The Mitsubishi Bank Limited Pension and Life Assurance Fund
Statement of Investment Principles – September 2024

1. Introduction

The Trustees of the Mitsubishi Bank Limited Pension and Life Assurance Fund ("the Fund") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) . The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. The Trustees' investment responsibilities are governed by the Fund's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Mitsubishi Bank Limited (the "Bank") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Fund's investment arrangements and, in particular on the Trustees' objectives.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager to implement a Cashflow Driven Investing ("CDI") strategy whereby the Fund invests in such a way that expected cashflows should broadly match the profile of Fund's expected liability cashflows.

In this capacity, and subject to agreed restrictions, the Fund's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Fund's assets on a day to day basis.

In considering appropriate investments for the Fund, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Fund can be met.

In meeting this objective the Trustees' aim to:

- Manage assets in a low risk manner relative to the Fund liabilities;
- Broadly match the Fund's future outgoing cashflows to assist with efficiently meeting benefit outgo;
- Provide an integrated liability hedging strategy to protect the funding level;
- Liaise with Scheme Actuary over the investment strategy to ensure consistency with the funding approach;
- Aim to help protect the Fund's strong overall funding position.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determines to be financially material considerations. Non-financial considerations are discussed in Section 11.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management over the Fund's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus on is that arising through a potential mismatch between the Fund's assets and its liabilities, and the Bank's ability to support this mismatch risk. This is managed by setting an investment strategy whereby the investments of the Fund are expected to broadly match movements in the Fund's liabilities.
- The Trustees may invest in leveraged LDI funds if this meaningfully improves the profile of the hedge relative to the Fund's liability profile, or if required in the future to maintain the liability hedging without impacting on expected return. The Trustees recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the matching portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance. At outset no leverage funds are being used.
- The Trustees recognise 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 Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Fund's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles. The diversification requirement is less relevant where gilts (assumed to be the lowest risk investment for the Fund) are held.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the potential use of active investment managers (where relevant) would involve such a risk. Passive management will be used due to the relatively efficient markets of the target assets (e.g. gilts), and where the scope for achieving added value is limited. Given the nature of the Fund's investment strategy, the assets will primarily be passively managed.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Fund's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Fund's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Fund are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. This is not expected to be relevant for the assets held by the Fund.
- The nature of the Fund's investment strategy also means that foreign currency risk is also not expected to be relevant.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 11 sets out how these risks are managed.
- Responsibility for the safe custody of the Fund's assets is delegated to MGIM who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as custodian of the assets invested in their vehicles. MGIM is responsible for keeping the suitability of the Custodian under ongoing review.

Should there be a material change in the Fund's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be amended.

5. Investment Strategy

The Trustees, with advice from the Fund's investment consultant and Scheme Actuary, review the Fund's investment strategy from time-to-time.

Following considerations over 2022 and 2023, a key focus has been on the efficient management of the hedging portfolio and the ability to react to how the profile of the Fund's liabilities evolves over time. Reflecting a desire for a low-risk investment strategy which is focussed on matching changes in the value of the Fund's liabilities, the target allocation is as follows:

Portfolio	Target Asset Allocation (%)	Implementation Range (%)
Hedge Management	100%	n/a

This strategy aims to broadly match the Fund's expected liability cashflows, as calculated based on the Fund's Technical Provisions assumptions. The strategy also aims to closely align the sensitivity of the Fund's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Fund's liabilities.

The Hedge Management portfolio will comprise investments in a portfolio of fixed income and index-linked funds, with other funds such as swap funds, cash funds and any other Mercer Funds potentially used over time, as determined by Mercer in its discretion. There will be no automatic rebalancing within the Hedge Management portfolio.

Mercer, as fiduciary investment manager, has discretion over the level of liability hedging subject to the Liability Hedge Ratio not deviating significantly from the target of 100% (the "Liability Hedge Ratio Target"). For avoidance of doubt, the Liability Hedge Ratio is calculated by Mercer pursuant to a separate contract and separate disclosures. Where Mercer deems the Liability Hedge Ratio to have deviated significantly from the Liability Hedge Ratio Target, Mercer will take action as soon as reasonably practicable and in accordance with its best execution policy in order to move the Liability Hedge Ratio back towards the Liability Hedge Ratio Target.

The Trustees acknowledge that the Manager may be constrained in achieving the Liability Hedge Ratio Target by a number of factors including prevailing market conditions.

6. Employer Related Investments

Investment in securities issued by the Bank or affiliated companies is limited to the extent that such securities may be represented within the pooled funds in which the Trustees invest. It is not expected that regulatory limits on such investments will be breached.

7. Expected Return

The Trustees expect to generate a return, over the long term, in line with a portfolio of government bonds with broadly the same profile as the Fund's liabilities, recognising that the strong funding position allows the Trustees to adopt a low risk portfolio (relative to the Fund's liabilities) which is expected to primarily consists of gilts and index-linked gilts.

8. Rebalancing Policy

The primary objective of the investment strategy will be to protect against changes in interest rates and inflation risk which impact the value placed on the Fund's liabilities. Any rebalancing will therefore be expected to be focussed on improving the profile of the assets relative to the Fund's liabilities.

9. Realisation of Investments

The Trustees on behalf of the Fund hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

10. Cashflow and cashflow management

Cashflows, whether positive or negative, are taken into account by Mercer when it rebalances the Fund's assets in line with the Fund's strategic allocation. Mercer is responsible for raising cashflows to meet the Fund's requirements.

11. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (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 increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Fund's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustees thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy[1].

The Trustees consider how ESG, climate change risk and stewardship is integrated within Mercer's, and MGIE's, investment process and those of the underlying asset managers in the monitoring process. However, the Trustees acknowledge that given the nature of their

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[1] *https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Mercer ISE Sustainability Policy.pdf*

investments (bonds that do not have associated voting rights that would allow the Trustees and Mercer to directly impact an issuer's policies) there is limited scope for direct integration. Where relevant, Mercer and MGIE, is expected to provide reporting to the Trustees on ESG integration progress, stewardship monitoring results, and climate-related metrics. The Trustees expects Mercer to evolve their monitoring, reporting and engagement and integration as the industry evolves and the level and quality of data available improves.

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

12. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in Section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Fund, in particular, long-term liabilities.

As Mercer manages the Fund's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in Section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Fund's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 11 provides further details of the steps taken, and information available, to review the decisions made by managers, including (where relevant) voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Fund.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in Section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Fund's assets under management which covers the design and regular review of the investment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance (not expected to be relevant for the Fund's investment arrangements).

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Fund. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Fund's annualized, MiFID II compliant Personalised Cost & Charges statement. The Fund's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. This includes in response to any material changes to any aspect of the Fund, its liabilities, finances and the attitude to risk of the Trustees and the Bank, which is judged to have a bearing on the stated Investment Strategy. Any such review will again be based on expert investment advice and will be in consultation with the Bank. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Adopted by the Trustees of the Mitsubishi Bank Limited Pension and Life Assurance Fund