
Settlement Period	T+4
Fee	AMC: 0.50% p.a.

Schroder All Maturities Corporate Bond Fund	
Objective	To provide capital growth and income by investing in bonds issued by companies worldwide. Performance is benchmarked against the ICE BofAML Non-Gilts (GBP) Index.
Legal Structure	Unit Trust
Trading Frequency	Daily
Notice Period	T
Settlement Period	T+4
Fee	AMC: 0.20% p.a.

Appendix 2: Fund Details (continued)

Schroder Matching Plus Synthetic Nominal Gilt Funds		
Objective	The fund's investment objective is to provide exposure to the return on gilts within set maturity bands, with a view to hedging against changes in nominal interest rates.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Daily	
Notice Period	T-1	
Settlement Period	T+1	
Fee	AMC:	0.09% p.a. of the present value of the hedge benchmark up to the value of £30m and 0.08% on the rest.

Schroder Matching Plus Synthetic Index-Linked Gilt Funds		
Objective	The fund's investment objective is to provide exposure to the return on index-linked gilts within set maturity bands, with a view to hedging against changes in real interest rates.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Daily	
Notice Period	T-1	
Settlement Period	T+1	
Fee	AMC:	0.09% p.a. of the present value of the hedge benchmark up to the value of £30m and 0.08% on the rest.

Appendix 2: Fund Details (continued)

Schroder Life Matching Index-Linked Gilt Funds		
Objective	The fund's investment objective is to provide exposure to the return on index-linked gilts within set maturity bands, with a view to hedging against changes in real interest rates.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Daily	
Notice Period	T-1	
Settlement Period	T+1	
Fee	AMC:	0.09% p.a. of the present value of the hedge benchmark up to the value of £30m and 0.08% on the rest.

Schroder Life Matching Nominal Gilt Funds		
Objective	The fund's investment objective is to provide exposure to the return on index-linked gilts within set maturity bands, with a view to hedging against changes in real interest rates.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Daily	
Notice Period	T-1	
Settlement Period	T+1	
Fee	AMC:	0.09% p.a. of the present value of the hedge benchmark up to the value of £30m and 0.08% on the rest.