

# Statement of Investment Principles

This is the Statement of Investment Principles (the “Statement”) made by the Trustees of The Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme (“the Scheme”) accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustees on 17 May 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy

In preparing this Statement, the Trustee has consulted with the employer to the Scheme (“The Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme”) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Trustees are aware of the Myners Code of Conduct for Investment Decision Making and has reviewed its responsibilities and activities in the context of the Code.

The Trustees are supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the code and to produce a statement of their commitment to the code.

## Scheme objective

To guide it in the strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has adopted the following objectives:

### Defined Benefit Section

- To achieve a reasonable risk-adjusted return against the appropriate benchmarks.
- To ensure that the assets will be sufficient to meet the Scheme’s Statutory Funding Objective, in conjunction with any deficit recovery contributions from the Company where agreed.
- To target full funding on a long term basis, at which point the Scheme would be able to invest in secure assets that are expected to match members’ projected benefit payments.

### Defined Contribution Section

- To maximise the value of members’ retirement benefits, within an acceptable level of risk.
- To provide members with a degree of choice and flexibility to meet their risk and return requirements.
- To avoid over complexity in investment for ease of transparency and in order to keep administration costs to a reasonable level.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on the basis agreed by the Trustee and the Scheme Actuary. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

## Investment strategy

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Scheme. The strategic benchmark is consistent with the Trustee’s view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests.

The investment strategy takes account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustees view of the covenant of the principal employer.

The Trustees monitor strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. Written advice is received as required from professional advisers.

The Trustees monitor the performance of Scheme investments relative to agreed criteria on a regular basis.

The Trustees have delegated all day to day investment decisions to authorised investment managers.

### Choosing investments

The Trustee has appointed Legal & General Investment Management (“LGIM”) to manage Scheme investments. LGIM are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustees, after taking appropriate advice, have given the investment manager specific guidelines including, but not limited to, asset allocation and geographic spread, on how investment mandates are to be managed. The investment manager is allowed some flexibility of choice subject to its benchmarks and other guidelines and is expected to maintain a diversified portfolio.

The Trustees have also decided to invest in a number of individual pooled funds. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

### Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds.

The Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

### Investment Strategy

The investment manager is instructed to deliver a specific performance target, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme. The trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

### Investment Management Remuneration

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all its managers against industry standards.

### Investment Time Horizon

The Trustees recognise the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

### Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of stocks.

The manager of the passive funds in which the Scheme invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

### Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

#### Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustees measure and manage financial mismatch in two ways. As indicated above, the Trustees have set a strategic asset allocation benchmark for the Scheme. The Trustees assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustees also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustees may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustees seek to mitigate systemic risks through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Scheme’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (“ESG”) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees manage asset risks as follows. The Trustees provide a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of pooled funds each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

By investing across a range of assets, including quoted equities, bonds (and possibly in the future bulk annuity policies), the Trustees recognise the need to access funds in the short term to pay benefits. The risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio.

The decision to appoint only one investment manager does involve some degree of risk (from potential underperformance of that manager) which the Trustee accepts as a reasonable compromise given the size of the portfolio.

The Trustee’s approach to the consideration of ESG risks and climate risk is set out in further detail below.

### Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of Scheme assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment manager as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

### Expected return on investments

The investment strategy aims to achieve a return on Scheme assets, which taken in conjunction with, contributions is sufficient over time to match growth in the Scheme’s pension liabilities.

### Realisation of investments

The majority of the Scheme’s investments may be realised quickly if required.

### Manager engagement

#### Performance Evaluation

The Trustees review the nature of Scheme investments on a regular basis, with reference to suitability and diversification. The Trustees seek and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability.

The Trustees monitor its managers performance against their respective benchmark on a quarterly basis over a long-term time horizon. The manager is expected to provide explanation for any significant deviations away from benchmark.

#### Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustee will request turnover costs incurred by the asset manager over the Scheme reporting year.

### Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process.

### Strategic considerations

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark.

### Structural considerations

Given the discretion afforded to the Investment Manager, the Trustee expects that the Investment Manager will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

### Selecting investment managers

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees will review the index benchmarks employed for the Scheme on at least a triennial basis.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustees explicitly considers potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

The Trustees meet with the Scheme's investment manager regularly, and the manager is expected to address manager performance and company engagement. The manager will be challenged on their approach where this is not aligned to the Trustees' policies.

The Trustees expect its investment consultants to provide input and analysis to assist the Trustees in assessing their manager's performance. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the manager as part of its engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustees will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reduced or terminated.

### **Consideration of non-financially material factors in investment arrangements**

Given the objectives of the Scheme, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy. The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

### **Stewardship**

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

### **Voting and engagement**

The Trustee has adopted a policy of delegating voting decisions to their Investment Manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Investment Manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policies and taking account of current best practice including the UK Stewardship Code.

On an annual basis, the Trustees will request their Investment Manager provides details of any change in their policies.

The Trustees annually reviews the investment manager's adherence to the UK Stewardship Code, UNPRI and other relevant industry codes or standards where applicable. In the event that a manager does not adhere to a recognised set of principles for responsible investment, the Trustees should take reasonable steps to ensure that they are comfortable with the policy that the manager has in place in respect of this.

The Trustees do not engage directly but believe it is appropriate for their investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, the investment manager is expected to notify the Trustees of any issue on which it may be beneficial for the trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity

The trustees separately consider any conflicts of interest arising in the management of the Scheme and their investments and has ensured that investment manager has an appropriate conflicts of interest policy in place.

### **Monitoring**

The Trustees review manager voting activity on an annual basis in conjunction with their investment adviser. Where the Trustees deem it appropriate, any issues of concern will be raised with their manager for further explanation.

**Additional Voluntary Contributions (AVCs)**

The Trustee gives members the opportunity to pay AVCs to AEGON Scottish Equitable. A range of funds is available for investment at members' discretion.

Signed and dated:

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Sheila Cork

Trustee

Name

27-Jun-2023 | 11:15 BST

Date

Signed For and on Behalf of The Trustees of the Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme

# Appendix 1: Asset Allocation Benchmark

Asset Class	Benchmark Allocation
<b>Growth Assets</b>	<b>5.0%</b>
Developed Equities	5.0%
<b>Matching Assets</b>	<b>95.0%</b>
Gilts	65.0%
Index-Linked Gilts	30.0%



## Appendix 2: Version Control

Version	Commentary	Date
1.0	Original statement (Hymans format) incorporating Scheme ESG & RI commitments	June 2019
2.0	Statement updated for October 2020 regulatory requirements	June 2020
3.0	Asset allocation benchmark updated to reflect the Scheme's de-risking in December 2021 and equity fund consolidation in March 2022. The wording on the first Trustee objective (DB) has also been tweaked to reflect a 'favourable return' on passive index funds being misleading.	June 2022
4.0	Asset allocation benchmark updated to reflect the Scheme's equity de-risking in March 2023.	May 2023