The Motability Defined Benefit Pension Scheme

Statement of Investment Principles

Sixth Edition

1.0 Introduction

This Statement of Investment Principles (the "Statement") has been prepared by the Trustees of the Motability Defined Benefit Pension Scheme (the "Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Scheme (Investment) Regulations 2005, as amended.

This is the sixth edition of the Statement and, taken with the document "Investment Managers and Advisers", replaces all other versions and addenda.

In preparing this Statement the Sponsoring Employer (the "Company") has been consulted.

2.0 Investment Governance Structure

The Trustee Board ("the Trustees") comprises an appropriate number of company and member nominated trustees in accordance with the prevailing legislation, and includes an independent Professional Trustee.

The Trustees' primary role is to act in the best interests of the Scheme members.

The Trustees of the Scheme take investment decisions as a complete body, with advice from their investment adviser, and do not feel it necessary to set up an Investment Sub-Committee. This more straightforward approach recognises the input that each of the Trustees is able, and wishes, to make in the formulation of the Scheme's investment policy. The Trustees meet formally three times a year but, if required to do so, will arrange conference calls or have "virtual meetings" to ensure a proactive and efficiently run investment strategy.

The duties of the Trustees include, but are not limited to, the following:

- Agreeing the journey plan and overall asset allocation;
- Fund manager selection and deselection;
- De-risking with reference to liabilities and the Company covenant;
- Currency hedging programmes;
- The use of derivatives for risk management purposes;

Once an investment decision has been made, the Trustees have delegated the day-to-day implementation of the investment strategy to their investment adviser via a Power of Attorney. The adviser's role includes, but is not limited to:

- Recommending changes to asset allocation, including adhering to a rebalancing framework;
- Recommending changes or deviations from a Plan;
- Recommending changes to fund managers and custodians;
- Operational and investment due diligence on investment opportunities as appropriate;
- Completion of documentation on the Trustees' behalf in respect of appointment and removal of fund managers and custodians;
- Implementation of any currency or liability hedging programmes;
- Performance reporting;
- Attendance at Trustee meetings.

The Trustee has set clear objectives for the adviser, which are monitored each year. Details of the investment adviser's remuneration is in a separate document entitled, "Investment Managers and Advisers".

The Trustees will undertake training where it is required to enable informed decisions to be made. The Trustees will also formally review the contents of this Statement following any significant change in investment policy, Company covenant, liability profile, or market event, and no less frequently than triennially.

3.0 Investment Beliefs

The Trustees have a separate document which includes reference to, for example, active versus passive investment, diversification, ESG, and stewardship. This is a detailed document that is held externally to this Statement, and which can be amended more frequently if needed.

The Trustees do not have strong beliefs on non-financial matters that they feel should constrain or influence their decision-making process and are not aware of any such beliefs within the membership of the Scheme or from the Sponsor.

4.0 Investment Objectives

Investment objectives are set with reference to the liability profile of the Scheme and the Company covenant. Trustee meetings focus on the investment strategy and performance against objectives is monitored.

The Trustees have set out three main objectives for the investment strategy:

1. To ensure sufficiently realisable investments to meet capital calls, including member payments, when they fall due;
2. For the value of the assets to be in excess of the value of the liabilities on a Technical Provisions basis, within the timeframe of the Recovery Plan;
3. To progressively increase the allocation to assets that better mirror the characteristics of the liabilities, including pooled Liability Driven Investment solutions and insurance contracts, as appropriate, to reduce funding level volatility over time;

These objectives are the key driver of all decision making and overarch all other policies and beliefs.

The Trustees, together with their investment adviser, have discussed the investment objectives and the resultant investment strategy with the Scheme Actuary to ensure it is consistent with the actuarial valuation methodology and assumptions. The Trustees have also had confirmation from the Company that these objectives are consistent with their own.

5.0 Environmental, Social and Governance (ESG) Policy

The Trustees believe ESG, including climate change, to be an important long-term investment decision making factor. It is therefore considered as part of the selection and retention of asset classes and fund managers, using analysis provided by their investment adviser.

A separate ESG policy detailing the approach to ESG has therefore been produced that references the Trustees' investment beliefs.

The ESG Policy will be reviewed at least annually.

6.0 Stewardship

The Trustees do not have the necessary skills to vote or engage individually with the companies in which they invest through their fund managers. They also recognise that by investing via pooled funds they are unable to directly influence the underlying securities in which their fund managers invest.

However, portfolio managers are expected to engage and influence the companies in which they invest as well as exercise their right to vote.

The Trustees have a separate Stewardship Policy, including the engagement and monitoring of pooled fund managers, with respect to, for example, conflicts of interest and performance.

7.0 Risk Management

7.1 Integrated Risk Management

The Trustees fully understand the need to align the interests of all stakeholders of the Scheme. Specifically, the Trustees ensure that the Actuarial assumptions, investment strategy and risk appetite of the Company are balanced as far as possible.

The Company is involved in actuarial assumption and investment strategy discussions, and their views have been incorporated into the objectives.

No formal covenant review has been undertaken given the high level of reserves available to the Company and the low significance of the pension scheme on its overall financial position.

7.2 Risk Appetite

The Company has expressed a desire to reduce, insofar as possible, the impact of adverse interest rate and inflation movements on the Scheme's funding level. The Trustees have taken this view into account in setting a Journey Plan to maximise the interest rate and inflation hedges over time, within the confines of the actuarial assumptions and Scheme liquidity requirements.

The Trustees provide value-at-risk information to the Company and monitor risk on a quarterly basis. Given the size of the Scheme and the spurious accuracy of risk metrics, the Trustees have not set an absolute risk level for the Scheme, nor has the Company expressed a desire for one. However, all parties are aware of "value-at-risk" and monitor it.

7.3 Risk Reduction Strategies

The Trustees embrace diversification as a means to reduce portfolio risk. They seek to invest in asset classes with different drivers of return to achieve this and are willing to consider all asset classes and funds provided they are consistent with this Statement.

In addition, risk mitigation strategies, such as adding to pooled funds that have exposure to bonds and/or interest rates and inflation, hedging currency risk or adding tail risk protection, as a means to address specific portfolio or liability valuation driven risks, are considered and utilised where it is appropriate and cost-effective to do so.

It is recognised that full matching of liabilities can only be achieved through buy-in or buy-out and this will be considered by the Trustees when appropriate.

7.4 Cashflow Management

One of the key elements when setting investment strategy is the liquidity requirements of the Scheme. The Trustees monitor ongoing liquidity needs quarterly and assess whether there are sufficiently liquid assets available in the short term by stressing capital calls, for example from private equity, member payments and hedging strategies.

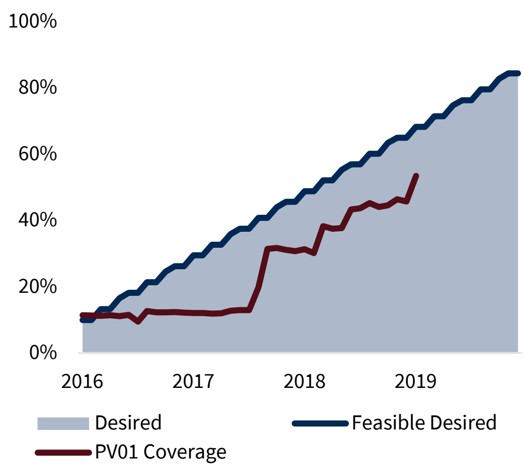
Their investment adviser also monitors liquidity monthly and will make the necessary recommendations to maintain sufficient liquidity.

8.0 Long Term Journey Plan

The Trustees have set an actuarial and investment policy that gives them the flexibility to invest between 17.5% and 45.0% in bonds. Following scenario testing of the asset allocation, the Journey Plan target has been set such that a progression from the bond allocation as at 31 March 2016 (c. 18.0%) increases to the maximum (c. 45.0%) by 2020.

The Trustees wish to target, within the bond allocation, a 25% holding of corporate bonds to ensure sufficient liquidity, with the remainder allocated to specialist pooled Liability Driven Investment funds that use derivatives to maximise the hedging. However, it is recognised that the desired mix of bonds will vary over time as market conditions and liquidity requirements change.

The result is a Journey Plan that follows the hedging path shown below (which also highlights the actual ratio from 2016):



The Trustees note that this is a target and there will be deviations from it throughout the Journey Plan. In addition, given the strength of the Company, the Trustees do not want to be overly constrained by the plan and have set a range around the targeted hedge. These are considered trigger points for rebalancing and are set out below:

- Within 10% of the targeted hedge (the "Trigger Range") the Trustees have flexibility to increase or reduce the hedge within the Trigger Range;
- Above or below 10% of the targeted hedge the Trustees will need to rebalance back to within the Trigger Range unless there is good reason not to;
- Above or below 15% of the targeted hedge the Trustees will need to rebalance back to within the Trigger Range.

Only after the term of Recovery Plan, and assuming the Scheme is placed on a self-sufficiency valuation basis thereafter, will full hedging be possible, and this will be reassessed at each actuarial valuation.

The investment adviser will monitor the estimated Scheme deficit on a monthly basis, with formal reporting to the Trustees quarterly.

9.0 Asset Allocation

9.1 Growth Assets

The Trustees have not restricted themselves by asset class and are also willing to consider illiquid investments, provided they fit within a framework of diversification across different drivers of return. This will include allocations to hedge funds, listed equity, private equity, commodities, property and credit. Cash equivalent instruments and bonds will be held to meet short term capital calls within the growth portfolio.

The target return is as set in the actuarial valuation and the Trustees aim to achieve this with lower volatility than that of equities (as defined by the MSCI World Index), net of fees.

9.2 Bond Assets

The Trustees have set a strategy that targets coverage of interest rate and inflation risks that reflect the actuarial valuation methodology, whilst retaining sufficient liquidity to meet capital calls and without impinging on the Scheme's ability to meet return requirements.

The Trustees recognise that an exact hedge is not possible, given the size of the Scheme, and that a full hedge is not possible given the actuarial valuation assumptions, without the use of leveraged products.

A combination of physical bonds (both corporate and government) and derivatives (swaps) will be used to achieve a broad hedge based on the duration of the liabilities (PV01 and IE01). Instruments will be both inflation linked and fixed in nature.

10.0 Expected Return on Investments

The portfolio of assets is expected to achieve at least the return assumed within the Actuarial Valuation basis. Each fund manager has a benchmark which they are expected to achieve, and these are set out in a separate Investment Managers and Advisers document.

11.0 Fund Manager Selection

Fund manager selection is made by the Trustees following recommendations made by their investment adviser. As part of the fund research process the investment adviser will consider each fund manager's approach to environmental, social and governance (ESG) issues, alongside other factors which may be considered financially significant Whilst this does not restrict the investment to only managers who have strong ESG principles, it will form part of the selection process.

Implementation of any agreed investment/redemption is made by the investment adviser who completes the required documentation. Fund managers are selected after full due-diligence has been undertaken.

The Trustees will consider funds managed by their adviser and recognise the potential conflict. Where an adviser fund is used, there needs to be clear advantages, either financial or operational, to the investment.

A full list of the fund managers and their mandates is in a document entitled, "Investment Managers and Advisers".

12.0 Performance Monitoring

The Trustees review the performance of the Scheme on a quarterly basis. Consolidated reporting is provided by their investment adviser, which covers market commentary, asset allocation, and Scheme performance, including performance against the actuarial liabilities.

In addition, the Trustees delegate monthly monitoring to their investment adviser, who is charged with bringing any significant issues to their attention outside the regular Trustee meetings.

The Trustees also measure the advice received and look to align interests through performance related fees where appropriate.

The key measure of success of the Trustees' decisions and the advice given is through the improvement in the funding level, although it is recognised that there is likely to be short term volatility outside their control. This volatility may stem from demographics, investment markets and the inability to hedge yields and inflation entirely, however the position will be monitored quarterly.

13.0 Transparency

Information is available to Scheme members, including this Statement. It is the Trustees' aim to be transparent and free from conflicts as fiduciaries to the Scheme.

14.0 Compliance

This Statement has been drawn up with reference to current legislation and best practice. In particular, the Trustees have considered the Myners Principles and The Pensions Regulator's Investment Guidance for Defined Benefit Pension Schemes, as appropriate to the Scheme.

The Statement will be reviewed annually and following any significant changes to the Company's ability, or willingness, to support the Scheme or significant changes to the liability profile.

Signed on behalf of the Trustees by JB Cowper and KL Ball (on behalf of Apex Pension Trustees Limited)

Date 29 September 2020

Appendix – Authorised Advice

In my capacity as investment adviser to the Scheme, I am a Certified Person of Gatemore Capital Management LLP which is authorised and regulated by the Financial Conduct Authority. As such, I am able to provide you with investment advice. This advice refers to the suitability of the investment strategy as set out in the Statement of Investment Principles.

In my professional opinion, the investment strategy you currently have in place is broadly appropriate to the nature of the Scheme's liabilities and my understanding of both the Trustees' and Company's risk tolerances and objectives.

The Trustees regularly review the investment strategy, taking into account revisions to the actuarial valuation, changes to liability profile and funding level, and changing investment market conditions, and are proactive in their decision making.

Signed on behalf of Gatemore by Mark Hodgson

Date 29 September 2020