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The Volvo Car UK Pension Scheme
Statement of Investment Principles – June 2020

1. Introduction

The Trustee of the Volvo Car UK Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("the Investment Consultant"). In preparing this Statement, the Trustee has also consulted the Principal Employer (Volvo Car UK Limited) and other participating employers, in particular on the Trustee's objectives.

2. Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the operational management of the assets, which is delegated to investment managers selected by the Trustee. The majority of the Scheme's investment managers are accessed on the Mobius Life Platform.

3. Investment Objectives and Risk

3.1 Investment Objectives

The Trustee considers that their primary responsibility with regard to the management of the Scheme's investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations of the Scheme as they fall due.

In consideration of this responsibility and the Trustee's obligation to manage the investments of the Scheme prudently, the Trustee's investment objective is to reach, and maintain, full funding on the Technical Provisions basis.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determine to be financially material considerations.

3.2 Investment Risks

The Trustee invests in asset classes which are expected to demonstrate volatility when compared to the development of the Scheme's liabilities, measured on a Technical Provisions basis. This policy is adopted in anticipation of achieving returns based on a prudent set of assumptions consistent with those assumed in the Actuarial Valuation. The Trustee has given due consideration to the asset allocation and strategic benchmark. In determining an appropriate level of risk (or expected volatility) over the anticipated lifetime of the Scheme, the Trustee has considered:

- The strength of the Principal Employer's covenant and willingness and ability to underwrite the investment risk inherent in the investment strategy
- The guarantees offered by the PRI and Volvo Car Corporation.

- Future contribution rate requirements.
- Likely fluctuations in funding level.
- The required return to retain a fully funded position for the life of the Scheme in conjunction with the funding policy.
- The Trustee's tolerance of a deterioration in the funding level as a result of taking risk.
- The term and nature of the Scheme's liabilities.

To monitor the volatility of the Scheme's funding level and the success or otherwise of the investment decisions, the Trustee monitors on a quarterly basis:

- The return on the assets, the benchmark and the liabilities.
- Estimated funding level development.

In addition, the Trustee has considered the risks to which the Scheme is exposed:

a) Covenant Risk - There is the risk that the Principal Employer may not have the ability to meet its financial commitments to the Scheme. The Trustee has assessed the Principal Employer's ability to underwrite investment risk in this regard. To mitigate this risk of the Employer failing to meet its financial commitments to the scheme, the Trustee and Employer have put in place a guarantee with Försäkringsbolaget PRI Pensionsgaranti, ömsesidigt to underwrite the balance of the outstanding recovery plan which ends on 31 December 2025. In addition, the Principal Employer has a guarantee from Volvo Car Corporation such that should the Principal Employer default on any contributions/debt due to the Scheme then Volvo Car Corporation will cover, on aggregate, an amount equal to the solvency position as at 31 December 2016 (i.e. £111 million).

b) Interest rate and inflation risk – The risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates and expected inflation. This risk is monitored through the funding level monitoring mentioned above. The Scheme also hedges a significant portion of this risk through it's LDI and other fixed income investments. Based on modelling provided by Insight as at 30 April 2020 and Mercer estimates, the Scheme is expected to have an interest rate hedge of 72% and an inflation hedge of 70% (as a percentage of liabilities measured on the Gilts+0.4% per annum). This allows for the interest rate contribution from the treasury and corporate bonds investments. The liability hedge ratios are expected to drift over time due to changes in market conditions and the pension membership experience. However, the Trustee will review the portfolio periodically and look to recalibrate the underlying assets when it is appropriate do so.

c) Credit risk – The risk that payments due to bond investors might not be made. This risk is controlled through the mandate specifications of the Scheme's bond managers.

d) Currency risk – The risk that the value of the overseas assets changes relative to the sterling based liabilities due to exchange rate fluctuations. To this end, some of the Scheme's investments hedge the foreign currency exposure back to sterling.

e) Equity market risk – The risk that equity values fluctuate. This risk is considered when the Trustee undertakes a review of the Scheme's investment strategy.

f) Liquidity risk – The risk that assets are not readily realisable. The Trustee has adopted a strategy that makes due allowance of the need for liquidity of the Scheme's assets.

g) Concentration Risk - The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. The Trustee has adopted a strategy that is diversified by geographical region, asset class and have mandated their investment manager to construct a portfolio that is diversified within each asset class and by investment manager.

   In particular, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

h) Manager Risk - The Trustee recognises that the use of active management gives rise to the risk that the performance achieved within each asset class may be lower than expected. Set against this, potential gains may be made from successful active management if the manager's skills can be accurately assessed. In order to reduce the risk of underperformance, the Trustee has delegated the potential for diversifying exposure to managers within each asset class and the choice between active and passive management to their investment manager.

The Trustee acknowledges that it is not possible to monitor all the risks listed above at all times. However, they seek to take on those risks they expect to be rewarded over time, in the form of excess returns, in a diversified manner.

The resulting combination of assets has been selected to be consistent with the investment objective, risk tolerance and return target detailed in Section 3. The investment managers for the Scheme must have regard to the need for diversification and suitability of assets.

Should there be a material change in the Scheme's circumstances and/or market conditions, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the investment objectives and strategy remain appropriate.

4. Investment Strategy

4.1 Strategic Asset Allocation

The Trustee has concluded that the target strategy allocation set out below is appropriate to meet the expected return associated with the funding objective set out in Section 2.1:

Asset Class	Investment Manager	Strategic Weight
Global Equities	LGIM	3.5%
	Ardevora	3.5%
	Veritas	3.5%
Emerging Market Equity	Ninety One	4.5%
Passive Private Equity	LGIM	9.5%
Natural Resources	BlackRock	4.0%
	Ninety One	2.7%
Absolute Return*	Ress Capital*	7.0%
	Nordea	3.0%
Property	LGIM	8.0%
High Yield	PIMCO	3.5%
Corporate Bonds	PIMCO	2.5%
	LGIM	2.5%
Government Bonds	Insight	3.0%
	BlackRock	6.0%
LDI and Cash Collateral	Insight	33.3%
Total		**100.0%**

* Managed outside of the Mobius Life platform.

Further details on the funds' performance objectives and benchmarks are shown in the Appendix.

The appropriateness of the investment strategy is reviewed at least annually.

4.2 Transition period

The Trustee is in the process of reorganising the Scheme's asset portfolio. During the transition period and specifically the benchmark set out in Section 3.1, the Trustees accept that the Scheme's asset allocation may differ to the strategic benchmark.

Given this, the Trustee has decided that the benchmark strategy should not be rigid for the duration of the transition period and has not set tolerance ranges around the strategic benchmark allocations. Once the target portfolio has been achieved, the Trustee will put in place a rebalancing framework with Mobius Life in order to allow quarterly rebalancing to be undertaken where tolerance ranges are in breach. The Ress Capital investment, which at the time of writing is still pending further due diligence, will be excluded from quarterly rebalancing exercises undertaken by Mobius Life due to the holding being held outside of the platform. The Trustee will periodically monitor the allocation to Ress Capital in the context of the Scheme's overall asset portfolio and make changes as necessary from time-to-time.

5. Day to Day Management of the Assets

5.1 Main Scheme

The majority of the Scheme's defined benefit assets are invested in an insurance policy issued by Mobius Life, the value of which is linked the value of the pooled fund units in which the Trustee opts to invest. Through this arrangement the Trustee has delegated the day-to-day management of the underlying assets to the investment managers listed below:

- Legal & General Investment Management
- Veritas Asset Management
- Ardevora Asset Management
- Ninety One plc
- BlackRock Investment Management
- Nordea Asset Management
- Ress Capital AB (not through Mobius Life)
- Insight Investment
- Pacific Investment Management Company (PIMCO)

The Trustee is satisfied that the spread of investments by region and the investment managers' policies on investing in individual securities within each portfolio provides adequate diversification of investments given the circumstances of the Scheme. The custodians of the pooled funds in which the Scheme invests provide the safekeeping of the underlying assets.

The Trustee regularly reviews the continuing suitability of the Scheme's investments. In particular, the Trustee reviews the Scheme's strategic asset allocation on an annual basis, in conjunction their Investment Consultant.

Additional Voluntary Contribution Assets ("AVCs")

Assets in respect of members' AVCs are managed by the following providers:

i) Clerical Medical

ii) Equitable Life

iii) Aegon

The Trustee periodically reviews the performance and suitability of the Scheme's AVC arrangements

5.2 Realisation of Investments

The underlying investment managers have discretion for the timing of realisation of investments and in particular, considerations relating to the liquidity of those investments

within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

6. **Cashflow Management**

The Scheme holds an allocation to liquidity assets in the form of the BlackRock Sterling Liquidity Fund via the Mobius Life platform. This holding is considered separate to the wider strategic allocation, and is used when required for the purposes of helping to meet cashflow deficits (such as regular member benefit outgo; lump sum payments; member transfers; or expenses).

7. **Monitoring the Investment Managers**

The Trustee retains Mercer as investment consultants to provide independent analysis of the returns achieved by the investment managers and the monitoring of the Scheme's assets, liabilities and estimated funding level.

8. **Socially Responsible Investment and Governance**

The Trustee believes that environmental, social and governance ("ESG") issues have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee has taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

Financially material considerations, include (but is not limited to) ESG considerations (including but not limited to climate change) are considered by the Trustee.

ESG considerations are however taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustee considers the ESG research ratings published by its investment advisors, Mercer, when monitoring the Scheme's investment manager's capabilities. These ratings are also considered as part of any new selection of investment funds.

- In meetings with the Scheme's investment manager, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustee for mandates where this is relevant.

- Whilst members' views in respect of non-financial matters are not explicitly taken into account in the selection, retention and realisation of investments, the Trustee welcomes views from members. This position is reviewed periodically.

Corporate governance activities have been delegated to the Scheme's underlying investment managers, with the requirement that voting rights are exercised in the best

financial interests of the Scheme. The underlying investment managers will perform corporate governance activities in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code where relevant.

The Trustee has not set any investment ESG related restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

9. Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

In line with section 3 of this SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required of the asset class they are selected for.

The Trustee looks to their investment consultant for their forward looking assessment of a manager's ability to outperform and / or meet the objective set over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund or strategy that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments. The Trustee is satisfied that the current managers are rated favourably by the investment consultant, or where they are not rated the investment consultant has indicated that they are comfortable with the manager appointments from an investment perspective in the context of the Scheme's overall asset portfolio. The Trustee also receives input from the Volvo Car Group's in-house investment team.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Some investments are actively managed and the Trustee will review the appropriateness of using actively managed funds (on an asset class basis) each quarter.

As the Trustee invests in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The Trustee may also consider, on an annual basis, the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement where appropriate. The Trustee will use this assessment in decisions around selection, retention and realisation of the manager.

The Trustee can review the decisions made by their managers, including voting history (in respect of equities) and engagement activity where appropriate, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

Evaluating investment manager performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance and relative performance against a suitable index used as the benchmark, on a net of fees basis. The Trustee's focus is on long term performance but may still engage with managers if there are particular short to medium term performance concerns.

Portfolio turnover costs

The Trustee does not currently monitor portfolio turnover but may consider doing this where information is available and as part of future governance reviews.

Manager turnover

The Trustee may engage with a manager if portfolio turnover is higher than appropriate, bearing in mind market circumstances. This may be assessed by comparing portfolio turnover across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

For all funds invested in by the Scheme (which are open-ended investment vehicles), there is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment has been reviewed and the Trustee has decided to terminate.

All the funds are open-ended with no set end date for the arrangement. A manager's appointment may be terminated if it is no longer considered to be optimal or suitable for the Scheme's investment strategy.

10. Fees

The investment manager, Mobius Life as platform provider and underlying specialist managers charge ad valorem fees based on the size of assets under management. The investment consultant agrees a fixed fee at the start of each year for regular items, and will charge for ad hoc projects on a time cost basis or by agreeing a budget with the Trustee in advance of undertaking any major project work.

11. Compliance with this Statement

The Trustee will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Scheme and its liabilities, finances and attitude to risk of the Trustee and Sponsoring Company which they judge to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and will be in consultation with the Trustee and Principal Company.

Appendix – Fund Benchmark and Outperformance Summary

Asset Class	Investment Manager	Benchmark Index	Performance Objective (%p.a.)
Global Equities	LGIM	MSCI World Index	To track the benchmark within a reasonable tolerance
	Ardevora	MSCI ACWI Index	2% over rolling 3-year periods (gross of fees)[1]
	Veritas	MSCI World (NDR) Index	CPI plus 6%-10% over rolling 3-year periods (net of fees)
Emerging Market Equity	Ninety One	MSCI Emerging Markets Index	2-3% over rolling 3-year periods (gross of fees)
Passive Private Equity	LGIM	LPX Composite Index	To track the benchmark within a reasonable tolerance
Natural Resources	BlackRock	EMIX Global Mining Constrained Weights	Tracking error of 3%-7% and information ratio of 0.5 (i.e. implied target of 1.5%-3.5%) (gross of fees)
	Ninety One	MSCI AC World Energy & Global Environment ex Select GICS 10-40 Net Return	3-5% over rolling 3-year periods (gross of fees)
Absolute Return	Ress Capital	-	7% over rolling 5-year periods (net of fees, in USD)
	Nordea	-	Cash+4% over a full market cycle (gross of fees)
Property	LGIM	FTSE EPRA/NAREIT Global	To track the benchmark within a tolerance of +1% over rolling 3-years
High Yield	PIMCO	ICE BofAML US High Yield Constrained Index (GBP Hedged)	0.75-1.25% over a full market cycle (gross of fees)
Corporate Bonds	PIMCO	Bloomberg Barclays Global Agg Credit Index (GBP Hedged)	0.75-1.25% over a full market cycle (gross of fees)
	LGIM	Markit iBoxx Sterling non-gilt Index	N/a[2]
Government Bonds	Insight	FTSE UK Gilts All Stocks	0.75% over rolling 5-year periods (gross of fees)
	BlackRock	Markit iBoxx EUR Eurozone AAA TR	To track the benchmark within a reasonable tolerance
LDI and Cash Collateral[3]	Insight	-	-
Cash	Insight	7-day LIBOR	-

BlackRock	7-day LIBOR	-

1. Not managed to a specific target. The objective shown is the Trustee's expectation.
2. The fund's aim is to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality. The fund has a duration range of +/-1 year relative to the Markit iBoxx Sterling non-gilt Index. The fund can allocate up to 100% in AAA-rated sovereign and supranational debt or investment grade credit. The fund may hold 10% in sub-investment grade credit.
3. Insight has been instructed to invest in a manner which hedges a proportion of the Scheme's interest rate and inflation exposure inherent in the value placed on the Scheme's liabilities.