Mercedes-Benz Financial Services UK Ltd Pension Scheme (the "Scheme")

Statement of Investment Principles – August 2023

1. Introduction

Mercedes-Benz UK Trustees Limited (the “Trustee”) of the Mercedes-Benz Financial Services UK Ltd Pension Scheme (the “Scheme”) has drawn up this Statement of Investment Principles (the “Statement”) 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). The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. The Trustee’s investment responsibilities are governed by the Scheme’s Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, consultation has been undertaken with Mercedes-Benz Financial Services UK Limited (the “Sponsor”) and other participating employers to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme’s investment arrangements and, in particular on the Trustee’s objectives.

2. Process For Choosing Investments

The Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer’s Dynamic De-risking Solution, to implement the Trustee’s strategy whereby the level of investment risk reduces as the Scheme’s funding level improves. In this capacity and subject to agreed restrictions, the Scheme’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”)). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, the UK and USA, and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme’s assets on a day-to-day basis.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee’s primary objectives are:

- To ensure that the obligations to the beneficiaries of the Scheme can be met;

- To maintain funds above the level required to meet the Statutory Funding Objective ("SFO"), whereby there are sufficient and appropriate assets to meet obligations to the beneficiaries as they fall due (the "technical provisions"); and

- To pay due regard to Mercedes-Benz Financial Services UK Limited's interests on the size and incidence of employers' contribution payments.

The Trustee aims to achieve these aims by seeking to maximise the return on the Scheme's investments without exceeding the limits that is considered a prudent pension fund investment which, over the long term, is expected to satisfy the long term rate of return assumption adopted by the Scheme Actuary.

Within the framework of these high level objectives, the Trustee has agreed a number of secondary objectives to help guide them in their strategic management of the assets and increasingly control of the various risks to which the Scheme is exposed as opportunities present themselves. These secondary objectives are as follows:

- To achieve a long-term funding target of 110% funding on a gilts + 0.5% p.a. basis. This basis is derived from the Technical Provisions basis, as outlined in the Statement of Funding Principles;

- To monitor the progress in the funding level on the self-sufficiency basis against a pre-agreed table of triggers and to capture improvements in the funding level on this basis promptly as they arise by switching return enhancing assets into low risk liability matching assets.

The Trustee recognises this ultimately means investing in a portfolio of predominantly bonds ("Matching Portfolio") but believes that at the current time some investment in return-seeking equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in section 10.

4. Risk Management and Measurement

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

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

- The Trustee recognises that whilst increasing this mismatch 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 liabilities as well as producing more volatility in the Scheme's funding position.

- In order to effectively control these risks, the Trustee, having taken advice, has delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer, subject to investments being limited to Mercer Funds agreed in advance by the Trustee, and restrictions on the maximum investment in certain Mercer Funds.

The asset allocation is set the split between the Growth and Matching Portfolio so that the expected return on the overall portfolio is sufficient to meet the objectives outlined in Section 3. As the funding level improves, investments will be switched from Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk. Mercer provides the Trustee with regular reports regarding the Scheme's asset allocation.

- The Trustee recognises that even if the Scheme's assets are invested in the Matching Portfolio, there may still be a mismatch between the interest rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between the Matching Portfolio and the Scheme's actuarial liabilities.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the portfolio.

- To help the Trustee ensure the continuing suitability of the current investments, the Trustee delegates the selection, retention and ongoing monitoring of underlying asset managers to Mercer. Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- To help diversify manager specific risk, within the context of the Growth and Matching Portfolio, the Trustee expect that the Scheme's assets are managed by appropriate underlying asset managers.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets the scope for achieving added value is more limited.

- The Trustee recognises the guidelines Daimler AG ("the Parent Company") has set out in the Global Pension Guidelines for its global pension schemes. The Trustee believes that the agreed structure and triggers agreed are consistent with this policy.

- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, Mercer will monitor that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, Mercer sets a target non-sterling currency exposure and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- Responsibility for the safe custody of the Scheme's assets is delegated to MGIM who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as custodian of the assets invested in their vehicles. MGIM is responsible for keeping the suitability of State Street under ongoing review.

- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review and advise the Trustee whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustee, with advice from the Scheme's investment consultant and Scheme Actuary, review the Scheme's investment strategy on an approximately annual basis, with the last review in 2023. This review considered the Trustee's investment objectives, its ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the Trustee decided to retain the dynamic de-risking strategy in place for the Scheme, as implemented on the Trustee's behalf by Mercer, and to "recalibrate" the de-risking funding level triggers first in order to take account of funding level experience since that date.

The recalibrated strategy continues to relate the Scheme's asset allocation to its funding level in the context of the long-term funding target. The de-risking rule mandates the following practices:

- To hold sufficient Growth assets to target 110% funding on a gilts + 0.5% p.a. basis by c. 2028 to 2032;

- To reduce the volatility in the funding level by reducing unhedged liability exposures;

- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Scheme's funding level on a gilts + 0.5% p.a. basis and is based on a model of the progression of the Scheme's funding level over the required period, after allowing for any expected contributions from the Sponsor as agreed at the latest triennial actuarial valuation.

The de-risking triggers, which form the basis of the Scheme's dynamic investment strategy, are set out in a separate document – the Investment Implementation Policy Document.

Once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an approximately annual basis to ensure that the triggers set remain appropriate and amended if required.

The following Global Pension Committee guidelines (last updated in January 2023) have been taken into account when agreeing the Scheme's investment arrangements.

- The target allocation to equities and risky assets in combination will be within the 50% maximum specified in the guidelines. Alternatives will be treated as risky assets as defined in the guidelines.

- The target allocation to property will be within the 10% maximum limit and the target allocation to alternatives will be within the 10% maximum limit. Within the alternatives, no more than the maximum target allocation of 5% will be used for private equity & debt (including venture capital, distressed and mezzanine), commodities (futures and not physical investments) or hedge funds (including absolute return strategies). Cash and cash equivalents need to be secure (i.e. at least investment grade with short maturity) and highly liquid.

- Non-investment grade securities will not exceed the maximum of 10% of total Scheme assets.

6. Realisation of Investments

The Trustee, on behalf of the Scheme, hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE within parameters stipulated in the relevant appointment documentation, have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme target asset allocation. Mercer is responsible for raising cash flows to meet the Scheme requirements.

8. Rebalancing

Mercer reviews the actual balance between the Growth and Matching Portfolio allocation on a regular basis. Furthermore, if at any time the actual balance between the two Portfolios is deemed by Mercer to be outside an agreed appropriate tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is intended that Mercer will not allow the Growth Portfolio allocation to drift more than 5% in absolute terms away from the applicable target for the relevant funding level band.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Mercer reports quarterly to the Trustee on its rebalancing activities and the underlying holdings by asset class within the Mercer Funds.

In the event of a funding level trigger being reached, the assets will be rebalanced to bring them in line with the reduced Growth Portfolio weighting, under the new de-risking band, as defined in the Investment Implementation Policy Document.

9. Additional Assets

Under the terms of the trust deed the Trustee is responsible for the investment of any Additional Voluntary Contributions (AVCs) paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

10. Environmental, Social and Governance (ESG) considerations, and Climate Change

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

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Fund's are expected to evaluate ESG issues and in exercising rights and stewardship obligations relating to the Scheme's investments, taking account of current best practice, including the UK Stewardship Code. The Trustee, Mercer and MGIE support and expect the asset managers appointed to manage the Mercer Funds which are registered with the Financial Conduct Authority to comply with the UK Stewardship Code (the Code), including public disclosure of compliance via an external website.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustee considers how ESG, climate change and stewardship are integrated within the investment processes of Mercer, MGIE and the underlying asset managers. Mercer and MGIE are expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and other asset classes where relevant and data is available and/or climate transition analysis for diversified growth portfolios.

The Trustee has also considered the Sponsors current views on ESG, including the use of an exclusion list, investment into thematic funds and the overall implementation of ESG criteria into the investment selection process.

An allocation to Sustainable Equities was added in December 2020. The Fund includes an allocation to an impact strategy employing fundamental analysis to target companies that aim to achieve positive Environmental and Social Impact.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

The Scheme's asset managers exercise voting rights and undertake engagement (collaborative or otherwise) 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 Mercer. Mercer and MGIE produce a regular stewardship monitoring report, which assesses each underlying equity manager's record of executing and disclosing voting activity, and the extent to which they are engaging with the underlying companies in which they invest and this report is reviewed by the Trustee annually.

Mercer and MGIE include Mercer ESG ratings for all available asset managers in the quarterly monitoring reports which are reviewed by the Investment Sub Committee (ISC). On an annual basis, Mercer and MGIE compare the ESG ratings of all asset managers versus the asset class universe ESG ratings. These reports are reviewed by the ISC annually who in turn report to the Trustee.

Member views are not currently explicitly taken into account in the selection, retention and realisation of investments.

11. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 5, the Trustee is 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, the 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 Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds. However, the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy, as outlined in section 5. The Trustee has taken steps to satisfy itself 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 Trustee's policies, it is open to the Trustee 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 Trustee receives and considers investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the

Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Investment Sub-Committee and Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. 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 in order to improve their performance in the medium to long-term. The Trustee is, 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 Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including 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.

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 Trustee is a long-term investor and is not looking to change investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, 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 and cover the design and annual review of the de-risking strategy, and investment management of the assets. 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.

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 Trustee, 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 Funds' 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 Trustee does not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

12. Review of this Statement

The Trustee 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 Trustee reasonably believes 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.