Doosan UK Pension Scheme (the "Scheme")

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Doosan UK Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (as amended) (the “Act”) and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. The Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”). In addition, consultation has been undertaken with the Sponsoring Company (the “Sponsor”) to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements and, in particular on the Trustees’ objectives.

2. Process for Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer’s Dynamic De-risking Solution, to implement the Trustees’ strategy whereby the level of investment risk reduces as the Scheme’s funding level improves. In this capacity, and subject to agreed restrictions, the Scheme’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”)). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme’s assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

In order to ensure that the Scheme has sufficient liquidity in its investment strategy, the various investment funds held by the Scheme offer daily dealing and primarily invest in assets that are traded on regulated markets.

Investment in derivative instruments are made only in so far as they contribute to a reduction of risks or facilitate efficient portfolio management, and any such investment is made and managed by Mercer so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Scheme does not hold any derivatives directly, but they are utilised from time to time within certain Mercer investment funds.

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme's current and ongoing solvency funding positions. The Trustees recognise that equity (and other growth asset) investment will bring increased volatility to the funding level, but in the expectation of improvements in the Scheme's funding level through the outperformance of such assets against the liabilities over the long term.

The Trustees are required to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regards to investment policy are:

- To achieve, over the long term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due;
- To consider the interests of the Sponsor in relation to the size and volatility of the Sponsor's contribution requirements;
- By means of an agreed combination of investment return and funding budget from the Sponsor, move the Scheme to a position of being fully funded on a de-risked funding basis (gilts + 0.5% p.a.) by 2031; and
- In doing so, to opportunistically reduce the degree of risk in the Scheme's investment arrangements, thereby helping to protect the Scheme's improving funding position.

The Trustees recognise this ultimately means investing in a portfolio of bonds (the "Matching Portfolio") but believe that at the current time some investment in return seeking assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed below.

The Trustees understand, following discussions with the Sponsor, that it is willing to accept some degree of volatility in the Sponsor's contribution requirements in order to minimise the long-term cost of the Scheme's benefits.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determines to be financially material considerations. Non-financial considerations are discussed in section 9.

4. Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the investment strategy provides adequate diversification both within and across different asset classes and sectors. The Trustees further believe that the current investment strategy is appropriate given the Scheme's liability profile.

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter from Mercer and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- The Trustees recognise that there are a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. The Trustees recognise that amongst those risks are inflation and interest rate risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk, the Trustees aim to ensure the asset allocation policy in place in the Scheme's Growth Portfolio results in an adequately diversified portfolio. The Trustees have delegated the asset allocation of the Matching Portfolio to Mercer (subject to certain restrictions).

- To help diversify manager-specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Scheme's assets are managed by appropriate underlying asset managers.

- The documents governing the underlying manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- The Trustees set the split between the Scheme's growth and matching assets such that the expected return on the portfolio is sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from growth assets into matching assets with the aim of reducing investment risk.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.

- Whilst moving towards the target funding level, the Trustees recognise that even if the Scheme's assets are invested in the Matching Portfolio, there may still be a mismatch between the interest rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between the matching assets and actuarial liabilities.

- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.

- Should there be a material change in the Scheme's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustees, with advice from the Scheme's Investment Consultant and Scheme Actuary, review the Scheme's investment strategy on approximately an annual basis, with the most recent review taking place in Q2 2019. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the key decision was to seek a long-term solution to "de-risk" the Scheme's assets relative to its liabilities over time using a dynamic trigger-based de-risking framework. The Trustees decided to engage Mercer to implement their de-risking strategy. The approach undertaken relates the asset allocation to the Scheme's funding level (on an actuarial basis using a single discount rate of 0.5% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.5% p.a. basis"). The de-risking strategy mandates the following practices:

- To hold sufficient growth assets to target full funding on a gilts + 0.5% p.a. basis by 2031;

- To reduce the volatility in the funding level by reducing unhedged liability exposures;

- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Scheme's initial funding level on a gilts + 0.5% p.a. basis and is based on a model of the progression of the Scheme's funding level, taking into account the expected contributions from the Sponsor as agreed at the latest triennial actuarial valuation.

The de-risking triggers which form the basis of the Scheme's dynamic investment strategy are set out in a separate document – the Investment Management Agreement.

Once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and amended if required.

Given the investment objectives and advice from Mercer, the Trustees have agreed the investment strategy detailed in the table below. The Trustees believe that the investment risks arising from the investment strategy are consistent with the overall level of risk being targeted.

Asset Class	Target Benchmark Allocation (%)
Growth	**34.4**
Global Equities – Currency Hedged*	17.2
Diversified Growth Fund (DGF) – Currency Hedged	17.2
Matching	**65.6**
Bespoke Matching Portfolio	65.6
Total	**100.0**

* Global Equity mandate allows flexibility to invest in UK and overseas equities.

The Trustees have set the Scheme's asset allocation and dictate the Mercer Funds which are to be included in the Growth Portfolio. However, the Trustees have delegated to Mercer the management of the bespoke Matching Portfolio.

6. Realisation of Investments

The Trustees, on behalf of the Scheme, hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are used to move the Scheme's asset allocation and allocation to the individual underlying investment managers back towards the target allocation appropriate at that point in time given the level of de-risking that may have occurred. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

8. Rebalancing

As noted, responsibility for monitoring the Scheme's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced Growth Portfolio weighting, under the new de-risking band.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer.

9. ESG, Stewardship, and Climate Change

The Trustees believe that Environmental, Social, and Corporate Governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG factors, including climate change and stewardship, are integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. Mercer and MGIE are expected to provide reporting on a regular basis, at least annually, on the ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and climate scenario analysis for diversified portfolios.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

10. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer in November 2016 as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, the long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds. However, the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive and consider investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against the benchmark of the portfolio and underlying investment manager (over the relevant period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long-term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken and information available to review the decisions made by managers, including voting history and the engagement activities of managers and to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor and evaluate the fees they pay for asset management services on an ongoing basis taking into account the progress made in achieving the Scheme's investment strategy objectives as outlined in section 5. The fees of both Mercer and MGIE are based on a percentage of the value of the Scheme's assets under management, which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. The fees of Mercer, MGIE, and the third party asset managers are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised

Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also includes details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed by the Trustees net of portfolio turnover costs, with the review of portfolio turnover (including turnover costs) of the underlying investment managers undertaken by MGIE rather than the Trustees. Portfolio turnover costs are incorporated within the MiFID II compliant Personalised Cost & Charges statement that is provided to the Trustees.

11. Additional Assets

The Trustees maintain oversight of additional voluntary contributions ("AVCs") previously contributed by members.

12. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Agreed by the Trustees of the Doosan UK Pension Scheme