

Volvo Group UK Executive Pension Scheme (the “Scheme”)

Statement of Investment Principles – September 2024

Introduction

This is the Statement of Investment Principles (the “Statement”) made by the Trustee of the Volvo Group UK Executive Pension Scheme (the “Trustee” and the “Scheme”, respectively) in accordance with the Pensions Act 1995 (as amended) and The Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement, which was approved by the Trustee on 17 September 2024, 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 principal employer to the Scheme, Volvo Group UK Limited (the “Sponsor”), and has taken and considered written advice from Hymans Robertson LLP, as the Scheme’s appointed investment adviser.

The Scheme’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document (“IPID”) which is available to the Scheme’s members on request.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee’s primary investment objective is to invest the Scheme’s assets in such a manner as to ensure that members’ benefit entitlements can be paid as and when they fall due.

With this context, the Trustee’s main objectives with regard to investment policy are:

- to ensure that the long-term return expectations for the investment strategy are consistent with the funding strategy;
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- to consider interests of the Sponsor in relation to the size and volatility of the Sponsor’s contribution requirements.

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 and deferred members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee’s view of the covenant of the principal employer.

The Trustee monitors the investment strategy relative to its agreed asset allocation benchmark. It is intended that the 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 Trustee has delegated all day-to-day investment decisions to its respective investment managers who are authorised and regulated by the Financial Conduct Authority (FCA).

Choosing investments

The Trustee has appointed two investment managers to manage Scheme investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has appointed each of its investment managers to deliver a specific benchmark or performance target, which overall will align to deliver the broader Scheme investment strategy. The Trustee ensures 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 Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme.

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 Trustee 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 Trustee periodically reviews the fees paid to all of its managers against industry standards.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks 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 Trustee is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustee recognises 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 Trustee 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 Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects 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 Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee reviews the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets, including equities, 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 of pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Scheme.

Balance between different kinds of investments

The Scheme's investment managers 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 securities

For any passive fund in which the Scheme is invested, the manager holds a mix of investments within each pooled fund that reflects the mix 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 Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for the Scheme. The Trustee assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

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

The Trustee seeks 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 Trustee manages asset risks as follows.

By investing across a range of assets, which can include quoted equities, bonds and bulk annuity policies, the Trustee recognises the need to access funds in the short term to pay benefits and aims to reduce the Scheme's concentration risk.

In investing the Scheme's assets and appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

The Trustee does not expect managers to take excess short-term risk and will regularly monitor the managers' performance against the benchmarks and objectives set on a short-, medium-, and long-term basis.

The Trustee manages currency risk by instructing its investment managers to hedge all foreign currency exposure back to Sterling.

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 or losing economic rights to Scheme assets, when held in custody or when being traded.
- Credit default – The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages 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 managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks 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. The multi-asset credit mandate, which represents approximately 7% of total Scheme assets at the date of writing, may be difficult to realise quickly in certain circumstances.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs,

including the costs of trading within the portfolio, the Trustee expects 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 Trustee 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 Trustee acknowledges that its primary focus should be on meeting the Scheme's financial obligations to pay and secure benefits to members. This includes explicitly considering ESG factors and climate-related risks in the investment processes – the Trustee believes that doing so should lead to better long-term risk-adjusted returns on the Scheme assets. The Trustee expects its investment managers to take account of all financially material factors including ESG factors, in the implementation of their mandate.

The Trustee recognises 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. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustee will consider such factors in the development and implementation of its investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, the Trustee will engage with its investment managers to ensure they take such considerations into account within their decision making. The Trustee has explicitly acknowledged the relevance of climate change and ESG factors in framing its investment beliefs and these beliefs are reflected in the principles set out below and the broader implementation of strategy.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term 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 Trustee has not made explicit allowance for the risks of climate change in setting its strategic benchmark. The Trustee has considered illustrative analysis in relation to climate related risks and how this may impact the Scheme as part of funding discussions. The Trustee periodically discusses climate change with its investment adviser and investment managers to consider the potential implications for the Scheme's investments.

Structural considerations

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

Selecting investment managers

Within active mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to the individual investment managers. The Trustee has discussed the extent to which ESG issues are integrated into the investment processes of its investment managers and is satisfied that the investment managers are following an approach which takes account of all financially material factors.

In passive mandates, the Trustee recognises 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 Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believes this approach is in line with the basis on which the Scheme's current strategy has been set.

In selecting new investment managers for the Scheme, the Trustee 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 its decision making.

The Trustee meets with the Scheme's investment managers periodically, and the managers are expected to address manager performance and company engagement. Managers will be challenged on their approach where this is not aligned to the Trustee's policies.

The Trustee expects its investment consultants to provide input and analysis to assist the Trustee in assessing its managers' performance. Where necessary, the Trustee 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 Trustee 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 Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy.

The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. The Trustee requires all its investment managers to comply with the Code, or equivalent relevant country-specific regulations. If a manager does not adhere to a recognised set of principles for responsible investment, the Trustee will seek the manager's explanation and take reasonable steps to ensure that it is comfortable with the policy that the manager has in place in respect of this.

The Trustee recognises 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

Although the Scheme does not currently invest in any assets with attached voting rights, in general, the Trustee has adopted a policy of delegating any voting decisions on stocks to its investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The Trustee does not engage directly but believes it is appropriate for its 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. Investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by its investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee

expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

The Trustee aims to meet with all its investment managers periodically. Ahead of each meeting, the Trustee provides its managers with an agenda for discussion. Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues, including ESG issues, that may affect the prospects for return from the portfolio.

Additional Voluntary Contributions (AVCs)

The Scheme is currently not accepting additional AVCs from members, however, legacy AVC assets are invested in a range of investment funds. With the assistance of the Scheme's investment consultant, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustee and the needs of the members.

Employer Related Investments

The Trustee's policy is not to hold any employer-related investments as defined in the Pension Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005, except where the Scheme 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 Scheme's total assets.

Signed For and on Behalf of the Trustee of the Volvo Group UK Executive Pension Scheme.