

**Toyota (GB) Retirement Benefits Plan (1979) – DB Section
Statement of Investment Principles**

January 2025

1. INTRODUCTION

- 1.1. The Trustees (“the Trustees”) of the Toyota (GB) plc Retirement Benefits Plan 1979 (“the Plan”) has prepared this Statement of Investment Principles (“SIP”) to govern the investment decisions of the Plan in order to meet its investment objective.
- 1.2. In preparing the SIP the Trustees have obtained and considered appropriate written advice from BlackRock (the “**Manager**”), and the Trustees will obtain and consider such advice before revising the SIP in the future.
- 1.3. In preparing the SIP the Trustees have consulted Toyota (GB) PLC, the Plan’s employer, and the Trustee will consult the employer before revising the SIP in the future.
- 1.4. It is the Trustees’ policy to review the SIP every three years and without delay after any significant change in investment policy. As a minimum, the Trustees will review the SIP every three years. The Trustees will notify the Manager of any material changes to the Plan’s circumstances. Furthermore, any material changes to the employer covenant or Plan will trigger a strategy review, at which point the Trustees will notify the Manager.
- 1.5. The SIP has been prepared in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005.
- 1.6. The SIP will be made available on a publicly accessible website.

2. PLAN DETAILS

- 2.1. The Plan operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 2.2. It is a defined benefit pension scheme which is closed to future accruals and to new members.
- 2.3. The Plan provides a facility for members to pay AVCs to enhance their benefits at retirement. The Trustees objective is to provide a range of funds which will enable members to achieve suitable long term returns consistent with their reasonable expectations.

It is the view of the Trustees that the AVC facilities available to members should include access to the following types of investment strategy.

- An asset mix which allows members to obtain access to real returns which will offset the adverse effects of inflation. This is achieved through a high exposure to equities, and is particularly appropriate for young members, whose long-term perspective allows for acceptance of volatility in relation to investment returns (e.g., changes in market values, or variations in rates of bonus declarations) over the period of investment.
- A suitably diversified asset mix to protect members from poor investment returns from any one particular asset category.
- A fund with capital guarantees, to enable members to protect their AVCs from downside volatility, for example in the years immediately prior to expected retirement.
- A fund whose value is expected to vary with the price of annuities, for members who wish to protect the annuity purchasing power of their AVCs prior to retirement.

The Trustees are of the opinion that the type and range of facilities described above are suitable to provide for the requirements of Plan members in any of the circumstances likely to arise.

DB members are given the choice of purchasing benefits on a money purchase basis with Legal and General Assurance Pension Management (“L&G”). However, there are also three external AVC providers within the Plan, namely, AVIVA , Friends Life and Royal London.

3. GOVERNANCE

- 3.1. The Trustees are responsible for setting the general investment policy and ensuring that it is consistent with the Plan’s funding objectives and its assessment of the employer covenant.
- 3.2. The Trustees have appointed the Manager to manage the Plan’s assets in line with the Investment Management Agreement between the Trustees and the Manager (the “**IMA**”).

- 3.3. The Trustees delegate the day-to-day investment decisions and management of the Plan to the Manager. In particular, the selection of particular investments is left to the Manager.
- 3.4. The Manager will be responsible for having regard to the need for diversification of investments so far as appropriate and to the suitability of investments, and for giving effect to the principles contained in the SIP as far as reasonably practicable.
- 3.5. The Manager will also be responsible for participating with the Trustees in reviews of this SIP in consultation with the Plan's employer.

4. OBJECTIVES

- 4.1. The objective of the Plan is to invest the assets prudently with the intention that the benefits promised to members are provided.

5. INVESTMENT STRATEGY

- 5.1. The Trustees have agreed its investment strategy and investment objective with the Manager whereby, within certain permitted ranges, the Manager determines an appropriate asset allocation which seeks to achieve such investment objective. In doing so, the Manager takes into account the restrictions contained within the IMA, which outlines the parameters the Manager must operate within. The IMA is subject to change over time as the strategy evolves.
- 5.2. The Trustees seek to achieve the Plan's investment objective through investing in a diversified mix of assets that balances investment return against volatility, and to balance the investments held against the current and future needs of the Plan.
- 5.3. Further details of the investment strategy are set out in Appendix 1 to the SIP.

6. RISK MANAGEMENT

- 6.1. The Trustees recognise that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities ("**funding risk**"). The Trustees have identified a number of risks which have the potential to cause a deterioration in the Plan's funding level and therefore contribute to funding risk. This section details the Trustees' policy in relation to risks including the way in which risks are measured and managed. The risks and controls are as follows:
 - The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("**mismatching risk**"). The Trustees and its advisers considered this mismatching risk when setting the investment strategy.
 - The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ("**cash flow risk**"). The asset allocation has taken into account the information provided from the Plan's Actuary with regard to key characteristics of the Plan's liabilities, taking into account liability management exercises. This should offer sufficient liquidity to meet liquidity needs. Should liquidity requirements change then the Trustees will notify the Manager and update the IMA accordingly.
 - The failure by the Manager to achieve the rate of return required to meet the investment objective ("**manager risk**"). This risk is considered by the Trustees upon the initial appointment of the Manager and on an ongoing basis thereafter (for example by regular monitoring).
 - The failure to spread investment risk ("**risk of lack of diversification**"). The Plan's assets are invested across a range of investments representing different assets classes in order to target the Plan's objective, as set out in the IMA.
 - The possibility of failure of the Plan's sponsoring employer ("**covenant risk**"). The Trustees considered this risk by taking external advice when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
 - The risk that exposure to overseas currencies has an adverse influence on investment values ("**currency risk**"). The Trustees considered this risk when setting the Plan's investment strategy and this is managed risk by hedging a proportion of the overseas currency exposure.
 - The risk that environmental, social and governance factors have an adverse effect on the long-term performance of the Plan assets ("**ESG Risks**"). The Trustees will ensure that the Fiduciary Manager explicitly incorporates ESG information into investment decisions when considering the appointment and de-selection of investment managers.
 - The risk that a custodian defaults ("**custodian risk**"). The Growth Strategy assets are managed primarily within pooled funds and custody-related risks in relation to underlying pooled fund investments are managed by management companies or

operators of such pooled funds. Outside of the pooled fund investments, the Trustees have appointed a Plan custodian (BNY Mellon) to manage cashflows and settle trades on time.

- The risk that events outside the control of the Plan have an adverse influence on investment values (“**event risk**”). The Trustees periodically reviews stress tests on the portfolio to understand the effect that extreme events could have on the Plan’s funding level so that they are able to plan accordingly. In addition, the Plan invests in a diversified portfolio of assets to help manage volatility.
- The risk that a counterparty fails to fulfil its side of the agreement it makes in connection with derivative transactions (“**counterparty risk**”). The Trustees have appointed the Manager to mitigate this risk by assessing the credit quality of the counterparties it transacts with, ensures appropriate counterparty diversification and that collateral payments are made where required.
- The risk of fraud, poor advice or acts of negligence (“**operational risk**”). The Trustees have sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

6.2. The Trustees consider risk holistically across the Plan’s portfolio and hence the Plan’s assets are invested across a diverse range of investments. The permissible investments are specified in the IMA. Asset classes and instruments that may be used as part of the investment strategy include, but are not limited to, the following:

- Equities – both active and passive strategies invested across different regions;
- Credit – both active and passive across the spectrum of risk including Investment Grade, High Yield, Emerging Market;
- Alternatives – these are often less liquid than other risky assets where an illiquidity premium is rewarded. These are designed to offer a diverse return stream to traditional risky assets such as equity. The Manager will seek approval from the Trustees prior to investing in this asset class;
- Liability Driven Investments (LDI) – uses derivatives and conventional and index-linked gilts; and
- Derivatives – the Manager may transact derivatives as permitted by the IMA, which includes swaps and repurchase agreements instruments.

6.3. The Trustees, with the aid of the Manager, monitor risk on both a qualitative and quantitative basis.

6.4. Implementing portfolio investments has been delegated to the Manager under the IMA.

7. RESPONSIBLE INVESTING

7.1. The Trustees recognise that ESG risks could impact the ability of the Plan to meet its investment objectives and therefore the Trustees have considered how to evaluate and manage these risks when setting its investment strategy as set out in the following paragraphs (along with other matters). This section details the Trustees’ policy in relation to responsible investing of the Plan.

7.2. The Trustees policy is to ensure that the Plan’s Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes,

7.3. The Trustees will request that:

- the Manager, as part of its due diligence, assesses the approach of all the Plan’s investment managers in integrating ESG risks considerations into the selection, retention and realisation of investments;
- the Manager, as part of its ongoing monitoring, will review the adherence of the Plan’s investment managers to their ESG principles and, on at least a quarterly basis, will report on key ESG metrics for the Plan’s investment managers and aggregate these to portfolio level where appropriate;
- the Manager, as part of its ongoing monitoring, reviews the execution of voting and engagement responsibilities and periodically reports back its findings to the Trustees (for example where the Plan invests in pooled funds, the Plan’s investment managers are responsible for exercising voting rights and reporting on how they have exercised those rights); and
- where UK-domiciled investment managers are not signatories to the FRC’s UK Stewardship Code, the Manager shall consider the investment manager’s rationale for this position and, where appropriate, report back its findings to the Trustees.

7.4. The Trustees does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life.

8. STEWARDSHIP

8.1 The Trustees understand that stewardship can enhance value over the long term and recognises that it has a responsibility to act as a good steward and protect and grow the long-term value of the Plan for the benefit of the Plan's members. This section details the Trustees' policy in relation to the stewardship of the Plan.

8.2 The Trustees recognise the importance of good stewardship and it expects that the Manager signs the UN PRI. The Manager has confirmed that it is a signatory of the UN PRI.

8.3 In order to be a good steward, it is the Trustees' policy to adopt the underlying or external manager's voting policies and to appropriately monitor the voting and engagement activities of these managers. This means that the Trustees have elected for the underlying or external managers to exercise votes in line with the underlying or external managers' own stewardship policies. The managers are expected to have strong stewardship policies and therefore the Trustees expect the Plan's respective stakeholders undertake activities in relation to issues that have a material impact on the long-term value of the Plan's investments.

8.4 The Trustees expect the Manager to ensure that the stewardship policy is appropriately implemented as far as is reasonably practicable, though the Trustees retain ultimate responsibility for the way in which each appointed manager acts as a steward of the Plan's assets. This includes ensuring to the extent possible that the underlying or external managers exercise on the Trustees' behalf rights and duties as an investor. This should include, where appropriate, voting and engaging with underlying investee companies, as part of an effective stewardship approach that meets the Trustees' expectations. The Trustees expect that voting and engagement activities are carried out in the best financial interests of the assets being managed.

8.5 The Trustees have delegated monitoring of underlying or external managers to the Manager. As part of this responsibility, the Manager is expected to:

- Request voting and/or stewardship policies of the underlying or external managers.
- Enquire about underlying manager's voting activity with respect to their stated policies, where appropriate.
- Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.
- Provide a summary to the Trustees of the overall level of voting activity on an annual basis.

8.6 The Trustees will engage with the Manager to understand any reports which have been provided and challenge any outcomes which it feels are not in keeping with policy. The Manager is expected to engage with the underlying or external managers as and when required to facilitate this. Where an underlying or external manager is not adhering to this policy in line with the Trustees' expectations, the Trustees would expect the Manager to consider appropriate actions having regard to the long-term financial wellness of the Plan.

9. ARRANGEMENTS WITH MANAGERS

9.1 The Trustees recognise that the arrangements with all of the managers of the Plan are important to ensure that its interests are aligned as far as is reasonably practicable. This includes arrangements with the Manager and the underlying or external managers. In particular, the Trustees seek to ensure that the Manager is incentivised to act in a way which generates the best long-term results for the Plan. This section details the Trustees' policy in relation to the arrangements with asset managers of the Plan.

9.2 The Trustees agree to share the SIP with the Manager and request that the Manager reviews the SIP and confirms that the investment strategy is aligned with the Trustees' policies.

9.3 The Trustees' policy on arrangements with asset managers will take into account the following five considerations:

- How the arrangement with the Manager incentivises the Manager to align its investment strategy and investment decisions with the Trustees' investment policies.
- How that arrangement incentivises the Manager to make decisions based on assessments about the medium to long-term financial and non-financial performance of issuers of debt or equity.
- How the method and time horizon of the evaluation of the Manager's performance and the remuneration for services are in line with the Trustees' investment policies.

- How the Trustees monitors “portfolio turnover costs” incurred by the Manager, and how they define and monitor targeted portfolio turnover or turnover range.
 - The duration of the arrangement with the Manager.
- 9.4 The Trustees recognise that there are different ways to engage with its managers including legal documentation as well as more informal arrangements such as ad hoc communication and reporting and monitoring deliverables provided by each manager.
- 9.5 The Trustees recognise that the predominant manager it has arrangements with is the Manager. The arrangement is governed by the IMA between the Trustees and the Manager. The Trustees ensure that appropriate restrictions are outlined in the IMA in order to seek to ensure that the decisions which the Manager makes are in line with the long-term interests of the Plan.
- 9.6 This includes, but is not limited to, setting a clear investment objective, eligible instruments, asset allocation ranges and which asset classes are in scope for active and/or passive strategies.
- 9.7 The Trustees have also ensured that the IMA (and the supplemental disclosures provided by the Manager) include conflicts of interest policies in order to seek to ensure that incentives are aligned between the Trustee and the Manager as far as is reasonably practicable.
- 9.8 The Manager provides the Trustees with an annual cost transparency report. The report provides information in line with latest regulatory requirements for Managers. The cost reporting will include detail on the portfolio turnover costs which the Trustees define as the costs incurred in buying and selling underlying securities held within each of the funds managed by the underlying managers. On a quarterly basis the Manager reports total performance net of fees so that the Trustees are able to take into account the impact of fees and costs when evaluating performance. The Trustees believe that in order to appropriately assess the performance of its managers, the net of costs performance returns should be monitored over various time periods to ensure that managers are evaluated in line with the Trustees’ policies.
- 9.9 The Trustees will review the arrangements with the Manager on a regular basis, however there is no restriction on the duration of any arrangement.
- 9.10 The Trustees expect the Manager to review arrangements with the underlying or external managers which also have no restriction on duration of any arrangement. The Manager is expected to review these arrangements on an ongoing basis and take action to seek to revise any arrangements where it is understood to be in the best long-term interests of the Plan.
- 9.11 The Manager is expected to take into consideration the Trustees’ investment objective as well as Responsible Investing and Stewardship policies when selecting and/or appointing new underlying or external managers. The Manager is also expected to monitor the underlying managers or external managers and take into consideration the investments that they are permitted to make in order to seek that they are aligned with the long-term interests of the Plan.
- 9.12 The Trustees believe that they have a governance framework in place in order to seek to ensure that the Manager’s actions are aligned with the five arrangements policies listed above. If the Trustees have reason to believe that the Manager is acting outside of the Trustees’ policies, the Trustees will bring this to the attention of the Manager as soon as is reasonably practicable and engage with the Manager so that the parties can understand such actions and seek to resolve any concerns.

10. REALISATION OF ASSETS

- 10.1. Assets can be held in pooled funds or segregated accounts. The Plan’s ability to disinvest assets for cash is subject to the redemption terms of the asset, which can range from daily to quarterly or sometimes less frequently. Any allocation of the assets to strategies with particularly long redemption timelines will be considered with the Plan’s overall cashflow requirements in mind. Investment in such assets requires prior Trustees’ approval.
- 10.2. In the event of a change in yields, the Trustees recognise that the Manager, subject to the constraints within the IMA, has authority and discretion to sell the Plan’s assets to meet recapitalisation requirements.

11. MONITORING

- 11.1. The Trustees monitor the performance and risk exposures of the portfolio on a regular basis. The Trustees receive periodic reports showing:
- Commentary over the period covering performance, macroeconomic factors and portfolio positioning;
 - Risk decomposition across the portfolio, including scenario stress tests;
 - Return attribution across the portfolio, including underlying pooled fund monitoring;

- Estimated funding ratio change, including a summary of contributors/detractors;
- Review of the funding level including any de-risking triggers;
- Asset allocation summary versus the permitted ranges; and
- Interest rate hedge ratios versus target.

11.2. Monitoring of the underlying investment managers' suitability is delegated to the Manager. The Manager has been delegated the responsibility for ensuring the underlying pooled fund and separately managed account investments are satisfactory and appropriate for the investment strategy.

Signed for and on behalf of the Trustees of the Toyota (GB) plc Retirement Benefits Plan 1979



Signature of Trustees/Director

Signature of Trustees/Director

Print Name

Paul Marshall

Print Name
Steve Jones

Date: 8th January 2025

Date 8th January 2025

Appendix 1 - Investment strategy

The investment strategy for the Plan is to:

- Invest in a portfolio of assets to achieve fully funded status on a gilts + 0.98% basis per annum by targeting a return of approximately 2.2% above gilts per annum, net of fees.
- Invest in a portfolio of assets which aims to control the Plan's interest rate exposure and inflation exposure relative to the interest rate and inflation exposure of the Plan's liabilities (the "**Matching Strategy**"),
- Invest in a diversified portfolio of assets to achieve an efficient risk / reward trade off with the objective of generating sufficient returns to close the Plan's funding deficit (the "**Growth Strategy**"),

As at the date of the SIP, the Trustees have instructed the Manager under the IMA to manage the asset allocation in such a way to aim to achieve the Investment Objective taking into account the restrictions set out in the Asset Allocation Table and Growth Strategy Permitted Ranges Table below:

Asset Allocation Table

Portfolio Strategy	Permitted Ranges	
	Minimum (%) ¹	Maximum (%) ¹
Growth Strategy	0%	80%
<i>Liquid Assets</i>	<i>0%</i>	<i>80%</i>
<i>Illiquid Assets</i>	<i>0%</i>	<i>25%</i>
Matching Strategy	20%	100%

¹ As a percentage of Total Portfolio assets by market value

Growth Strategy Liquid Assets Permitted Ranges Table

Asset Class	Minimum (%) ¹	Maximum (%) ¹
Equities	10%	80%
Fixed Income	0%	80%
Cash	0%	30%
Other Asset Classes	0%	30%

¹ As a percentage of the Growth Strategy Liquid Assets by market value.

In the event the Manager wishes to invest the Growth Strategy in an asset class which is not specified in the table above, they will seek approval from the Trustees.

The Manager will use its discretion to determine the proportion of the fixed and real Liability Cashflows to hedge, taking into account the Total Portfolio Investment Objective and the Target Hedge Ratio Table below.

Target Hedge Ratio Table

	Target Hedge Ratio
Interest Rate Hedge Ratio	At the Manager's discretion subject to Minimum Interest Rate Hedge Ratio as per the Journey Management Threshold Levels Table set out in Annex 2
Inflation Hedge Ratio	At the Manager's discretion subject to Minimum Inflation Hedge Ratio as per the Journey Management Threshold Levels Table set out in Annex 2

The Manager will use reasonable endeavours to monitor the Matching Strategy in accordance with the Matching Strategy Review Frequency Table. Where the Manager's periodic review shows that the Interest Rate Hedge Ratio or Inflation Hedge Ratio is below the minimum level defined in the Target Hedge Ratio Table below, the Manager will increase the hedge ratios to be above the relevant minimum level.

The Target Hedge Ratios will evolve through time based on the Journey Management Strategy as detailed in Annex 2.

Matching Strategy Review Frequency Table

Matching Strategy Review Frequency
Daily

For the avoidance of doubt, the Manager retains the discretion to adjust the Matching Strategy in circumstances where the Interest Rate Hedge Ratio and the Inflation Hedge Ratio are / is above the minimum levels as set out in the Target Hedge Ratio Table above.

Appendix 2 – Journey Management Strategy

The **Journey Management Strategy** defines how the strategy will evolve over time to aim to achieve the investment objective. As part of this process the Manager will rely on certain assumptions to determine the expected return across the portfolio of assets relative to the Plan's liabilities. The Trustees recognise that this is not an exact science and will constantly evolve, hence assumptions will be reviewed from time to time and updates will be factored in where appropriate.

The Journey Management Funding Ratio Thresholds and associated levels of hedging are set out in the table below.

Journey Management Thresholds Levels Table

Asset Class	Initial	Trigger 1	Trigger 2	Trigger 3	Trigger 4
Funding Ratio Threshold Level	90%	93%	95%	98%	100%
Minimum Interest Rate Hedge Ratio	80%	83%	85%	88%	90%
Minimum Inflation Hedge Ratio	80%	83%	85%	88%	90%

The Manager has discretion to adjust the hedge ratio above the minimum amount specified at each Threshold.

The Funding Ratio Threshold Level calculates the value of liabilities using a Gilts + 0.98% discount rate which uses the Manager's pricing source.