The Honda Group – UK Pension Scheme
Statement of Investment Principles – October 2023

1. Background

This Statement has been prepared by The Honda Group – UK Pension Scheme Trustee Limited ("the Trustee") of The Honda Group – UK Pension Scheme ("the Scheme") 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). It sets out the principles governing our decisions about the investment of the Scheme's assets. We refer to this Statement when making investment decisions, to ensure that they are consistent with the principles set out in it.

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.

We seek to maintain a good working relationship with the sponsor, Honda Motor Europe Limited ("the Company"), and we will discuss any proposed changes to our investment principles with the Company. However, our fiduciary obligations to Scheme members will take precedence over the Company's wishes should these ever conflict.

Our investment responsibilities are governed by the Scheme's Trust Deed and this Statement takes full regard of its provisions with which it is consistent. A copy of the Scheme's Trust Deed is available for inspection upon request.

In order to assist with the discussion of investment matters, the Investment & Covenant Committee (the "ICC") has been appointed by the Trustee Board to be responsible for considering matters relating to the Scheme's investments. The ICC is supported by Mercer's investment advisory team ("Mercer") and Mercer Global Investments Europe Limited ("MGIE") as the appointed Fiduciary manager. At each Trustee meeting, the ICC and Mercer are required to formally report back on any decisions they have taken, or any proposals that they are recommending to the Trustee. For the avoidance of doubt, all strategic investment decisions remain the responsibility of the Trustee.

This Statement will be reviewed at least once a year, or more frequently as required, in particular following valuations and investment strategy reviews.

2. Investment Policy

The investment policy has been developed after consideration of the objectives set out below.

2.1 **Investment Objectives**

We are aiming to maintain a funding level of, or in excess of, 100% on an ongoing basis through the adoption of a prudent funding and investment strategy. The aim is to take investment risk in a controlled way.

We believe that, over the long term, excess return will be generated through investing in a range of alternative asset classes (such as infrastructure equity, secured finance, property and global private markets), corporate bonds and through the use of active management where appropriate. We recognise that in adopting this approach, the Scheme is exposed to market volatility and other risks and this may mean that, in the short term, the return target may either not be achieved or become an easy target (i.e. the short term funding position will be volatile).

As the Scheme is closed to new entrants and in light of the improved funding status, the Trustee materially reduced, and expect to continue reducing, the Scheme's exposure to alternative growth assets over time in recognition of the fact that the Scheme has a maturing liability profile.

2.2 **Investment Risk**

In setting the return oriented objectives described in the previous section, the Trustee has not lost sight of risk. In particular, the Trustee is well aware that there exists solvency risk - the risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Company is unable to make good the deficiency.

While it is impossible to eliminate this risk without making a significant sacrifice in expected excess return terms, the Trustee intends to mitigate the risk as far as possible by:

- Maintaining a well-diversified portfolio of assets.
- Diversifying by investment manager.
- Using active management where appropriate.
- Over time, considerably reducing the exposure to riskier assets with higher volatility and increasing the allocation to income generative assets to help pay members' benefits as these fall due.
- Monitoring the financial strength of the Company and its perceived commitment to the Scheme.
- Reducing risk relative to the solvency funding position should the financial strength of the Company and/or its commitment to the Scheme deteriorate.
- Monitoring the Scheme's funding level on a daily basis.

The following risks are also recognised by the Trustee and have been considered when agreeing the investment strategy:

- The risk of deterioration in the Scheme's ongoing funding level.
- The risk that investment returns achieved by the investment managers will not achieve the rate of return expected by the Scheme Actuary.
- The risk of variation in the Scheme surplus or deficit resulting from market volatility.

- The risk of volatility in the Company contribution rate and the implications of this to the Company and the security of members' benefits.

- The risk that Environmental, Social and Governance ("ESG") issues, including climate change, may negatively impact asset classes, sectors and companies, and therefore negatively impact investment returns on the Scheme's assets.

The Trustee will monitor these risks as part of the ongoing monitoring of the Scheme's investment arrangements (undertaken by the ICC and reported back to the Trustee Board) and funding position (undertaken at Trustee meetings). In addition, the Trustee will engage in regular dialogue with the Company to ensure that all parties are aware of the risks that are being run as they evolve.

2.3 Investment Policy

The investment policy falls into two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee, and (2) the day-to-day management of the assets, which has been delegated to Mercer as the Scheme's fiduciary investment manager.

Strategic Management

Following a competitive tender process in December 2020, the Trustee took the decision to appoint Mercer as a fiduciary investment manager. Following their appointment, Mercer onboarded the majority of the Scheme's assets within the investment solution, namely Mercer Investment Fund 20 ("MIF20") with the final assets transitioned on 1 October 2021. A minority portion of the Scheme's assets are held outside of MIF20 (i.e. the "external assets"); however the Scheme's assets are considered in totality for the purpose of funding level monitoring and for cashflow management.

Following a Trustee meeting in July 2023, and after consulting with the Company in August 2023, the Trustee agreed to fully disinvest from both the Mercer Multi-Asset Credit ('MAC') Fund and the Ares Secured Income Fund. This was done in order to release cash from mandates that were relatively liquid to help provide further liquidity for the LDI portfolio to maintain a sufficient level of yield headroom.

The Scheme's current strategic asset allocation is set out below, although the Trustee in consultation with the Company, continues to review how the allocations will evolve over time as less liquid assets roll-off. Further detail on the investment strategy in place can be found within the Investment Policy Addendum to this Statement ("IPID").

Asset Class	Current Strategy*** (%)
Pure Growth	**4.2**
Alternatives*	4.2
Income Generating	**32.3**
Unlisted Infrastructure Equities	15.5
Alternatives**	16.8
Buy & Maintain Credit	0.0
Matching	**63.5**
Liability Driven Investments (LDI)	63.5

* Private equity/debt
** Secured finance, multi asset credit, and ground lease property
*** Target asset allocation as at 31 May 2023, although no rebalancing framework around noting the illiquidity of some asset classes and ongoing planning to determine the long-term strategy.

Day-to-day Management

Day-to-day management of the majority of the assets in accordance with the Scheme specific benchmark is delegated to Mercer as the Trustee's fiduciary investment manager. In this role, Mercer are responsible for cashflow management and monitoring of the underlying investment managers within MIF20, as well as advising on those investment managers that sit outside MIF20. Further details on the investment strategy, and the fiduciary management arrangement with Mercer are defined in the IPID. A copy of which is available upon request.

The fiduciary investment manager has full discretion to buy and sell investments in the underlying investment managers subject to the constraints of their mandate, however the Trustee retains veto-power in respect of replacing any of the underlying investment managers with the exception of the underlying investment managers within the Mercer Multi-Asset Credit Fund.

The underlying investment managers within MIF20 have full discretion to buy and sell investments on behalf of MIF20, subject to the constraints of their mandates. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.

3. Buying and Selling Investments

The responsibilities of the fiduciary investment manager and underlying investment managers within MIF20 are defined above. With the exception of two segregated mandates, investments made in the investment managers within MIF 20 are primarily through the purchase of units in collective investment schemes. The day to day activities which Mercer and the Investment Managers outside of MIF 20 carry out are governed by signed agreements with the Trustee, whilst those within MIF 20 are governed by signed agreements between MGIE and the Investment Managers. All agreements are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

4. Realisation of Investments

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. The majority of the assets are held in MIF20, which is a daily dealing fund with monies realisable at short notice through the sale of units. However, this is only due to c. 63% of the fund being invested in a highly liquid LDI allocation. Due to the unexpected events and repercussions surrounding the gilt market crisis in September 2022, the Trustee continues to take steps to improve the liquidity of the assets to the extent possible, remaining mindful of the overall risk/ return objectives.

Additionally, a working cash balance is held for imminent payment of benefits and expenses and, where possible, the Trustee choose to receive regular dividends and income generated from assets to help meet such payments. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance; cash income is currently retained within MIF20 until advised/instructed to sell units.

5. Additional Voluntary Contribution Assets ("AVCs)

From 6 April 2006, the Trustee ceased accepting additional contributions into the Scheme. However, the Trustee still remains responsible for the AVC funds in respect of AVCs paid into the Scheme prior to this date. At this time the Trustee also carried out an investment review of the AVC arrangements and made available a choice of three investment funds for AVCs paid prior to 6 April 2006. These are as follows:

- Prudential Global Equity Fund
- Prudential Fixed Interest Fund
- Prudential Index Linked Fund

Members are able to transfer their AVCs between the three funds above to suit their personal circumstances. If members have AVCs invested in other investment funds that were previously offered by the Trustee, they can retain these holdings but no additional monies can be transferred to them.

The AVC arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustee and needs of the members.

6. Effective Decision Making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to evaluate critically any advice they take.

The Trustee believes that the appointment of the ICC, and appointment of Mercer as fiduciary investment manager, ensures that decisions are taken effectively.

Further to this, the ICC have appointed a third party to review significant investment decisions made and all of these are discussed with the Company and wider Trustee Board prior to implementation.

7. Responsible Investment and Corporate Governance

ESG, Stewardship and Climate Change

The Trustees believe that environmental, social, and corporate governance ("ESG") factors 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 require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as fiduciary investment manager in respect of the majority of the Scheme's assets. The investment managers appointed to manage assets within MIF 20 are given full discretion in evaluating ESG factors, including climate change considerations. This also applies to 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 strategic rationale of different asset classes that help the Trustee to achieve the Scheme's investment objectives and constraints remains the primary driver behind the Scheme's investment strategy. However, within this context, the Trustee is increasingly considering how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers.

Following recommendations made by the Taskforce on Climate-related Financial Disclosures (TCFD), on a phased basis pension schemes will be expected to disclose how climate-related risks are measured, monitored and managed in relation to the scheme's investments. The final deadline for the Scheme is in 2023, and therefore the Trustee have proactively worked closely with their investment managers and Mercer to understand the requirements, availability of data and to start the process of setting quantifiable targets to form the basis of analysis year on year and are currently in the process of drafting the Scheme's TCFD statement due for publication in October 2023.

With the assistance of their advisors, the Trustee has undertaken an assessment to better understand the overall level of ESG integration across the Scheme's asset allocation where relevant. Monitoring is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. Specifically, the Trustee has:

- Collaborated with the Company and confirmed that the Trustee's ESG beliefs are aligned with the Company's 2030 vision;

- Written to the Scheme's existing managers with the lowest ESG rating (rated by Mercer as ESG4 at the time of writing) and sought a formal response on how the respective investment managers will improve in areas related to ESG.

Member Views

Member views are not taken into account in the selection, retention and realisation of investments. However, the Trustee provides updates on its ESG beliefs to members in newsletters as appropriate.

Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but keep this position under review and may re-consider this in future. However, the Trustee has agreed that for future investment manager selections, a minimum ESG rating of ESG3 will be set as a pre-requisite as part of the selection process for asset classes where ESG considerations are considered to have a potentially material impact on investment performance.

The Trustee has asked the Scheme's investment managers to adopt a pragmatic approach and to consider the Scheme's exposure to cluster munitions, child labour, tobacco and companies most exposed to climate change.

8. Responsible Investment and Corporate Governance (additional policies)

Asset manager alignment of investment strategy and decisions with the Trustee's policies

In line with section 2 of the SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustee look to their investment consultant and fiduciary investment manager for their forward looking assessment of a manager's ability to outperform over a full market cycle, including the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management (including manager ratings), in relation to the particular investment fund that the scheme invests in. These views from the investment consultant are used to aid the Trustee with regards to decisions around selection, retention and realisation of manager appointments.

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

Asset manager alignment of decision making to assessments about medium to long term outcomes

The Trustee 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 Trustee's responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustee meets with the fiduciary investment manager at quarterly ICC meetings and can regularly review/challenge the decisions made by them and their underlying managers, including voting history (in respect of equities) and engagement activity. This helps try and ensure the best long term performance over the medium to long term.

The Trustee carries out the following actions:

- Challenge any manager decisions which appear out of line with the investment fund's objectives of the objectives/policies of the Scheme (through use of the manager's stewardship monitoring reports).

- Review the investment managers' compliance against the UK Stewardship Code on an annual basis.

- Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

Method and time horizon of the evaluation of the asset manager's performance and manager remuneration

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over various time periods. The Trustee reviews the absolute performance, relative performance against a suitable benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is primarily on long term performance but will put a manager 'on watch' if there are short term performance concerns.

The fiduciary investment manager will continually review the appropriateness of fees paid by the Trustee to the underlying managers. However, if a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, MGIE, on behalf of the Trustee, may ask the manager to review their fees – either the Annual Management Charge or the performance related fee element.

There are active mandates with performance related fees, the majority of which have hurdle rate structures in place to avoid the Trustee paying additional fees during periods of long term underperformance.

Monitoring of portfolio turnover costs incurred by the Scheme's asset managers

The Trustee receives MiFID II reporting from their investment managers and investment consultant (where applicable) but do not analyse the information.

The Trustee does not currently monitor portfolio turnover costs but may do this as part of an annual governance review, however the Trustee did consider such costs as part of the wider review and appointment of a fiduciary manager in 2020/2021. The Trustee may engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover as reported by the investment managers 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 (where applicable) and the Trustee will engage with the manager if portfolio turnover is higher than expected.

The investment guidelines for the bespoke investment manager appointments have specific portfolio turnover ranges. The investment managers are required to notify the Trustee if the range is breached over a quarter.

Duration of the arrangement with the asset manager

The Trustee recognises that they are long-term investors and therefore not looking to change the investment arrangements on a frequent basis.

For open-ended funds (all Scheme mandates with the exception of private markets), there is no set duration for the manager appointments. The Trustee will retain an investment manager through MIF 20 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 by the fiduciary investment manager and the Trustee has decided to terminate – see policy statement on realisation of assets.

For closed-ended funds (private markets mandates), the Scheme is invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement. In order to maintain a strategic allocation, the Trustee may choose to stay with a manager in a new closed fund for that asset class or appoint a different manager.

9. Compliance with this Statement

The Trustee, the Fiduciary Investment Manager, Investment Managers and Mercer Limited all have duties to perform to ensure compliance with this Statement so far as reasonably practicable. These duties are:

The Trustee will review this Statement from time to time and at least annually on the advice of Mercer Limited. The Trustee will also review the Statement without delay following any significant changes in investment policy and will record compliance with it regularly.

The Fiduciary Investment Manager and investment managers for external assets, will prepare regular reports to the Trustee including:

- a valuation of all investments held for the Scheme including a record of all transactions undertaken,
- performance of the Scheme's assets against their respective benchmarks; and

- a review of actions undertaken on behalf of the Scheme regarding areas such as corporate governance, socially responsible investment and disclosure of transaction costs, as recommended by the Myners review.

Mercer Limited will provide appropriate advice to allow the Trustee to review and update this Statement as necessary.

Trustee

.

Trustee

.

Trustee

.

Trustee

.

Trustee

.

Date

The Honda Group UK Pension Scheme Trustee Limited

Appendix A - Environmental, Social, and Corporate Governance Ratings

Mercer assign ratings to strategies that represent the view on the extent to which environmental, social, and corporate governance ("ESG") and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision-making across asset classes. ESG factors are incorporated into the investment process on the basis that these issues can impact revenue, operating costs, competitive advantage, and the cost of capital. During discussions with managers about ESG integration, Mercer assesses the use of ESG information to generate outperformance.

ESG1	The highest ESG rating is assigned to strategies that Mercer believe to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at the firm wide level and some indication that data and research are being taken into account by the managers in their valuations and investment processes.
ESG3	The penultimate rating is assigned to strategies for which, in Mercer's view, the manager has made some progress with respect to ESG integration and/or active ownership, but for which there is little evidence that ESG factors are taken into consideration in valuations and investment processes.
ESG4	The lowest ESG rating is assigned to strategies for which, in Mercer's view, little has been done to integrate ESG and active ownership into their core processes.

The current Mercer ESG ratings of each fund in which the Scheme is invested in can be found in the Investment Policy Addendum to the Statement of Investment Principles.