UFJ (TOKAI 1978) PENSION AND LIFE ASSURANCE SCHEME
STATEMENT OF INVESTMENT PRINCIPLES – SEPTEMBER 2020

1. Introduction

The Trustees of the UFJ (Tokai 1978) Pension and Life Assurance Scheme ("the Scheme") 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 Scheme's investments.

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

In preparing this Statement, the Trustees have consulted with MUFG Bank, Ltd ("the Bank") to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Scheme'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 Scheme's investment arrangements and, in any event, at least once every three years.

2. Process for choosing investments

The Trustees have decided to implement a Liability Driven Investment ("LDI") strategy whereby the Scheme invests in such a way that expected cashflows should broadly match the Scheme's expected liability cashflow profile and help maintain the overall funding level.

The Trustees have delegated the implementation of the LDI strategy to Mercer through the use of Mercer's Implemented Investment Solutions ("Mercer IIS"). All of the Scheme's assets are invested in Mercer funds as part of the LDI strategy.

In considering the appropriate investments for the Scheme, 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 Scheme'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 objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objectives are set out below;

- To ensure the Scheme’s obligations to its beneficiaries can be met;
- To ensure consistency between the Scheme’s investment strategy and the return assumptions used by the Scheme Actuary;

4. Risk management and measurement

There are various risks to which any pension scheme is exposed. The Trustees’ policy on risk management is as follows:

- The primary risk upon which the Trustees’ focus is that arising through a mismatch between the Scheme’s assets and its liabilities. The Trustees manage this risk by hedging (as close as practically possible) 100% of the interest rate and inflation exposure from the Technical Provisions liabilities.
- The Scheme does not currently have a requirement to generate returns in excess of gilts, due to a combination of the strong funding position, and the commitment from the Bank to meet future expenses. As a result, considerations around diversification of investments are not currently relevant to the Scheme.
- Arrangements are in place to monitor the Scheme’s investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments.
- Whilst the Trustees have designed a strategy to help minimise the exposure to market related (financial) risks, it is understood that other risks remain. These include demographic risks, most notably longevity (the risk of members living longer than assumed). The Trustees have taken the decision not to secure pensions via annuities from an insurer at this time. This is consistent with the approach taken on the Bank’s other pension schemes and reflects the strong covenant support and scale, compared to the size of the Scheme.
- The safe custody of the Scheme’s assets is delegated to a professional custodian (via the use of pooled vehicles).

Should there be a material change in the Scheme’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 Scheme’s target asset allocation is set out in the table below.

Asset Class	Target Benchmark Allocation (%)	Control Ranges (%)
LDI*	100.0	n/a
Total	**100.0**	

*Comprises physical investment in (and derivatives of) gilts and index-linked gilts, as well as cash.

The objective of the Scheme's portfolios managed by Mercer is to broadly match a portfolio of the Scheme's expected liability cash-flow profile and hence hedge as closely as reasonably practical the Technical Provisions exposure to interest rate and inflation risk.

6. Expected return

The Trustees have adopted a long-term investment strategy to meet their primary objective of the assets performing broadly in line with the long term changes in the value placed on the liabilities of the Scheme and maintaining a low level of volatility of the Scheme's funding position. There is currently no objective to generate returns in excess of the liabilities.

7. Day–to–day management of the assets

The Trustees delegate the day-to-day management of the assets to Mercer who in turn delegate responsibility for the investment of the assets to a range of underlying specialised investment managers. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints.

The Scheme's current investment strategy does not include actively managed funds. The LDI strategy includes a number of funds that are managed on a passive basis to ensure that the overall exposures to interest rates and inflation are predictable, and can facilitate reasonable alignment with the liabilities.

The Trustees have taken steps to satisfy themselves that Mercer have the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Scheme's investments. The Trustees receive quarterly investment monitoring reports provided by Mercer and regularly review the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

8. Cashflow Policy

Recapitalisations

In the event of a recapitalisation (of LDI funds), Mercer will review the Scheme'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

Income or capital distributions from assets held on the Mercer platform will be invested so as to maintain, or achieve as closely as possible, the Liability Hedge Ratio Target of the Scheme.

Cashflow Management

Mercer Administration will run a cashflow analysis every month, and report whether there is a surplus to be invested or if a disinvestment is required from the portfolio.

For amounts up to £50,000	Mercer Administration will liaise with the investment team as appropriate who will then advise where to disinvest from or where to invest.
For amounts over £50,000	Mercer Administration will liaise with the investment team as appropriate who will then advise where to disinvest from or where to invest once the Trustees have agreed with the proposed action.

This policy shall be reviewed from time-to-time and can be amended as appropriate if the Trustees deem it necessary.

9. Realisation of investments

Mercer and the underlying investment managers 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. Socially responsible investment

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 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 Mercer's investment processes and those of the underlying managers in the monitoring process. Where relevant, Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot-printing for any equities and/or climate scenario analysis for diversified portfolios.

Given the nature of the Scheme's investment strategy it is expected that ESG integration will be limited.

11. 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.

12. 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.

13. 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 fiduciary 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 Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme'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 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 Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance over various time periods. 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 Mercer Global Investments Europe Limited ("MGIE") make investment decisions based on their assessment about the performance of an issuer of debt or equity (where relevant). 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 (where relevant) 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 (where relevant). It is recognised that the Trustees' current investment strategy is to invest in only LDI and cash, and that ESG integration is therefore less relevant than for other asset classes.

Section 10 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 Scheme. As noted above and in Section 10, the Trustees' investment strategy, which is primarily focussed on investment in UK government bonds, 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.

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 Scheme's assets under management. 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, although this is currently not relevant for the Scheme's investments.

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 Scheme. 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 Fund's Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme'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 LDI strategy, but any rebalancing decisions will include consideration of the transaction costs which might be incurred. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

14. Actuary and Investment Consultant

Mercer has been appointed to provide Actuarial and Investment Consultancy services.

The Actuary carries out a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the Actuarial Valuation is to assess the extent to which the assets cover the accrued liabilities and agree the Employer's contribution rate.

Within the LDI solution, the day-to-day management of the majority of the Scheme's assets, as well as selection, monitoring, appointment and removal of investment managers is delegated to Mercer.

All other investment decisions, including strategic asset allocation, are made by the Trustees based on advice received from Mercer, as the Scheme's Investment Consultant.

15. 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 Scheme investments.