



Hyster-Yale UK Retirement Plan

# Statement of Investment Principles

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# Section 1: Introduction

## Pensions Act 1995

- 1.1 Under the Pensions Act 1995, as subsequently amended by the Pensions Act 2004, trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Directors of Hyster-Yale UK Pension Co. Limited (the Trustee Directors) in relation to the Hyster-Yale UK Retirement Plan (the Plan).
- 1.2 Before preparing this document, the Trustee Directors have consulted Hyster-Yale UK Limited (the Company) and the Trustee Directors will consult the Company before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee Directors.
- 1.3 Before preparing this document, the Trustee Directors have sought advice from the Plan's investment consultant and the scheme actuary. The written advice received from the investment consultant considers the issues set out in the Occupation Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement.
- 1.4 The Trustee Directors will review this document, in consultation with the investment consultant and scheme actuary at least triennially and immediately after any significant change in investment policy, or where the Trustee Directors consider a review is needed for other reasons. Before preparing this document the Trustee Directors have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee Directors will consider those requirements on any review of this document or any change in their investment policy. The Trustee Directors will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as reasonable.
- 1.5 When choosing investments, the Trustee Directors and the investment managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupation Pension Scheme (Investment) Regulations 2005 and the principles contained in this statement.

## Plan Details

- 1.6 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.7 The Plan is registered with HM Revenue and Customs.
- 1.8 Administration of the Plan has been delegated to WTW and is managed by the Trustee Directors, who are responsible for the investment of the Plan's assets.

## Financial Services and Markets Act 2000

- 1.9 In accordance with the Financial Services and Markets Act 2000, the Trustee Directors will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed Investment Manager or Managers, which may include an

insurance company or companies. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

## **Pensions Act 2004**

- 1.10 The Trustee considers the investment policy is consistent with complying with the scheme specific funding standard under the Pensions Act 2004.

## Section 2: Division of responsibilities

### 2.1 The Trustee Directors' responsibilities include:

- a. Reviewing periodically the content of this Statement of Investment Principles and modifying it if deemed appropriate, in consultation with the investment consultant and scheme actuary.
- b. Reviewing the investment policy and, in particular, the asset allocation strategy following the results of each actuarial review, in consultation with the investment consultant and scheme actuary.
- c. Appointing (and dismissing) the investment manager(s).
- d. Assessing the quality of the performance and processes of the investment manager(s) by means of regular reviews of the investment results and other information, in consultation with the investment consultant and scheme actuary.
- e. Consulting with the Company before amending this statement.
- f. Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

### Investment Managers

### 2.2 The investment managers' responsibilities include:

- a. At their discretion, but within any guidelines given by the Trustee Directors, implementing changes in the asset mix and selecting securities within each asset class.
- b. Informing the Trustee Directors of any material changes in the internal performance objective and guidelines of any pooled fund used by the Plan as and when they occur.
- c. Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
- d. Giving effect to the principles contained in the Statement as far as reasonably practicable.
- e. The safe keeping of the Plan assets.
- f. Provision of performance information.

## Investment Consultant

- 2.3 The investment consultant's responsibilities include:
- a. Participating with the Trustee Directors in reviews of this Statement of Investment Principles in consultation with the scheme actuary.
  - b. Undertaking project work as required including reviews of investment policy and investment managers.
  - c. Advising on the selection of new managers.

## Scheme Actuary

- 2.4 The scheme actuary's responsibilities include:
- a. Liaising with the investment consultant on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.
  - b. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

## General comments

- 2.5 The Trustee Directors recognise that their responsibilities require a high level of skill and expertise and they undertake training and seek advice from their professional advisers as required. The Trustee Directors have decided not to delegate any functions to an investment sub-committee.
- 2.6 The Trustee Directors agree with the principle of separate competition for actuarial and investment consulting contracts. However, they believe that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages and will continue with this arrangement until it ceases to be appropriate.
- 2.7 The Plan's advisors are paid either on a project basis or on a time-cost basis within agreed budgets. The Plan's investment managers are paid fees derived mainly from the value of the underlying asset values which are invested in pooled vehicles. This is in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.
- 2.8 The Trustee Directors review the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee Directors will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.



# Section 3: Objectives and long term policy

## Objectives

- a. The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Company, the cost of current and future benefits which the Plan provides.
- b. To control the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the scheme specific funding target.
- c. To minimise the long-term costs of the Plan by using passive investment managers to maximise the return on the Plan's assets whilst having regard to the above objectives.

## Policy

- 3.1 The Trustee Directors' policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. They recognise that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk for the Trustee Directors and an acceptable level of cost to the Company.
- 3.2 Following strong investment performance in 2022/23, the Trustee Directors and the Company agreed a move from equities to bonds to reach a 20% equity, 80% bond strategy as set out below:

Asset Class	Target Benchmark %*	Underlying Index
<b>Equities</b>		
UK	1.76	FTSE All-Share
North America Hedged	6.80	FTSE All World Developed USA UK 95% Hedged Index
Europe Hedged	5.83	FTSE All World Developed Europe 95% GBP Hedged Index
Japan Hedged	2.27	FTSE All World Japan Index 95% GBP Hedged Index
Pacific Basin Hedged	2.27	FTSE All World Developed Asia Pacific ex Japan 95% GBP Hedged Index
Emerging markets	1.07	MSCI Emerging Markets Index
Total equities	20.00	
<b>Bonds</b>		
UK long corporate bonds	26.67	iBoxx £ non-gilts, Over 15 years Index
UK fixed interest gilts	20.00	FTSE UK Gilts, 5 to 15 years Index
UK index-linked gilts	33.33	FTSE UK Gilts Index-linked All Stocks Index
Total bonds	80.00	

- 3.3 The Trustee Directors expect, over the long term, that the returns achieved by the equity assets will exceed those from bonds and cash. The Trustee Directors also recognise the greater volatility and investment risk associated with return seeking assets. However, they believe that the level of risk within their investment strategy is within the tolerance limits of both the Plan and the Company.

### Expected returns on assets

- 3.4 Returns achieved by the fund managers for the assets are assessed against performance benchmarks set by the Trustee Directors in consultation with their advisers and fund managers. The Trustee Directors take advice on the expected returns of the overall portfolio from time to time in conjunction with their considerations of their investment strategy and in relation to their investment objective.

# Section 4: Asset allocation guidelines

## Asset Ranges

- 4.1 The total equity and bond allocations should not deviate by more than +/- 1.5% of the benchmark ie the total equity allocation should remain close to 20% of the Plan's assets while the bond allocation should remain close to 80% of the Plan's assets.
- 4.2 Asset categories not included here may only be used following a revision of these restrictions which specifically permits their inclusion.
- 4.3 The Trustee Directors may not borrow money or otherwise leverage the Plan.

## Diversification

- 4.4 The choice of benchmark and the deviation range specified in 4.1 above are designed to ensure that the Plan's investments are adequately diversified.

## Suitability

- 4.5 The Trustee Directors have taken advice from both the scheme actuary and the investment consultant to ensure that the benchmark and the ranges specified above are suitable for the Plan given its liability profile.

## Liquidity

- 4.6 The Plan's administrators will monitor the Trustee Directors' bank account to ensure that there is a sufficient cash balance maintained to meet the likely benefit outgo from time to time. The Trustee Directors' policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy where possible.

## Property and alternative investments

- 4.7 The Trustee Directors, as part of their periodic review of the asset classes into which the Plan's assets are invested, consider and, where appropriate, specifically exclude asset classes which they believe are inappropriate to invest in for reasons of risk, lack of liquidity, adequate return and ease of control and administration.
- 4.8 At this time both private equity and property are excluded from the asset investment list for some or all of the above reasons.
- 4.9 In reaching this conclusion the Trustee Directors take specialist advice from various professional advisors including their investment fund managers, the fund's administrators, actuary and investment consultant. Indeed the matter of which asset classes are appropriate to invest in, including the merits of LDI, was discussed in detail following the 2019 valuation.
- 4.10 Each of the Trustee Directors receives updates on the investment performance of the fund from BlackRock, the fund manager, on at least a quarterly basis. The Trustee Directors also

discuss investment performance, and the appropriateness of asset classes in which to invest, at each of their meetings which are held two or three times a year.

# Section 5: Investment manager arrangements

## Manager Structure

- 5.1 A single investment manager, BlackRock Investment Management (UK) Limited (BlackRock), is employed to manage an index tracking multi-asset portfolio.
- 5.2 The investment manager is responsible for ensuring appropriate diversification of investments and the suitability of scheme investments.

## Performance Objectives

- 5.3 Whilst the Trustee Directors are not involved in the investment manager's day to day method of operation and therefore cannot directly influence attainment of the performance target, they will assess performance and review the appointment of BlackRock from time to time. A measurable objective has been developed for the fund manager consistent with the achievement of the Plan's longer term objectives:
- 5.4 BlackRock has been appointed with a passive mandate to track its benchmark. The benchmark return shall be determined on a quarterly basis according to the composite return of the indices underlying the asset allocation set out in Section 3.2.

## Manager Monitoring

- 5.5 The appointment of the investment managers will be reviewed by the Trustee Directors from time to time, based on the results of their monitoring of performance and process and of the manager's compliance with the requirement in the Pensions Act concerning diversification and suitability where relevant. BlackRock has been provided with a copy of this Statement and the Trustee Directors will monitor the extent to which BlackRock gives effect to the policies set out in it.
- 5.6 The Manager will inform the Trustee Directors immediately of any breach of this statement, any previous breach of internal operating procedures, or a material change in the knowledge and experience of those involved in managing the Plan's investments.
- 5.7 The Trustee Directors review the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. If such costs are viewed to be materially different from those expected, the Trustee Directors may seek to carry out further investigations assessing the appropriateness of the portfolio turnover costs at an individual manager or fund level, the Trustee Directors will have regard to assess the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Alignment with the Trustee Directors' policies

- 5.8 Alignment between a manager's management of the Plan's assets and the Trustee Directors' policies and objectives are a fundamental part of the appointment process of a new manager. Before investing, the Trustee Directors will seek to understand the manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustee Directors will ensure the investment objectives and guidelines of the vehicle are consistent with their own objectives. Where segregated mandates are used, the Trustee Directors will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement.
- 5.9 To maintain alignment, managers are provided with the most recent version of the Plan's Statement of Investment Principles on an annual basis and are required to explicitly confirm that the Plan's assets are managed in line with the Trustee Directors' policies as outlined in that statement.
- 5.10 Should the Trustee Directors' monitoring process reveal that a manager's portfolio is not aligned with their policies, the Trustee Directors will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee Directors that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.
- 5.11 For most of the Plan's investments, the Trustee Directors expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.
- 5.12 The Trustee Directors appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee Directors would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

# Section 6: Risk management

6.1 The Trustee Directors recognise a number of risks involved in the investment of the assets of the Plan:

- Solvency risk and mismatching risk:
  - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
  - are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk:
  - is measured by the expected deviation of the prospective risk and return, as set out in the manager(s)' objectives, relative to the investment policy
  - is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager(s)' investment process
- Currency risk:
  - is measured by the level of overseas investment and the transition effect of currencies leading to the risk of an adverse influence on investment values
  - is managed by reducing the translation risk of investing overseas by hedging overseas investments into sterling to the maximum practical level (95%) for those overseas currencies that can be hedged efficiently
- Liquidity risk:
  - is measured by the level of cashflow required by the Plan over a specified period
  - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy
- Administrator risk:
  - is measured by the level of cashflow required by the Plan over a specified period
  - is managed by regular reporting to the Trustee Directors and annual audits carried out on the administration process
- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy
- Sponsor risk:
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit

- is managed by assessing the interaction between the Plan and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor

6.2 The Trustee Directors continue to monitor these risks.



# Section 7: Socially responsible investing

## Environmental, Social, and Governance (ESG)

- 7.1 The Trustee Directors recognise that long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial, though the Trustee's fundamental mission is to meet its financial obligations, and therefore financial considerations must take precedence. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of its broader risk management framework.
- 7.2 To the extent possible, the Trustee will delegate the responsibility to take ESG principles into account to its investment manager, and will periodically review these policies with the assistance of its investment adviser and engage with its investment manager with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, as appropriate. The manager has produced statements setting out their policy in this regard. However, the Trustee recognises that it is likely that, as a result of the passive nature of the Plan's investments, there are likely to be only limited occasions when the manager would take account of such considerations in its selection and realisation of investments. The Trustee acknowledges that they act on behalf of the Plan's members in relation to ESG principles, and whilst they may not specifically ask for member views, they may re-visit this statement from time-to-time as deemed appropriate.

## Rights attaching to investments

- 7.3 The Trustee has delegated the exercise of voting rights to the investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Trustee will periodically review the written guidelines of their process and practice in this regard. The manager is encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies. The Trustee recognises that the exercising of these rights, while delegated, ultimately remains their responsibility, and they review the voting activity of the investment managers periodically, including in the preparation of annual implementation statements.