

STATEMENT OF INVESTMENT PRINCIPLES
THE NIPPON EXPRESS (UK) LIMITED PENSION SCHEME

AUGUST 2019

1. Introduction

This document is the “Statement of Investment Principles” (SIP) for The Nippon Express (UK) Pension Scheme. The SIP has been produced broadly in accordance with the requirements of Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004 and Occupational Pension Scheme (Investment) Regulations 2005.

The Scheme is a Defined Benefit Occupational Pension Scheme and was closed with no further service accrual with effect from 30th May 2012. In addition, some members may have benefits in respect of additional voluntary contributions that are held on a money purchase basis. The Scheme was not contracted out of the State Earning Related Pension Scheme.

The latest actuarial valuation for the Scheme, dated 31st March 2018, shows an ongoing Technical Provisions shortfall of £3,500,000. The Technical Provisions funding level over the three-year period has decreased from 90% to 76.4%.

The Recovery Plan, dated 12 June 2019, confirmed that Nippon Express (UK) Limited (the Principle Employer) will be meeting the ongoing funding by paying an annual contribution of £800,000 within the period between 01/01/2019 and 31/12/2019 followed by an additional £800,000 contribution between 01/01/2020 and 31/12/2020. Further annual contributions of £252,000 will be paid from 01/01/2021 to 31/12/2027. In addition, the employer will meet all expenses of the Scheme.

These contributions are the Scheme’s “Recovery Plan”. The ongoing funding deficit is expected to be eliminated by 31st December 2027, although progress and the Technical Provisions will be reviewed at least every 3 years.

2. Preparation and review of the SIP

Before preparing this SIP, the Trustee has consulted with the Employer.

The Trustee is responsible for the investment strategy of the Scheme and has obtained written investment advice from their Investment Adviser, Professional Pensions and Investments Limited (PPI). The Trustee believes that PPI has suitable knowledge, qualifications and experience to offer this investment advice and otherwise fulfils the legislative requirements to be able to offer financial advice.

The Trustee has considered when to take advice, the circumstances of that advice, the types of investment to be held and when to seek further investment advice.

This document was prepared with an effective date of 8th August 2019 and may be reviewed no later than the earlier of 8th July 2022 or immediately after a significant change in the scheme's investment policy.

The Trustee is aware of the penalties for falling to comply with the Pension Act 1995, Pensions Act 2004 and subsequent regulations.

3. Scheme Objectives

The Scheme objective is the security of rights and expectations of the members in order to provide the benefits due.

The Trustee will use prudent assumptions to ensure the Scheme is appropriately funded. Where an actuarial valuation shows a deficit, a recovery plan is put in place, taking into account the financial wellbeing of the Employer.

4. Investment Objective

The Trustee investment objective is to invest the Scheme assets to meet the Scheme liabilities. The estimated liabilities consist of a series of projected cash flows calculated on assumptions contained within the actuarial valuation.

The Trustee has an investment policy that, when combined with Employer contributions, is expected to eliminate the scheme deficit as calculated with reference to the Technical Provisions.

The Trustee has chosen investments that they believe will achieve this objective, whilst maintaining an appropriate degree of risk and diversification in the Scheme. The Trustee recognises that greater allocation to more defensive assets may provide greater Scheme security however the Employer may find it difficult to support the level of contributions required. The Trustee has considered both the employer's ability to fund the scheme and that some investment risk should be taken in order to reduce the cost of providing future benefits.

5. Strategic Asset Allocation

The Trustee acknowledges that when setting the strategic asset allocation there may be significant investment risk. These risks are considered constantly. The Trustee takes appropriate investment advice and reviews the existing investment strategy when required.

The Trustee considers the Employer covenant when setting the strategic asset allocation. The Employer covenant will be monitored by receiving period financial updates from where the Trustee may reconsider the suitability of the Scheme's existing investment strategy.

The Trustee monitors the risks associated with the underlying fund managers on a regular basis in conjunction with the investment reports it receives.

The Trustee understands the investment risk in meeting the Scheme's objectives will arise from the chosen asset allocation. The Trustee retains the responsibility for selecting the asset allocation after consulting with the Employer and taking advice from PPI.

The Trustee has decided that a diverse investment approach using pooled funds is appropriate considering the size of the Scheme. The Trustee will regularly review this decision. Within the range of pooled funds used the day to day investment management is delegated to fund managers to ensure the security, liquidity and quality of the portfolio. The Trustee will select and review the performance of the fund managers against their specific benchmarks on the advice of PPI. The fund managers are responsible for the appointment and monitoring of the custodian of the pooled fund assets.

The Trustee receives performance reports and fund specifications. These include information, where appropriate, on duration, turnover, ethical, environmental, social, governance and

underlying holdings. These can be compared by the Trustee to the objectives and fund specification that the Trustee has appointed the manager for.

6. Investment Policy

The Trustee policy is to achieve the investment objective by investing in a combination of defensive assets that provide a close link to the Schemes liabilities and a portfolio of growth assets with the aim of providing real returns by type at an acceptable level of risk.

In establishing the investment policy, the Trustee has considered the historical and expected future returns of each asset class. The Trustee has considered that equity funds may provide returns higher than the assumed actuarial rate of return to match the Scheme's liabilities. The Trustee believes that the fixed interest investments may provide a return that is likely to be both lower and more stable than other asset classes. Although a lower return is expected, the fixed interest holdings may reduce the level of overall volatility of the Scheme. The Trustee believes there may be periods when equity, property and credit underperform UK government bonds and is prepared to accept this risk.

To provide some management to the investment risk associated with equities but with a broadly comparable expected return over the medium to long term the Trustee has considered Diversified Growth Funds in the form of a Multi-Asset offering.

To minimise underlying fund management costs the Trustee is inclined to use passively managed (index tracking) funds, where possible.

For fixed interest assets the Trustee will use passive funds combined with active managers to access their skill in the credit arena.

The Trustee will use actively managed pooled property funds.

The investment strategy is implemented by delegating the day to day management of assets to the specialist Investment Managers. The Trustee may employ more than one investment manager, where appropriate, to limit the risk of underperformance.

There will be enough investments in liquid and readily realisable assets to meet expected and occasional unexpected cash flow requirements in all foreseeable circumstances.

7. Investment Risk

Prior to deciding to take investment risk relative to the liabilities, the Trustee has reviewed the most recent actuarial comments within the actuarial valuation report regarding key risks and uncertainties that could affect the funding position. The Trustee has also received advice from PPI and held discussions with the Employer.

In particular, the Trustee considered carefully the following possible consequences:

- The assets may not achieve the return required to meet the liabilities. This would result in a deterioration in the Schemes financial position and potentially higher Employer contributions than currently expected at a later date
- Equity investments may produce a return that is not correlated with the Schemes liabilities. A fall in equity value may reduce the funding level and increase the shortfall within the Scheme

The Trustee's inclination to take investment risk, and the level of tolerance to risk, is dependent

on the continuing financial strength of the Employer and their willingness to contribute to the Scheme. The Trustee will consider reducing the investment risk relative to the liabilities should either of these deteriorate.

The Trustee reviews the Scheme's investment performance on a regular basis, taking advice from PPI. The Trustee is aware of the benchmarks for the underlying funds and believe collectively they are suitable to meet the Trustee's objective in maintaining a suitable level of risk within the Scheme. If the Trustee identifies any significant issues relating to the performance or other risk management matters, they will seek further advice from PPI.

The Trustee does not hold any investments in the Employer and does not intend to make any such investments.

8. Existing Asset Allocation

The Scheme investments are to be held on the Mobius Platform. The underlying funds invest in various asset classes within pooled funds. The purpose of diversification is to limit excessive reliance on any one particular asset. The Scheme's strategic asset allocation is driven by the financial characteristics of the Scheme such as:

- The duration of the liabilities
- The sensitivity of value of the liabilities to future inflation and interest rates
- The risk tolerance of the Trustee and the Employer
- The overall investment benchmark and asset spread

As a result of the current investment review the asset classes of the underlying Trustee investments will be held in the following approximate proportions:

Growth Funds

- Passive World Equity Index Funds 27%
- Passive UK Equity Index Funds 24%
- Property Fund 05%
- Diversified Growth Funds 28%

Defensive Funds

- Corporate Bonds / UK Gilts Fund 15%
- Cash Fund 01%

The Trustee believes that these proportions will be broadly stable although some variation is expected due to relative change in asset values and cash flow.

9. Additional Voluntary Contributions (AVC)

Assets in respect of member's AVCs are invested in pooled investments with Standard Life. The members concerned are aware of the characteristics of these arrangements via an announcement issued by Trustees at the time of making the investment. Contributions to AVCs have ceased. Values of the pooled investments are not guaranteed and may fall as well as rise.

10. Expected Rate of Return

Over the long term, the Trustee's expectation for UK and Overseas Equity, Diversified Growth and Property funds is for the value to at least keep pace with inflation. The Trustee believes that fixed interest investments may provide a return that is likely to be both lower and more stable than the other asset classes. Although a lower return is expected, the fixed interest holdings may reduce the level of overall volatility of the Scheme relative to the funding standard. The following asset classes are measured against their relevant benchmarks.

Asset Class	Benchmark
UK Equity	FTSE All Share Index
Overseas Equity	FTSE World (Ex UK) Index
Diversified Growth	See below*
Property	UK Monthly Property Index
Corporate Bonds	Aggregated Corporate Bond Index
UK Gilts Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index

*Due to the structure of a Diversified Growth Fund the benchmark will be a composite return specific to the fund. The nature of a Diversified Growth Fund is to provide capital appreciation whilst limiting the downside risk.

11. Realisation of Investments

The Scheme's investments are held in unitised funds with leading institutional investment managers. Accordingly, the Trustee is comfortable that due to the liquidity of these funds and their underlying investments, the units can be realised when required. There is a documented procedure between the Trustee and Mobius Life as operator of the investment platform that states that only authorised signatories can realise investments.

12. Ethical, Environmental, Social and Governance (ESG) Investment Considerations

The Trustee believes that companies with good stewardship and governance could help to build sustainable business models and are beneficial to society. The Trustee also appreciates sustainable investing extends to “inclusion and diversity”. The Trustee and their adviser will seek pooled fund managers that hold an ESG culture without creating a prejudicial financial impact to the Scheme. The Trustee does review and will continue to review from time to time the policies operated by each fund manager in respect of corporate governance, environmental, social governance, ethical and diversity issues.

With specific regard to climate change impact the Trustee is monitoring the actions of their investment managers and may consider the suitability of their market capitalisation approach to indices. Generally, over time, the Trustee expects to reduce the overall equity risk content of the portfolio.

13. Voting Rights

As the Trustee is invested in units of pooled funds voting rights as such do not pass to the Trustee.

The Trustee receives information from the underlying investment managers on how they exercise the voting rights entrusted to them on behalf of the Scheme and in the interests of the members. These matters are considered at Trustee meetings. The Trustee, via the investment adviser, encourages the investment managers to engage with companies that they invest in on matters relating to beneficial ESG issues.

14. Representations

The Trustee invests the money on behalf of the members of the Scheme and after consultation with the Employer. The Trustee welcomes comment from the members on matters of governance decisions. Contact information is provided in the Annual Report and Financial Statements produced by the Trustee.