The Mitsubishi Bank Limited Pension and Life Assurance Fund
Statement of Investment Principles – September 2020

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 subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments.

In preparing this Statement the Trustees have consulted MUFG Bank, Ltd ('the Bank') to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Fund's investment arrangements. The Trustees have also received and considered written advice from Mercer Ltd ('the Investment Consultant').

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set; and
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Fund the Trustees obtained and considered the written advice from the Investment Consultant whom the Trustees believe to be suitably qualified to provide such advice. The Trustees have previously received regulated advice from Oliver Wyman in relation to the with-profits deferred annuity policy provided by Aviva. 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 aim to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided. This is achieved through investing in a with-profits deferred annuity policy with Aviva (formerly Commercial Union) and a series of physical and derivative-based gilt and index-linked gilt funds with Legal & General.

Within this context the Trustees' main objectives with regard to investment policy are:

- to maximise the long-term return on the Fund's assets without undue exposure to risk in the more adverse investment conditions;
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- to consider the interests of the Bank in relation to the size and volatility of the contribution requirements.

4. Risk Management and Measurement

The Trustees are aware of, and pay close attention to, a range of risks inherent in investing the assets of the Fund.

The Trustees have focussed on the key risks faced by the Fund and the investment strategy helps address the inherent interest rate and inflation risk in particular. The Trustees further believe that the current investment strategy is appropriate given the Fund's liability profile.

The Trustees recognise that the key risk to the fund is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustees have identified a number of investment risks which have the potential to cause deterioration in the Fund's funding level and therefore contributing to funding risk. These are as follows:

- The primary investment risk faced by the Fund arises as a result of a mismatch between the Fund's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short-term volatility in the Fund's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- 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, investment exposure is obtained via pooled vehicles and group insurance policies.

- The documents governing the investment managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The investment managers are prevented from investing in asset classes outside their mandates without the Trustees' prior consent.

- Arrangements are in place to monitor the Fund's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the Fund's investment managers. The Trustees also take advice from the Investment Consultant on the investment manager's performance, as required.

- The safe custody of the Fund's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Fund's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. Investment Strategy

Investment policy can be considered in two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustees and (2) the day-to-day management of the assets, which has been delegated to professional investment managers. Given the investment objectives, the Trustees have implemented the investment strategy detailed below. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

The Trustees invest a proportion of the assets of the Fund through a With-Profits Deferred Annuity policy managed by Aviva (previously known as Commercial Union). This is a group deferred annuity contract which currently represents approximately 65% of the Fund's assets. The policy provides lump sums, which are notionally allocated to certain Fund members at their normal retirement date.

To manage the remaining assets (approximately 35% of the fund's assets), the Trustees have appointed Legal & General. Legal and General manage a selection of pooled funds that make use of both physical gilts and gilt-based derivative instruments to manage the interest rate and implied inflation exposure of the asset portfolio relative to the liabilities. This portfolio of pooled funds makes up the Liability Driven Investment ("LDI") portfolio and is designed to help the Trustees manage the interest and inflation risks associated with the Fund's liabilities.

The LDI portfolio was recalibrated in August 2018 in light of the updated cashflows following the 2017 actuarial valuation. The table below shows the initial asset allocations as part of that recalibration of the portfolio.

Legal & General Fund	Allocation (%)
All Stocks Index-Linked Gilts Index Fund	31.1
2030 Leveraged Index-Linked Gilt Fund	4.1
2037 Leveraged Index-Linked Gilt Fund	2.4
2042 Leveraged Index-Linked Gilt Fund	3.5
2050 Leveraged Index-Linked Gilt Fund	6.4
2062 Leveraged Index-Linked Gilt Fund	1.3
Over 15 Year Fixed Interest Gilts Index Fund	7.8
2045 Leveraged Gilt Fund	13.6
2049 Leveraged Gilt Fund	6.5
2055 Leveraged Gilt Fund	6.7
2068 Leveraged Gilt Fund	6.3
Sterling Liquidity Fund	10.3
Total	**100.0**

The LDI portfolio is not managed against a benchmark allocation; the actual allocation will change in line with changes in the value of the underlying investments and liabilities. Hence, the target economic exposure to gilts will vary over time. In addition, the investment of surplus cashflows from the Aviva policy (as detailed in Section 10) will also impact the asset allocation over time.

6. Investment Manager Structure and Objectives

The structure and investment objectives for each investment manager are as follows:

- Aviva: To manage the group With-Profits Deferred Annuity contract which provides cash sums notionally allocated to members at their normal retirement date, and is subject to discretionary simple annual bonus declarations.

- Legal & General Physical Gilt Funds: To track the respective gilt indices with a tracking tolerance range of +/- 0.25 p.a. for two years out of three.

- Legal & General Leveraged Gilt Funds: To track the respective leveraged gilt returns within an acceptable tracking error.

- Legal & General Sterling Liquidity Fund: To ensure capital preservation and provide access to liquidity.

7. 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.

8. Expected Return

The Trustees expect to generate a return, over the long term, in excess of a portfolio of government bonds. Due to the nature of the Deferred Annuity policy, it is not possible to quantify the exact expected outperformance over gilts, which, for example, will depend on the underlying bonus declarations.

9. Day–to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to investment managers. The Trustees have taken steps to satisfy themselves that the investment managers have the appropriate knowledge and experience for managing the Fund’s investments and carry out their work competently.

The Trustees have determined, based on expert advice, an appropriate mix of assets.

The Trustees regularly review the continuing suitability of the Fund’s investments, including the appointed investment managers and the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

The Fund’s investment managers, Aviva and Legal & General, are regulated by the Financial Conduct Authority. As an insurance company Aviva is also regulated by the Prudential Regulation Authority.

10. Rebalancing Policy

The Trustees have agreed that cashflows from the Aviva policy that are not required to meet member benefit payments in the short term should periodically be swept into the LDI Portfolio. In order to control the leverage and overall level of liability hedging within the Portfolio, the Trustees have agreed this cash will typically be invested into the Over 15 Year Fixed Interest Gilt Fund (65%) and the All Stocks Index-Linked Gilt Fund (35%) until such time as the Trustees decide otherwise. Where the hedge ratio is assessed to be close to 100% then any cash available from Aviva may be held in the Sterling Liquidity Fund or used to reduce the exposure to leveraged funds.

11. Realisation of Investments

The investment managers have certain discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The Fund's assets are invested in life insurance funds. These are tax-exempt funds for approved pension schemes, written within a life insurance "wrapper" for technical tax reasons. The use of this form of investment vehicle is common practice for UK pension schemes.

The Trustees are aware that there is a risk in holding underlying assets of an insurance policy that cannot easily be sold should the need arise. However, the assets with Legal & General are invested on a passive basis in assets that are readily realisable. The Aviva policy could be surrendered, subject to the appropriate surrender penalty and on a surrender basis determined by Aviva.

12. Investment Manager Appointment, Engagement and Monitoring

12.1 Aligning manager appointments with investment strategy

The investment managers are appointed by the Trustees based on their capabilities and, therefore their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilise the Investment Consultant's manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management.

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

Within the Aviva policy some mandates may be actively managed and where appropriate, the managers are incentivised through performance targets (an appointment may be reviewed following periods of sustained underperformance). The Trustees review the appropriateness of the Aviva policy from time-to-time and this would include a look-through review of the returns achieved by the underlying investments in that policy.

The Trustees accept that they have no ability to specify the risk profile and return targets of the managers (including within the Aviva policy), but appropriate mandates can be selected to align with the overall investment strategy.

With respect to the LDI portfolio, the manager has been appointed to manage the assets across a range of durations with the splits designed to broadly reflect the profile of the underlying liabilities of the Fund.

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

12.2 Evaluating investment manager performance

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over a range of time periods. The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over various time periods). The Trustees' focus is primarily on long term performance but short term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees instead of terminating the appointment.

For the LDI mandate, performance is largely driven by changes in interest rates and inflation expectations. The Fund's returns are therefore expected to be broadly consistent with changes in the value of the liabilities and this is the primary focus of the monitoring activities of the Trustees.

12.3 Responsible Investing engagement with investment managers

The Trustees will also consider 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 Trustees' responsible investment policy. This includes the investment manager's policy on voting and engagement (where relevant). The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments. Further information is set out in Section 13.

It is recognised that the Trustees' investment strategy, particularly in relation to the LDI portfolio, means that there is currently limited scope for integration of factors such as ESG, climate change and stewardship. By investing in this low risk manner relative to the liabilities the Trustees are prioritising the stability of the funding position and security of member benefits, and therefore other selection criteria, such as portfolio construction, implementation and risk management factors are expected to be more relevant for the Trustees' strategy.

12.4 Portfolio turnover costs

The Trustees do not currently monitor portfolio turnover costs but are looking to do this going forward and plan to include such analysis periodically as part of their ongoing monitoring on the investment managers.

The Trustees will engage with a manager if portfolio turnover is higher than expected. This may be assessed by comparing portfolio turnover across the same asset class on a year-on-year basis, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

12.5 Manager turnover

The Fund is a long-term investor and the Trustees are not looking to change investment arrangements on a frequent basis.

The Trustees 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 Trustees are no longer comfortable that the manager can deliver the mandate.

13. Socially Responsible Investment & Corporate Governance

ESG, 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.

The Trustees have given appointed investment managers (including Aviva who managed the With-Profits Deferred Annuity policy) full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within the investment providers' investment processes (and those of the underlying investments in the case of Aviva) in the monitoring process. Where relevant, the investment managers are expected to provide reporting on a regular basis, usually at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

Given the nature of the Fund's investment strategy it is expected that ESG integration may be limited, especially within the LDI portfolio.

Member views

Given the overall investment strategy and the nature of the underlying investments, the Trustees currently do not take member views 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.

14. Custodian and Advisors

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that the investment managers have procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Mark Whitcombe of Mercer Limited is the appointed Scheme Actuary.

The actuary performs a valuation of the Fund at least every three years, in accordance with regulatory requirements. The next valuation will be performed by the Scheme Actuary, with an effective date of 31 March 2020. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Participating Employers' contribution rate.

Investment Consultant

Whilst the day-to-day management of the Fund's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

15. Fee Structures

The Scheme Actuary and Investment Consultant typically work on the basis of time cost or fixed fees which are agreed in advance by the Trustees on a project basis.

Aviva's charges are met directly from the policy.

Legal & General is paid a management fee on the basis of assets under management.

16. Compliance and review of this Statement

On a regular basis, the Trustees will review this Statement 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. The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. 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.