The Mercedes-Benz UK Pension Scheme

Statement of Investment Principles – November 2023

1. Introduction

The Trustees of the Mercedes-Benz UK Pension 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. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 as well as taking into account the principles underlying the Myners Code of Best Practice for pension scheme investment.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The specifics of the Scheme's investment arrangements are detailed in the Investment Policy Implementation Document ("IPID"), which is available on request.

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

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Agree the level of risk consistent with meeting the objectives set.
- Construct a portfolio of investments that is expected to maximise the return

  (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of XPS Investment Limited ("XPS"), who are regulated by the Financial Conduct Authority ("FCA"), and 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 a number of 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' overall investment policy is guided by the following objectives:

- To maximise the long-term return on the investments, without incurring undue risk. This is expected to satisfy the long-term rate of return assumption adopted by the Actuary in the funding of the Scheme, as set out in the Statement of Funding Principles.

- To achieve a favourable return against the Scheme-specific benchmark.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees have considered the following risks:

- The risk of deterioration in the Scheme's funding level over the long-term.
- The risk that the investment managers, in the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active management involves such a risk. However, it believes that this risk is outweighed by the potential gains from successful active management in certain asset classes.
- 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 Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees take advice on the matter and (in light of the objectives noted in Section 3) carefully consider 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. Because of the size of the Scheme's assets and recognising the need to diversify, investment exposure to most markets is obtained via pooled vehicles, although segregated mandates may be utilised where appropriate.
- The documents governing the investment manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment managers are prevented from investing in asset classes outside of their mandate without the Trustees' prior consent.
- 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. To facilitate this, the Trustees receive regular reports from the investment managers and the Investment Consultant. These reports include an analysis of the overall level of return, along with their component parts, to ensure the returns achieved are consistent with those expected.
- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles, whilst JPMorgan is employed as independent custodian for the Scheme's holdings with their main investment manager.
- The Trustees recognise there is a risk that assets cannot be realised in illiquid markets, when cash is needed. This is managed by investing the majority of assets only in liquid markets and reviewing their liquidity regularly, as well as by investing in less liquid assets that produce regular cashflows that can be used for benefit payments.

- The Scheme is exposed to credit risk in relation to a range of investments in “buy and maintain” credit, multi-strategy credit, and secure income. This is the risk of default by issuers of financial assets and the risk that the value of these assets may depreciate as a result of an increase in the overall level of perceived credit risk in the market. This risk exposure is controlled by imposing limits on the amount and type of credit assets that can be held, and ensuring that portfolios are sufficiently diversified.
- The Trustees are aware of exchange rate risk relating to the Scheme’s investments. This risk arises from losses that result from unhedged overseas investments. This risk is managed to the extent that non-GBP holdings within the various credit strategies represent are hedged back to GBP, and overseas equities represent less than 4% of total Scheme assets and are expected to reduce over time as the Scheme de-risks.
- The Trustees recognise that there is sponsor covenant risk. The financial capacity and willingness of the sponsoring employer to support the Scheme is a key consideration and is reviewed on a regular basis.

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. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Scheme’s investments:

- There is a role for both active and passive management. Passive management will be used for one of a number of reasons, namely:

- To diversify risk

- To invest in markets deemed efficient where the scope for active management to add value is limited

- As a temporary home pending investment with an active manager

- At the total Scheme level and within individual investment manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- Derivatives shall be used only for the purposes of hedging.

6. Investment Strategy

Given the investment objectives, the Trustees have implemented the investment strategy (the mix of asset types) detailed in the table below. The Trustees believe that the investment strategy is appropriate for controlling the risks identified in section 4.

Asset Class	Target Benchmark Allocation (%)
Equities	**7.0**
UK	3.0
World	4.0
LDI	**35.0**
Buy & Maintain Credit	**40.0**
Real Estate	**5.0**
Secure Income	**5.0**
Multi-Sector Credit	**8.0**
Total	**100.0**

The Trustees have agreed to adopt the Company's global pension fund guideline of a maximum equity allocation of 50%, which has been less of a concern for the Trustees as the Scheme has de-risked.

The benchmark allocation to equities has been reduced gradually over time to reduce the level of equity risk within the Scheme and to capitalise on improvements in the funding level. The most recent de-risking step took place in April 2021.

7. Day–to-Day Management of the Assets and Monitoring of the Investment Managers

The Trustees delegate the day-to-day management of the assets to the investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate, which are summarised in section 6 and set out in more detail in the IPID. Details of each specific mandate are also set out in agreements and pooled fund documentation agreed with each investment manager. The Trustees consider the arrangements with the investment managers to be aligned with the Scheme's overall strategic objectives.

Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued appointment as investment managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent on them doing so.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers, the use of financial instruments by the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

The Trustees also require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, and how turnover compares with the range that the investment manager expects, and the reasons for any divergence.

The Trustees encourage the investment managers to make decisions in the long-term interests of the Scheme. The Trustees expect the managers to engage with the management of the underlying issuers of debt or equity with a view to improving their medium to long term performance. As covered in more detail in Section 10, the Trustees also require the investment managers to take ESG and climate change risks into consideration within their decision-making framework as the Trustees believe these factors could have a material financial impact in the long-term.

Appointment of Investment managers are expected to be long-term, but the Trustees will review the appointment of the investment managers on a regular basis in accordance with their fiduciary responsibilities, and if managers are not performing or taking long term matters into account, their appointment may be terminated.

Monitoring and Evaluation of Investment Managers

The Trustees receive regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods.

The Trustees use regular monitoring reports to monitor levels of collateral within their leveraged Liability Driven Investment (“LDI”) portfolio. The Trustees assess the level of collateral headroom within the LDI portfolio (Tier 1 collateral), as well as the additional assets held within the “Tier 2” collateral, which is invested in asset backed securities for efficient portfolio management. The Trustees hold additional liquid assets outside of the LDI portfolio, that are daily or monthly dealt, and will look to top up the collateral levels should the collateral levels drop below a sufficient level. The Investment Advisor also receives monthly updates on collateral headroom and will report to the Trustees should any significant intraquarter changes occur.

In addition, any significant changes relating to the Trustees’ selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant’s rating for a particular mandate.

These ratings help to determine an Investment Manager’s ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustees’ guidelines in relation to ESG factors are incorporated into each Investment Manager’s processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees’ policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Details of the appointed managers can be found in the IPID, which is available to members upon request.

8. Additional Assets

Under the terms of the Trust Deed, the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability. Details of the current provider can be found in the IPID.

9. Realisation of Investments

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

The Trustees monitor the allocation between the appointed managers and between asset classes and rebalances the portfolio as set out in the IPID.

10. Responsible Investment and Corporate Governance

The Trustees believe that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustees believe that environmental social and corporate governance ("ESG") and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustees have given their investment managers full discretion when evaluating ESG and ethical issues and in exercising rights and stewardship obligations relating to the Scheme's investments taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code The Trustees recognise each Code as an indication of a manager's compliance with best practice stewardship standards.

The Trustees will assess the appointed listed equity manager strategies for their approach to stewardship (voting and engagement) by monitoring policies against the UK Stewardship Code principles and seeking reporting from managers on sustainability issues, voting and engagement activity on an annual basis.

The Scheme's investment managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Trustees.

In particular, where the manager believes that these issues will impact on performance or risk, the manager will be expected to take them into account in their decision making. The Trustees review these policies through a review of stewardship compliance. The Trustees will, where it is deemed necessary, engage the managers in discussion on their policies. It will however be made clear to the managers that any decisions taken by the managers should be in the best long term financial interest of the Scheme and its members.

The Trustees will assess the appointed manager strategies for their approach to ESG integration, using their consultant's ESG ratings, on an annual basis and review the ESG rating against comparable investment managers when appointing new manager strategies. In general, the Trustees will take into account the ESG policies of the managers at the time of selection and will aim to achieve a "green" rating (or at least an "amber" rating in non-equity asset classes, according to their consultant's ESG rating system).

Reporting on voting and engagement activities should be provided to the Trustees by the managers on a regular basis, which should a summary of the engagement on financially material matters such as strategy, capital structure, management of conflicts of interest, and ESG issues in relation to issues of both debt and equity. The Trustees require the investment managers to report on significant votes made on behalf of the Trustees (specifically when abstaining or voting against management)

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant.

Should the Trustees become aware of an investment manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees expectation and the investment guidelines, then the Trustees may consider terminating the manager's contract.

The Trustees have set specific restrictions on the stocks that can be held within the Scheme's segregated portfolios. At present this applies only to the buy and maintain credit portfolio managed by Insight. The manager has been provided with a list of cluster munitions and nuclear arms stocks to exclude from the portfolio.

The Trustees do not explicitly consult members when making investment decisions.

11. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay 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 by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed on behalf of the Trustees of The Mercedes-Benz UK Pension Scheme, namely "Mercedes-Benz UK Trustees Limited"

Signed: Date:

Name:

Signed: Date:

Name: