MEC UK Pension Scheme

Statement of Investment Principles

Investment Objective

The Trustees invest the assets of the Plan with the aim of ensuring that all members' accrued benefits can be paid. The Plan's funding target is specified in the Statement of Funding Principles, and the Plan's funding position will be reviewed annually to assess the position relative to the funding target and whether the investment policy remains appropriate to the Plan's circumstances.

The Plan's present investment objective is to achieve a return of 2.0% per annum above the return on the, typically rolling five year periods.

Investment strategy

A. General Approach

The Plan has the aim of following a long-term growth strategy, in order to generate adequate returns over the medium to long term. It aims to achieve that by a broadly diversified portfolio that is actively managed and seizes long term investment opportunities without taking excessive risks.

Assets can in general be managed either with a focus on the structure of the liabilities of the asset owner, or with a focus on the absolute risk inherent in those assets. The former can be called a matching strategy which has the aim of minimising shortfall-risk versus the obligations, whereas the second one focusses on the absolute risk of losing money. From a liabilities perspective the first strategy is not able to do anything wrong, but not able to do anything right either. A strategy of reducing an existing pension deficit necessarily needs to invest in a structure that is different from the interest-rate driven liabilities. Therefore it is preferable at the current stage to favour a strategy along the lines of the second alternative, i.e. a strategy focussing on absolute risk and opportunity.

The Trustees recognise that in the current unprecedented ultra-low interest-rate environment, an investment strategy focussed on bond yields can only offer a very small return and can potentially incur significant losses in a scenario of rising interest rates. It is therefore preferable at the current stage to invest into a diversified portfolio of "risk assets" (primarily equities),
being convinced that in the long run such a portfolio should deliver returns in excess of fixed income returns, and manage the short-term risk actively. This has been the Plan's objective since inception in 2008 and continues to be the case.

The reason why it is expected that equities should yield a superior return compared to fixed income is that they consist of a real asset which is backed by the assets of the companies whose equities are bought. Besides yielding a dividend that currently is as high or higher as the interest rates available, equities can also appreciate in value over time as the management of those companies adds value.

The Plan thus seeks to benefit from the superior growth properties of equities. It is pursuing a long term growth strategy. This may include staying largely out of risk markets when they seem overheated, as well as increasing exposure at depressed levels, when there is a good entry opportunity. It may also include periods of lower return when the Plan stays disinvested, as the focus is on the medium to long-term returns. Thus, the Plan pursues a predominantly anti-cyclical investment strategy.

The Trustees recognise that the investment strategy is subject to risk. This risk is actively managed by the asset manager, with the objective to balance risk against return expectations for equity markets. The asset manager will use all available instruments, including derivatives, that are deemed useful to improve the risk profile and increase returns for the Plan.

B. Operational guidelines

To further specify this, the Trustees have suggested the following guidelines as a recommendation only:

1. Equities

Equity exposure can be up to 100%, but should - under normal circumstances - be not lower than 40%.

2. Regional Exposure

A broad diversification across regions is favoured in order to take advantage of opportunities and diversify risk. Within equities, the regional exposure should, as a recommendation, be in the following ranges:
Min.  Max.
Europe  20%  60%
North America  20%  50%
Rest of World  0%  20%

"Rest of world" is defined as Australia, Japan and so-called Emerging Markets.

3. Other assets

To improve diversification and add opportunities, other assets in addition to equities can be included up to 20% of the portfolio. These can include (but are not limited to) fixed and variable rate bonds, inflation-linked bonds, money market instruments, commodities, and funds that invest in those type of assets.

4. Currencies

The currency exposure of the Plan regarding major currencies should be in the following ranges:

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<th>Min.</th>
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<tbody>
<tr>
<td>GBP</td>
<td>20%</td>
<td>50%</td>
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<tr>
<td>EUR</td>
<td>20%</td>
<td>50%</td>
</tr>
<tr>
<td>USD</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>15%</td>
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</tbody>
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(e.g. Swiss Franc)

5. Hedge transactions

In order to manage risk and avoid larger losses as far as possible, but also in order to increase returns, the asset manager might chose to do hedge transactions to alter the portfolio's risk profile favourably. The hedge transactions would be designed in a way to keep the portfolio's exposure in the above-mentioned ranges. It should be noted that this refers to economic exposure, not to formal exposure (i.e. a US equity fund has a US-dollar exposure, even if the fund is listed in GBP or EUR, unless the funds' stated policy includes a currency hedge).
In order to achieve this, the manager will use derivative instruments that can (partially) protect from a loss in the underlying assets. While these may be risky in isolation, they have a risk-mitigating effect when seen in conjunction with their respective underlying.

Under exceptional circumstances a full hedge of the equity portfolio is permitted. The asset manager can implement this without prior consultation if he considers it necessary, however, in such a case the Trustees should be informed immediately (i.e. if the hedge exceeds 60% of the assets) about the measures that were taken, with the aim to consult as soon as practically possible with the Trustees in order to discuss the events that led to these measures, possible further developments and the strategy of the Plan going forward.

Investment mandate

The Trustees have appointed ODDO BHF Asset Management GmbH ("ODDO BHF Asset Management") to manage the assets of the Plan. ODDO BHF Asset Management is a financial investment management company, authorized and regulated by the German financial supervisory authority Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin").

ODDO BHF Asset Management’s performance objective is to outperform the return on their benchmark. The portfolio has an expected absolute volatility of return of 15% p.a.

All decisions about the day-to-day management of the assets have been delegated to ODDO BHF Asset Management via a written agreement. This delegation includes decisions about the realisation of investments.

The Trustees have no policy on:
- Social, environmental and ethical considerations in the selection, retention and realisation of investments;
- The exercise of rights (including voting rights) attaching to the investments.

The Trustees have not taken asset managers' policies in the above respects into account when selecting and monitoring asset managers. The asset manager is expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The asset manager's remuneration is based upon a percentage value of the
assets under management plus a performance related fee. The fees have been negotiated to be competitive.

The Plan's custodian of the holdings has been arranged by ODDO BHF Asset Management. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends.

**Employer-related investments**

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Plans (Investment) Regulations 2005 except where the Plan invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Plan's value.

**Direct investments**

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an asset manager through a written contract. These include the pooled vehicles available for members' AVC contributions through arrangements with Equitable Life Assurance Society. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

**Governance**

The Trustees of the Plan make all major strategic decisions including, but not limited to the Plan's asset allocation and the appointment and termination of asset managers. ODDO BHF Asset Management have been instructed by the Trustees to make asset allocation decisions on behalf of the Plan.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees investment advisers, ODDO BHF Asset Management, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience required under the Pensions Act 1995.

**Compliance**

This Statement has been prepared in compliance with the Pensions Act

Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring employer and took appropriate written advice.

The Statement is reviewed at least every three years, and without delay after any significant change in investment policy.

Signed: [Signature]
On behalf of the MEC UK Pension Scheme

Date: 2/10/18