

# **The Honda Group – UK Pension Scheme**

## **Statement of Investment Principles – November 2025**

### **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 Trustee has 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”), Mercer Global Investments Europe Limited (“MGIE”) for support services, and Mercer Limited (“ML”) 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 normally 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**

The Trustee’s primary objective is to meet its obligations to the beneficiaries of the Scheme. Consistent with this, the Trustee has purchased a bulk annuity policy with a regulated insurance company, which pays the Scheme regular income which is designed to match the expected pension payments to members. In undertaking this transaction, known as a ‘buy-in’, the Trustee has transferred a number of the key risks associated with providing pensions

– including the associated longevity risks – to the insurer, in exchange for a premium payment.

Having now completed the buy-in, the Trustee has secondary objectives of maintaining sufficient liquidity for any short-term cashflow requirements that are not met from the annuity; as well as closely monitoring the proceeds, asset valuations and timely redemptions from remaining illiquid assets to ensure that the deferred element of the insurance premium, and Company financial support, are repaid by 2029 (or as otherwise agreed)

## 2.2 Investment Risk

As noted, the buy-in transaction that has been undertaken has allowed the Trustee to mitigate a number of the key risks that the Scheme faced. In retaining a small number of investments which are to be run-off, there remain a number of risks that the Trustee is mindful of. While it is impossible to eliminate these risks during the period in which the assets will run-off and return capital to the Scheme, the Trustee intends to mitigate the risk as far as possible by:

- Maintaining a well-diversified portfolio of assets, recognising that this will become more concentrated as the mandates return capital in different timeframes, albeit with the value of these residual investments gradually reducing.
- Diversifying by investment manager (where possible).
- Using active management where appropriate.
- Over time, considerably reducing the exposure to riskier assets with higher volatility.
- Monitoring the financial strength of the Company and its perceived commitment to the Scheme, noting that the reliance on the covenant of the Company is significantly reduced following the successful purchase of the bulk annuity contract.
- Monitoring the Scheme's investments on a regular basis, including detailed quarterly performance reporting, and monthly monitoring of distributions from the residual asset portfolio.

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

- The risk that investment returns achieved by the investment managers will not achieve the rate of interest being accrued on the deferred premium and Company financial commitment to the Scheme.
- The risk of variation in the Scheme's residual asset value resulting from market volatility.
- 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 residual assets.

The Trustee will monitor these risks as part of the ongoing monitoring of the Scheme's residual 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

### *Investment Arrangements*

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 the buy-in transaction, the Trustee retains a reduced portfolio of illiquid assets, including within MIF20. The majority of the residual investments are closed-ended funds where capital will gradually be returned to the Scheme. In addition, it was agreed that as soon as the suspension is lifted on the Scheme's UK Ground Lease Property mandate, a disinvestment request would be placed for the full disinvestment from this fund.

The Trustee has introduced a liquidity vehicle (cash fund) to ensure that proceeds from the illiquid assets earn a competitive rate of interest.

### *Bulk Annuity*

The bulk annuity is with Legal & General Assurance Society ("LGAS"). LGAS is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Trustee has taken steps to satisfy themselves that LGAS has the appropriate knowledge and experience, including undertaking detailed due diligence and taking expert advice during the selection process.

### *Day-to-day Management*

Day-to-day management of the Scheme's residual assets is delegated to professional investment managers along with Mercer as the Trustee's fiduciary investment manager for those assets held in MIF20. 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.

Where relevant for the residual assets, 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.

The remaining 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. 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 ML

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 realisation of assets is carried out in a way consistent with the overall principles set out in this Statement. The Trustee expect to sell units in the MIF20 to meet any short term cashflow requirements that are not met from the LGAS Bulk Annuity and to help repaying the initial financing utilised to purchase the bulk annuity whilst illiquid assets roll down..

#### **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 Trustee believes 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 Trustee also

recognises 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 (including the majority of the Scheme's asset post buy-in). The remaining 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.

#### *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.

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 were 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).
- 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, ML, on behalf of the Trustee, may ask the manager to review their fees – either the Annual Management Charge or the performance related fee element.

Within the remaining portfolios, 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 do not expect to change the investment arrangements on a frequent basis, particularly given that the majority of the investments held are now in a run-off phase.

For any remaining open-ended funds 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.

The Trustee agreed and adopted this statement in November 2025.