Deutz Retirement Benefits Plan

Statement of Investment Principles

1. Background

The Trustees of the Deutz Retirement Benefits Plan ("the Plan") 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. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments.

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice on the Statement from Mercer Limited ("the Investment Adviser") which is regulated by the Financial Conduct Authority ("FCA") in relation to investment services. In addition, the Trustees have also consulted the Sponsoring Company on the Trustees' objectives as set out in the requirements of the Act.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice, and is driven by their investment objectives as set out in Section 2 below.

The second element is the day-to-day management of the assets that is delegated to a professional investment manager and described in Section 4.

A copy of this Statement is available on the Deutz UK webpage.

2. Investment Objectives and Risks

The Trustees' agreed investment objectives are as follows:

- To make sure obligations to the beneficiaries of the Plan are met.
- Control the level of investment risk to avoid unintended consequences such as a significant fall in the funding level or an excessive rise in contributions above a level that can be supported by the Sponsoring Company.

The Trustees believe that the Plan's asset mix will generate a return, over the long-term, consistent with their long-term objective of meeting obligations to the beneficiaries of the Plan within a level of contributions that the Sponsoring Company has indicated it is able to make. The Trustees recognise that whilst reducing risk reduces potential returns over a long period, it can also reduce short-term volatility in the Plan's funding position and contribution requirements from the Sponsoring Company.

There are various risks to which any pension scheme is exposed. The Trustees have considered the following risks over the expected lifetime of the Plan:

- The risk of deterioration in the Plan's funding level.
- **Interest rate risk**: the risk that the assets do not move in line with the value placed on the Plan's liabilities in response to changes in interest rates.

- **Inflation Risk**: similar to interest rate risk but concerning inflation. The Trustees also seeks to manage and monitor this risk via a LDI portfolio, which aims to partially match the inflation sensitivity of the Plan's estimated liabilities.

- **Credit Risk:** The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

- **Solvency Risk and Mismatching Risk:** The risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets.

- **Lack of diversification risk:** The Trustees believe that diversification limits the impact of a single risk. Therefore, the Trustee aims to ensure that the asset allocation and manager structure policies in place result in an adequately diversified portfolio.

- **Market Risk**: The risk that low investment returns or unfavourable market movements in the years just prior to retirement will secure inadequate retirement benefits. This risk includes that arising from investment in growth assets, credit, currency exposure, active management. The Trustees recognise that the use of active management involves such a risk and the majority of the Plan's assets are therefore managed on a passive basis.

- **Risks arising from Environmental, Social and Corporate Governance ("ESG") issues, including climate change and stewardship:** the Trustees recognise these risks and believe they present threats as well as opportunities, alongside the other risks to which the Plan is exposed. See Section 8 for dedicated comments on these risks and the Trustees' approach.

The Trustees manage the risks identified through a combination of:

- Setting overall investment strategy based on expert advice and with consideration to the circumstances of the Plan.

- Seeking to hedge a portion of the Plan's interest rate and inflation risk by investing in a portfolio of fixed interest gilts, index-linked gilts and corporate bonds.

- Subject to managing the risk from a mismatch of assets and liabilities, aiming to ensure the asset allocation policy in place results in an adequately diversified portfolio.

- Delegating the safe custody of the Plan's assets to professional custodians (via the use of pooled vehicles).

- Regularly monitoring the investment performance of the Plan's assets.

- Monitoring the relative values of the Plan's assets and liabilities, with a view to reviewing whether the investment arrangements and risk profile remain appropriate should there be a significant change in the Plan's circumstances.

- Communicating with the Sponsoring Company to understand its position with respect to the Plan and the Plan's funding.

The risks identified are in relation to what the Trustees consider 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations will be dependent on the expected lifetime of the Plan.

3. Investment Strategy

The Trustees have adopted the following asset allocation benchmark for the assets of the Plan.

Asset Class	Target Allocation (%)	Benchmark Index	Control Ranges (%)
Equity	**20.0**		
UK Equities	6.0	FTSE All Share	5.0 – 7.0
European (ex UK) Equities	3.5	FTSE AW Developed Europe (ex UK)	3.0 – 4.0
North American Equities	4.0	FTSE AW Developed North America	3.5 – 4.5
Japanese Equities	2.0	FTSE AW Japan	1.5 – 2.5
Asia Pacific (ex Japan) Equities	2.0	FTSE AW Developed Asia Pacific (ex Japan)	1.5 – 2.5
Emerging Markets Equities	2.5	FTSE AW All Emerging Markets	2.0 – 3.0
Bonds	**80.0**		
Fixed Interest Gilts – Over 15 Year	22.0	FTSE UK Gilts – Over 15 Year	20.5 – 23.5
Buy and Maintain Credit	33.0	Unbenchmarked	28.0 – 38.0
Index-Linked Gilts – All Stocks	25.0	FTSE Index-Linked Gilts – All Stocks	23.5 – 26.5
Total	**100.0**		
Median Expected Returns over Gilts (% p.a.)	**1.6***		

*Based on Mercer's 30 June 2022 return assumptions.

Cash flows are applied in order to maintain the Plan's asset distribution as close as possible to the target allocation. However, if the investment/disinvestment of monies is insufficient to maintain the weightings within the control ranges, the investment manager will rebalance the allocations back towards their target weights.

The Trustees believe that the asset mix is appropriate for controlling the risks identified in Section 2.

4. Day-to-Day Management of the Assets

The main assets of the Plan are invested on behalf of the Trustees by Legal & General Investment Management Limited ("L&G") in a range of their pooled products. The assets are managed on a passive basis, apart from the corporate bonds, which are managed actively. For the passive funds, L&G's performance objective is to achieve a return within each fund's tracking error target (relative to the benchmark) in two years out of every three. For the Buy and Maintain Credit Fund, L&G's objective is to generate a spread above gilts by managing a portfolio of investment grade corporate bonds; the Fund is managed without reference to a formal benchmark, and performance will be assessed by L&G's ability to avoid defaults and minimise turnover. L&G is regulated by the FCA and is authorised by the Prudential Regulation Authority.

The assets of the Plan are invested in pooled funds and therefore the fund manager determines the investment restrictions applying to these funds.

5. Additional Voluntary Contributions

The Trustees invest members' additional voluntary contributions with Prudential and Scottish Friendly, previously named MGM, although the arrangements with Scottish Friendly have been closed to new members. These arrangements are reviewed from time to time.

6. Realisation of Investments

In general, the investment manager has discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. However, the investment manager will be responsible for generating any cash required for benefits and other expenditure on the instructions of the Trustees.

7. Monitoring the Investment Manager

The Trustees will periodically meet the investment manager to review their actions together with the reasons for and background behind the investment performance. The Investment Adviser assists the Trustees in fulfilling their responsibility for monitoring the manager.

8. Responsible Investment and Corporate Governance

The Trustees believe that good Stewardship and environmental and social governance ("ESG") issues, including climate change, may have a material impact on investment risk and return outcomes.

As the Plan's assets are invested in pooled arrangements, the Trustees accept that the assets are subject to the investment manager's own policies when evaluating ESG issues, including the impact of climate change, and in exercising rights and Stewardship obligations attached to the Plan's investments. The Trustees recognise that a significant proportion of the Plan's current investment arrangements are implemented on a passive basis, which limits the investment manager's ability to take active decisions on whether to hold securities based on the investment manager's considerations of ESG factors, including climate change considerations. The Plan also has an allocation to credit where, whilst ESG issues are still relevant to risk control, there is less opportunity to influence investee company behaviour compared to equity holdings, although where relevant managers are encouraged to use their position as lenders of capital to engage with companies.

The investment manager is expected to report on ESG issues as and when requested by the Trustees.

The Trustees of the Plan accept that by using pooled vehicles for their investments, the Plan's voting rights are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes. The Trustees will consider the Investment Adviser's assessment of how the investment manager embeds ESG into their investment processes, and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment manager's policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees can review the decisions made by their manager, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long-term performance over the medium to long-term.

The Trustees do not take into account members' views on non-financial matters, including their ethical views, in the selection, retention and realisation of investments, given the difficulty in determining members' views and applying these to a single Plan investment strategy. However, this position will be reviewed over time.

9. Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilise Mercer's manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

All mandates are passively managed, except for the Buy and Maintain Credit Fund, which is actively managed (albeit low stock turnover is a feature of the Fund's approach). The manager is incentivised through performance targets and the Trustees will review the appointment following periods of sustained underperformance. The Trustees will review the appropriateness of using actively managed funds as part of the wider monitoring of the Plan's investments.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will look to replace the manager.

Evaluating investment manager performance

The Trustees receive a performance report from the investment manager on a quarterly basis, which presents performance information over 3 month, 1 year, 3 years, 5 years and since inception periods. The Trustees review absolute performance and relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period). The Trustees' focus is primarily on long-term performance but short-term performance is also reviewed.

If the manager is not meeting performance objectives, or the investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees instead of terminating the appointment.

Portfolio turnover costs

The Trustees do not currently monitor portfolio turnover costs but may look to do this as part of an annual governance review.

Manager turnover

The Trustees are a long-term investor and are not looking to change the investment arrangements on a frequent basis.

The Trustees will retain an investment manager 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 and the Trustees are no longer comfortable that the manager can deliver the mandate.

10. Compliance with this Statement

The Trustees will monitor compliance with this Statement periodically, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Plan and its liabilities, finances and attitude to risk of the Trustees and Sponsoring Company, which are judged to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and will be in consultation with the Trustees and Sponsoring Company.

The Trustees of the Deutz Retirement Benefits Plan

Approved by the Trustees on …29/11/2022…..

Company consulted on …10/11/2022…..