THE MUFG BANK UK PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES FOR THE DB SECTION

1. Introduction

The Trustees of The MUFG Bank UK Pension 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.

The Trustees have obtained advice from the Fund's investment consultant regarding the investment policy described by this Statement. In matters where the investment policy may affect the Fund's funding policy, input has also been obtained from the Fund Actuary.

In preparing this Statement, the Trustees have consulted with the Sponsoring Company to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Fund's investment arrangements.

As the Statement covers broad principles, the Trustees do not expect to revise it frequently. The Statement will be reviewed following any significant change in the Fund's investment arrangements and, in any event, at least once every three years. The Fund is a hybrid arrangement; it has a Defined Benefit ("DB") Section and a Defined Contribution ("DC") Section. This Statement refers to the DB Section. The DC Section has a separate Statement.

2. Process for choosing investments

The Trustees have appointed Mercer to act as discretionary investment manager to implement a Cashflow Driven Financing ("CDF") strategy whereby the Fund invests in such a way that expected cashflows should broadly match a proportion of the Fund's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required).

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 based in countries such as Ireland, UK and USA 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. This document refers to all sub-investment managers appointed by Mercer as part of the CDF strategy as “investment managers” throughout the remainder of this document.

In considering the appropriate investments for the Fund, the Trustees will obtain and consider the written advice of Mercer Limited, 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’ objective is to invest the Fund’s assets in the best interest of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees’ primary objectives are set out below;

- To ensure the Fund’s obligations to its beneficiaries can be met;
- To achieve an asset return above the return from gilts over the long term, whilst recognising the need to balance risk control and return generation;
- To ensure consistency between the Fund’s investment strategy and the return assumptions used by the Fund Actuary;
- To pay due regard to the Company’s interests in the size and incidence of employer contribution payments.

The objectives set out above and the risks and other factors referenced in Section 4 are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in Section 10.

4. Risk management and measurement

There are various risks to which any pension fund 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 is that arising through a mismatch between the Fund’s assets and its liabilities.
- 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 and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- 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.

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

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, while being a non-financial risk, may have a financially material impact on return. Section 10 sets out how these risks are managed.

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

The Fund's broad target asset allocation is set out in the table below.

Asset Class	**Initial Target Benchmark Allocation (%)**
Hedge Management	50.0%
Non-Hedge Management	50.0%
Total	**100.0**

The Fund's asset allocation will vary over time as asset performance and market conditions vary. There is no automatic rebalancing between the Hedge Management Portfolio and the Non-Hedge Management Portfolio but the allocations are reviewed on a regular basis.

The objective of the Fund's portfolio managed by Mercer is to control funding level volatility while investing in asset classes that may also assist in income generation to help broadly match a proportion of the Fund's expected liability cashflow profile.

The Hedge Management portfolio can comprise investments in a portfolio of liability driven investment funds, ("Mercer LDI funds"), Mercer fixed income, index-linked funds, swap funds, cash funds and any other Mercer funds and in such proportion as determined by the manager in its discretion.

The liability hedge ratio is the proportion of the liability interest rate sensitivity (both nominal and real in combination) that is hedged at a given point in time. The Manager has discretion over the level of liability hedging subject to the Liability Hedge Ratio not deviating significantly from the target of 100%. The manager will review the actual liability hedge ratio no less frequently than quarterly using the manager's methodology.

The Non-Hedge Management Portfolio will comprise investments in the following funds:

Fund Name	Umbrella Name	Broad Target Asset Allocation (%)	Control Ranges (%)
Mercer Tailored Credit Fund 1	Mercer QIF Fund plc	100%	n/a

The CDF strategy targets a hedge ratio of 100% of interest rates and inflation.

6. Expected return

The Trustees have adopted a long-term investment strategy to meet their primary objective of achieving an investment return that is consistent with the discount rate used to value the liabilities.

7. Cashflow Policy

Recapitalisations

In the event of a recapitalisation (of LDI funds), Mercer will review the Fund's overall asset allocation and has discretion to implement any trades / rebalancing deemed to be appropriate. Mercer will seek to notify the Trustees as soon as practicable, ideally prior to implementation of the relevant trades (if this is possible).

Distributions

Where possible, income or capital distributions from the Mercer funds will be paid into the Trustee bank account.

8. Additional assets

The Fund provides a facility for members to pay Additional Voluntary Contributions ("AVCs") into the Fund to enhance their benefits at retirement. The Fund's current AVC investment arrangements are offered on the Phoenix Wealth investment platform, provided through the Trustees' insurance policy with Phoenix Life Limited ("Phoenix"), which provides members the same choice of funds as available to DC Section members, in which to invest their AVC payments.

The Fund also maintains legacy AVC assets with Prudential Assurance Company Limited.

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 have 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.

10. 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 who in turn delegates responsibility for the investment of the assets to a range of underlying asset managers. These asset managers 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 Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer and MGIE's investment processes and those of the appointed underlying asset managers, in the monitoring process. Mercer and MGIE are expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics.

Member views

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustees believe that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Fund as a whole.

Investment Restrictions

Mercer has given their appointed investment managers restrictions in relation to some products or activities for all equities and fixed income portfolios. Mercer is also a signatory of the Principles of Responsible Investment and engages with the UN Compact.

The Trustees have not currently set any additional investment restrictions in relation to the Mercer Funds but may do so in the future.

11. 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, 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. 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 or MGIE fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustees to disinvest some or all of the assets 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 invest. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception (as applicable). 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 nor 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 activities.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including 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. 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 annual review of the de-risking 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.

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 includes details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range 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.

12. Review of this Statement

The Trustees will review this Statement at least once every three years and 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 believe to be qualified in their ability and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension Fund investments.