Hitachi UK Pension Scheme ('the Scheme')

Statement of Investment Principles

1. BACKGROUND

The Pensions Act 1995 ("the Act") and subsequent legislation requires that the trustees of a pension scheme must ensure that a written statement of investment principles covering investment decisions about the scheme is prepared and maintained.

The Trustee of the Hitachi UK Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement"). As required under the Act, the Trustee has taken investment advice from a suitably qualified firm in Aon Solutions UK Limited ("Aon"). The Trustee, in preparing this Statement, has also consulted the principal employer Hitachi Europe Limited ("the Company") who acted as a representative for all the participating employers.

The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, a copy of which is available for inspection on request.

This statement provides an overview of the investment principles of the Scheme. The details of the investments are set out in the Schedule of Investment Arrangements. ("SIA"). A copy of the SIA is available on request.

2. INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee considered the lowest risk strategy that it could adopt in relation to the Scheme's liabilities.

The Trustee may review and adopt a higher or lower overall return objective from time to time, after consultation with the Company. Factors that the Trustee will take into account in its consideration of the overall return objective include the Scheme's funding level, the Trustee's tolerance to risk and the Trustee's assessment of the Company's covenant to the Scheme.

In order to secure the benefits that are promised to members, the Trustee will consider whether opportunities to enter into buy-in arrangements with an insurance company are appropriate. The investment strategy and the level of risk within the strategy have also been designed with the aim of achieving a level of funding that along with any additional contributions available from the Company would make buy-out possible.

3. STRATEGY

Following negotiations with the Company, the Trustee agreed a low risk investment strategy comprising of a pensioner buy-in policy (commencing in January 2018). Following further discussions with the Company a second buy-in policy was entered into for the majority of the remaining pensioner and deferred liabilities (commencing August 2020). The Trustee had entered into buy-in policies to secure the members benefits as it believes this to be an appropriate way of achieving its investment objective in the lowest risk manner.

A small proportion of the Scheme's liabilities remain uninsured pending GMP equalisation, once this has been completed the Trustee will consider whether it is appropriate to insure these remaining policies. The are invested in fixed interest gilts, index linked gilts and cash (including cash like/liquidity vehicles) which are managed by BlackRock as part of an LDI mandate.

The aim of this portfolio is to provide a broad match for the interest rate and inflation risk associated with the Scheme's uninsured liabilities and invest cash in a low risk manner to meet any expenses which may arise.

Aon provided the Trustee with advice on an appropriate LDI solution with input from the Scheme Actuary and the Company. The strategy was also determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position, the assumptions used to assess the funding position, the liability profile and the Company's covenant.

When choosing the Scheme's investment strategy, the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The risks and rewards of active management within asset classes.
- The suitability of each asset class.
- The need for appropriate diversification.
- The liquidity of assets.

The ongoing appropriateness of the Scheme's investment strategy is assessed on a regular basis and reviewed in detail following each actuarial valuation.

4. RISK

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ('funding risk'). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ('mismatching risk'). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ('cash flow risk'). The Trustee and its advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ('manager risk'). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ('risk of lack of diversification'). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Company ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the Company as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ('operational risk'). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Company cannot afford to make good the deficiency ("solvency risk"). Severe recession combined with deflation could also have particularly serious consequences for the Scheme.
- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme asset allocation, when selecting managers and when monitoring their performance.
- The risk of a default by a bulk annuity provider (buy-in insurer) ("insurer default/credit risk"). The Trustee and its risk settlement advisors considered the strength of the insurer before entering into the policy whilst considering the wider regulatory framework within which they are required to operate.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of them in a quantitative and qualitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities, the Trustee's policy is to monitor these risks on a regular basis.

The Trustee also intends to mitigate the risk as far as possible by:

- Maintaining a liquid portfolio of high quality assets (for example by investing in government bonds and cash);
- Entering into buy-in policies which help to mitigate a number of risks (e.g. mismatching risk and cash flow risk), and;
- Monitoring the financial strength of the Company and its perceived commitment to the Scheme. The Trustee will monitor this via the use of publicly available information and through the Trustee's ongoing dialogue with the Company.

5. IMPLEMENTATION

Day-to-day management

The Trustee has delegated all day-to-day decisions about the investments that fall within the LDI mandate, including the realisation of investments, to BlackRock, which is regulated by the Financial Conduct Authority ("FCA"). BlackRock has been set a specific objective by the Trustee which is monitored in detail by the Trustee on a regular basis.

The Trustee has taken steps to satisfy themselves that BlackRock has the appropriate knowledge and experience for managing the Scheme's investments and they are carrying out their work competently. The Trustee regularly reviews the continuing suitability of BlackRock and takes advice from the investment adviser with regard to any changes.

Monitoring

The Trustee will monitor the performance of the assets on a regular basis through reports supplied directly by the investment manager and by the investment adviser.

The Trustee receives regular reports showing:

- Performance versus the Scheme's investment objective.
- Performance of BlackRock versus its target.
- Any significant issues with the fund manager that may impact their ability to meet the performance targets set by the Trustee.

Details of the appointed manager can be found in a separate document produced by the Trustees entitled '*Schedule of Investment Arrangements*', which is available to members upon request.

Given the nature of the buy-in policies which the Scheme has entered into, the Trustee does not monitor their investment characteristics. Should the Trustee become aware of any risks arising it will consider these in an appropriate manner.

6. Stewardship – Voting and Engagement

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustee regularly reviews the suitability of the Scheme's appointed asset manager and take advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

It is the expectation of the Trustee that the Scheme's asset managers will prioritize and actively monitor for relevant risks within the investments, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate while balancing goals of asset returns.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the asset manager.

Where voting is concerned the Trustee expects their asset managers, to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Given the nature of the Scheme's buy-in policies, the Trustee believes it has a limited scope to influence the ongoing stewardship and corporate governance activities of the insurer as a result it will not actively seek to monitor its activities and policies in this area. Should the Trustee be provided with any opportunity which it deems appropriate to engage its insurers in the it will consider this and will outline its views and expectations of the insurers – should it deems this to be appropriate.

7. Arrangements with Asset managers

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment consultant.

The Trustee receives regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing

suitability of the investment strategy in relation to the Scheme objectives and assess the asset managers over 3-year periods.
Given the nature of a buy-in, the Trustee does not believe it is appropriate to monitor the performance of its insurers. Furthermore, given the nature of the agreement it does not remunerate the insurer and as such it does not evaluate these factors.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express their expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at meetings with managers).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where asset managers are considered to have made decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary by the Trustee.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

The Trustee given the nature of buy-in policies the Trustee believes that the respective insurers are incentivised to manage their portfolios in an appropriate manner, it also believes that it has limited scope to influence their policies. As such the Trustee does not seek to monitor these on an ongoing basis. Should the Trustee be provided with any opportunity which it deems appropriate to engage its insurers in the it will consider this and will outline its views and expectations of the insurers - should it deems this to be appropriate. Given the long term nature of buy-in policies the Trustee does not believe that is appropriate for the ongoing performance or appointment of the insurers to be reviewed.

8. Cost Monitoring:

Ongoing reporting and compliance
The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their asset managers that can increase the overall cost incurred by their investments.

Data collection
The Trustee collects annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what they're paying their investment managers.

Manager relationships
The Trustees will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

Portfolio turnover

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme's investment consultant monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

Analysis of manager performance and remuneration
The Trustee assesses the performance of their investment managers on a regular basis and the remuneration of their investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

The Trustee assesses value for money received from their asset managers on a regular basis by benchmarking their asset managers relative to the wider market. This enables the Trustee to have a detailed understanding of their overall costs irrelevant of net of fees performance and identify opportunities to challenge their asset managers where a particular manager is an outlier.

All of the Scheme's managers are remunerated on the basis of fees directly related to the value of funds under their management. Given the nature of the mandates the Trustee believe this to be an appropriate method.

Buy-in policies
Given the nature of buy-in policies the trustee does not believe it is appropriate for it to monitor or evaluate the factors as it does not have any influence on the insurers investment strategy nor does it remunerate the insurer.

9. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

A range of investment funds is available for members to choose from. These funds cover a range of asset classes, including equities, bonds and cash. In selecting the funds the Trustee has considered members' appetite for risk, the length of time until they are expected to retire and the expected forms in which benefits from AVCs will be taken.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

10. GOVERNANCE

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions themselves and delegates others recognising the importance of being able to make some decisions in a timely matter. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training, knowledge and expert advice in order to take an informed decision.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on an ad-valorem basis, a performance related basis or a mixture of the two. The level of remuneration paid to fund managers is reviewed regularly by the Trustee against market rates to ensure the fund managers' interests are aligned with those of the Scheme. In addition, fund managers pay commissions to third parties on many of the trades they undertake in the management of the assets and also incur other ad hoc costs.

In the case of pooled fund investments the Trustee has an agreement with each fund manager, and the manager has a separate agreement with the underlying custodian. In the case of segregated investments the Trustee will have separate agreements with the fund manager and a custodian. The custodian is responsible for the safekeeping of the underlying assets and performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee will review this SIP at least every three years and as soon as practicable following a significant change in investment strategy. The Trustee will take investment advice and consult with the Company over any changes to the SIP.

11. MEMBERS' VIEWS AND NON-FINANCIAL FACTORS

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018