YKK (UK) LIMITED RETIREMENT AND DEATH BENEFITS SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

OCTOBER 2020

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1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by the Trustees of the YKK (UK) Limited Retirement and Death Benefits Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles. In preparing the Statement, the Trustees have:

- obtained and considered advice from a suitably qualified individual, employed by Mercer Limited ("Mercer") (formerly known as JLT Employee Benefits), whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees' investment policy for the Scheme.

The Trustees will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

3 INVESTMENT RESPONSIBILITIES

3.1 TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the investment manager and from time to time an investment adviser
- The assessment and review of the performance of the investment manager
- The setting and review of the investment parameters within which the investment manager can operate
- The assessment of the risks assumed by the Scheme at total scheme level and by investment mandate
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have not appointed an investment adviser to the Scheme. Investment advice is requested by the Trustees when considered appropriate and on an ad hoc basis.

Matters on which the Trustees may seek advice include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Selecting and replacing investment managers
- Setting cashflow management (investment and withdrawal) policies (see Appendix 2)

The Trustees may seek advice from an investment adviser with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflows (see Appendix 2).

The Trustees are aware of the remuneration structures available, and will satisfy themselves as to the most appropriate remuneration structure for any work that is requested.

The Trustees will ensure that any investment advisers who they request work from will be authorised and regulated by the appropriate regulatory body.

3.3 ARRANGEMENT WITH INVESTMENT MANAGERS

The Trustees are long-term investors and do not look to change the investment arrangements on a frequent basis.

The Trustees have appointed Legal and General Investment Management ("LGIM") to manage the assets of the Scheme. The details of the mandates with LGIM are set out in Appendix 3.

LGIM is authorised by the Prudential Regulation Authority ("PRA") and regulated by both the PRA and FCA.

LGIM was appointed by the Trustees after taking appropriate investment advice. The appointment is based on LGIM's capabilities and therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustees mainly invest in passive pooled investment vehicles which aim to track the performance of the relevant index, with minimal deviation. They therefore accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate pooled investment vehicles can be selected to align with the overall investment strategy.

The Trustees do not select investment managers / funds with a view to holding these for a pre-specified time period. Instead, these are selected with a view to how these fit with and assist the Trustees in meeting their long-term strategic objectives. LGIM or an investment mandate will only be replaced if:

- The strategic objectives of the Scheme change such that the offering provided by LGIM / fund is no longer appropriate in context of the Trustees achieving their long-term strategic objective;
- The objective(s) of LGIM / fund changes such that is no longer fitting with the long-term strategic objectives of the Trustees.

LGIM is responsible for the decisions concerning the selection and de-selection of the individual securities within the portfolios they manage. In the case of multi-asset mandates, LGIM is responsible for the decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

If the investment objective for any of the funds change, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

LGIM is remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Performance based fees are typically not applicable to passively managed funds. Accordingly, LGIM doesn't have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

As the Trustees are long term investors, this encourages LGIM to take a medium to long-term view, which in turn encourages the investment manager to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Scheme is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are satisfied that this the most appropriate basis for remunerating the investment manager and is consistent with the Trustees' policies as set out in this Statement.

3.4 SCHEME ACTUARY'S DUTIES AND RESPONSIBILITIES

The Scheme Actuary's responsibilities include the following:

- Liaising with an investment adviser regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels.

3.5 ADMINISTRATOR'S DUTIES AND RESPONSIBILITIES

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments

- Investing contributions not required to meet benefit payments with the Investment Managers according to the Trustees' instructions.

4 INVESTMENT STRATEGY

4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees have also received advice from a suitably qualified individual, employed by Mercer (formerly known as JLT Employee Benefits).

The YKK Corporation (Japan) have provided a full buyout guarantee for the Scheme. The basis of the Trustees' strategy is to divide the Scheme's assets between a "growth" portfolio, comprising assets such as diversified growth funds, equities and property and a "stabilising" portfolio, comprising corporate bonds. The Trustees recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. The basis of the split between these two portfolios is that growth assets are held in respect of the liabilities pertaining to deferred members and stabilising assets are held in respect of pensioner liabilities. The growth-stabilising allocation is also set with regard to the overall investment return objective of the Scheme's assets, which is determined by the funding objective and current funding level.

The Trustees regard the basic distribution of the assets to be appropriate for the Scheme's objectives and liability profile. They have established a benchmark allocation to each asset class within each strategic asset allocation, which is set out in Appendix 1.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustees have decided on a structured approach to rebalance the assets in accordance with their overall strategy. This approach is set out in Appendix 2.

4.2 INVESTMENT DECISIONS

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

These decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked
- UK and overseas corporate bonds
- Equity-linked gilts
- Convertible bonds
- Property
- Commodities
- Hedge Funds
- Private equity
- High yield bonds
- Emerging market debt
- Diversified growth
- Liability driven investment products
- Cash

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds. Details relating to the pooled funds can be found in Appendix 3.

4.4 FINANCIALLY MATERIAL CONSIDERATIONS

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in the members' and the Scheme's best interests that these factors are taken into account within the investment process.

As noted earlier, the Scheme's assets are mainly invested in passive pooled funds. The Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which their manager invests.

However, the Trustees recognise that the investment manager can engage with the underlying companies and stakeholders to enable better outcomes for the Scheme. The Trustees will therefore rely on LGIM's policies and judgements.

4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations, such as ethical views, are not implemented in the current investment strategy.

4.6 CORPORATE GOVERNANCE AND VOTING POLICY

The Trustees have concluded that the decision on how to exercise voting rights should be left with LGIM, who will exercise these rights in accordance with their respective published corporate governance policies. The Trustees note that the LGIM's corporate governance policies are available on request and on their website. These policies take into account the financial interests of shareholders and should be for the Scheme's benefit.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.

4.7 STEWARDSHIP

The Trustees will monitor the investment performance, strategy, risks, ESG policies and corporate governance of the investment managers. If the Trustees have any concerns, they will raise them with an investment adviser, verbally or in writing.

5 RISK

The Trustees are aware, and seek to take account of a number of risks in relation to the Scheme's investments, including the following:

Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Scheme-specific strategic asset allocation with an appropriate level of risk.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

Liquidity Risk

- This is monitored according to the level of cashflows required by the Scheme over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

ESG

Environmental

- This is the risk that improper, or inadequate, consideration of environmental factors could lead to adverse investment performance and / or reputational damage to the Scheme.
- The day to day management of environmental risk is the responsibility of the companies in which the Scheme's underlying managers have invested. It is the responsibility of the investment manager to engage with the underlying companies on these matters.

Social

- This is the risk that social factors are not properly considered within the investment decision making process. Social risks can arise both within and external to a company, e.g. internal factors could include workplace health & safety whilst external factors may include a company's impact on the area surrounding their place of business.
- The day to day management of social risk is also the responsibility of the companies in which the Scheme's underlying managers invest. It is the responsibility of the investment manager to engage with the underlying companies on these matters.

Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are available on request and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is managed by assessing the interaction between the Scheme 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 the sponsor. Regular updates on employer covenant are provided to the Trustees.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustees acknowledge that the assessment of credit risk on individual debt instruments is delegated to the investment manager. The Trustees will however ensure that they are comfortable with the amount of risk that the Scheme's investment manager takes.

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the Scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Trustees acknowledge that currency risk related to overseas investments is delegated to, and hedged where deemed appropriate, by the underlying investment managers.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustees acknowledge that the interest rate risk related to individual debt instruments is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management.
- The Trustees recognise that the Scheme's liabilities are exposed to a significant level of interest rate risk and for this reason it is desirable for the Scheme's assets to be exposed to a similar level of interest rate risk.

Inflation risk

- This is the risk that an investment's value will change due to a change in the level of expected inflation. This affects debt instruments more directly than growth instruments.

- The Trustees acknowledge that the inflation risk related to individual debt instruments is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management.
- The Trustees recognise that the Scheme's liabilities are exposed to a significant level of inflation risk and for this reason it is desirable for the Scheme's assets to be exposed to a similar level of inflation risk.

Other Price risk

- This is the risk that principally arises in relation to the return seeking portfolio.
- The Trustees acknowledge that the Scheme can manage its exposure to price risk by investing in a diverse portfolio across various markets.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

In line with the Competition and Markets Authority (CMA) requirements, the Trustees will set an investment adviser strategic objectives before seeking any work covered under the CMA Order. The Trustees will assess and review the performance of the adviser based on these objectives.

6.2 INVESTMENT MANAGERS

The Trustees receive regular valuations and quarterly monitoring reports on the performance of the underlying funds from LGIM.

The Trustees have the role of replacing the underlying investment managers where appropriate. They take a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy such that the Scheme no longer requires exposure to that asset class or manager.

6.3 PORTFOLIO TURNOVER COSTS

Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments. The Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that these costs are reduced due to the passive nature of majority of the funds. The Trustees monitor the overall fund costs for the pooled funds that the Scheme invests in.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range. The Trustees will work with an investment adviser to determine the most appropriate way to obtain and monitor the information required in relation to the pooled funds in which the Scheme is invested.

Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustees do not have an overall portfolio turnover target for the Scheme.

7 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Trustees hold assets which are separately invested from the main fund with Prudential Assurance Company Limited to secure additional benefits on a money purchase basis for those members who have elected to pay Additional Voluntary Contributions.

Members participating in this arrangement receive an annual statement made up to 5 April each year, confirming the amounts held to their account and movements during the year.

8 CODE OF BEST PRACTICE

The Trustees note that in March 2017, the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustees are satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme’s circumstances.

9 COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's investment managers, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others.

APPENDIX 1: ASSET ALLOCATION BENCHMARK

The Scheme's strategic asset allocation benchmark is set out below.

Asset Class	Strategic Allocation
Growth Assets	
Global Developed Equities	20.0%
Emerging Market Equity	20.0%
Diversified Growth	20.0%
UK Property	10.0%
Stabilising Assets	
Corporate Bonds	30.0%
Total	**100.0%**

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

Where possible, cash outflows will be met from cash balances held by the Scheme and from income from the Scheme's investments in order to minimise transaction costs.

Investments or disinvestments should be applied in such a way as to bring the actual asset allocation back towards the Scheme's central benchmark asset allocation, as set out in Appendix 1.

The Trustees will review the cashflow policy from time to time to ensure that it remains appropriate taking into account changes in the Scheme's cashflow requirements.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

APPENDIX 3: INVESTMENT MANAGER INFORMATION

The Scheme invests in a combination of pooled funds with Legal & General Investment Management (“LGIM”). The tables below show the details of the various mandates.

GROWTH ASSETS

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
Equities				
LGIM World Equity Index Fund	FTSE World Index	To track the benchmark to within +/- 0.5% p.a. for two years out of three	Weekly	(b) / 2
LGIM World Emerging Markets Equity Index Fund	FTSE Emerging Index	To track the benchmark to within +/- 1.5% p.a. for two years out of three	Weekly	(b) / 2
Diversified Growth				
LGIM Diversified Fund	The Fund does not track and index or have an outperformance target. The FTSE Developed World Index – 50% GBP hedged is used as a comparator	To provide long-term investment growth through exposure to a diversified range of asset classes	Weekly	(b) / 2
Property				
LGIM Managed Property Fund	AREF/IPD UK Quarterly All Balanced Property Fund Index (UK PFI)	To outperform the benchmark over three and five year periods.	Monthly	(c) / 3

STABILISING ASSETS

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
Corporate Bonds				
LGIM Investment Grade Corporate Bond Fund – Over 15 Year Index Fund	Markit iBoxx £ Non-Gilts (ex-BBB) Over 15 Years Index	To track the benchmark to within +/-0.5% p.a. for two years out of three.	Weekly	(b) / 2