Caterpillar Pension Plan

Statement of Investment Principles

1. **Introduction**

Caterpillar Pension Trust Limited (the "Trustee"), as Trustee of the Caterpillar Pension Plan (the "Plan") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act"), as amended by the Pensions Act 2004 and subsequent Regulations.

1.1 **Decision Making Structure**

As required under the Act the Trustee has consulted a suitably qualified person in obtaining written advice from Mercer Limited. The Trustee, in preparing the Statement, has also consulted the Plan Sponsor, in particular on the investment objectives.

Overall investment policy falls into two parts:

- The strategic management or governance role, which is fundamentally the responsibility of the Trustee (acting on professional advice as they deem appropriate) and is driven by the investment objectives as set out in Section 2.1.
- The day-to-day management of the assets, which is largely delegated to professional investment management organisations as described in Section 3. The Trustee reviews the performance of the investment managers and has the power to amend the structure, based on advice from their investment consultants.

2. **Governance**

2.1 **Investment Objectives**

In determining the strategic allocation of the Plan assets, the Trustee has considered a number of objectives and associated risks over the lifetime of the Plan. The key drivers of the strategic investment policy, which are outlined in 2.2, are as follows:

a) To make sure that the Plan remains sufficiently funded to meet the expected obligations to the beneficiaries of the Plan, assuming that the Plan remains on-going and after making reasonable allowance for the Plan assets to deliver returns in excess of the least risk assets, i.e. gilts;

b) To ensure that the Plan Sponsor's accounting cost is kept within a tolerable range from year to year.

2.2 **Investment Strategy**

In November 2023, the Plan invested in a bulk annuity policy whereby a proportion of total Plan assets were transferred to an insurer. Due to the illiquid nature of the bulk annuity policy, following implementation the Plan's investments are effectively divided into two sections; the bulk annuity policy and the investable portfolio.

The Trustee, in consultation with the Plan Sponsor, has agreed a **Strategic Asset Allocation**, i.e. a benchmark mix of asset types for the Plan's investable portfolio. The strategic asset allocation of the Plan is set out in the accompanying Implementation of Investment Policy Document ("IIPD").

The Trustee will determine any changes to the Strategic Asset Allocation in consultation with the Plan Sponsor.

2.3 Risk Management Methodology

There are various risks to which any pension scheme is exposed. The Trustee and Plan Sponsor have considered the following key risks in determining the strategic investment policy:

- The risk that the assets fail to deliver sufficient return to meet the actuary's long term assumptions, which would lead to a deterioration in the ongoing and solvency funding level;

- The risk of significant variation in the reported pension disclosures in the Sponsor's accounts.

The Trustee considers these key risks at each investment strategy review (the reviews take place at least every three years). Following these reviews, the Trustee agrees an overall mix of assets that they believe will manage the risks set out above, whilst delivering the required returns to meet the long term actuarial assumptions. This long term asset allocation is set out in 2.2, and is formulated in consultation with the sponsoring employer.

The Plan has invested in a bulk annuity policy whereby, in return for the payment of an insurance premium, an insurer assumes responsibility for a portion of the Plan's liabilities. The insurer is exposed to the underlying investment and longevity risk. The Plan is however subject to credit risk in relation to the solvency of the insurer. This risk is mitigated by extensive capital requirements enforced within the insurance regulatory environment and that ultimately there is a level of protection offered to members by the Financial Services Compensation Scheme ("FSCS"). The Trustees have further mitigated this risk through careful choice of insurer and contract terms. The Trustees recognise that the investments in the bulk annuity contracts are illiquid.

In addition, further risks are also considered (these are in respect of the investable portfolio):

Risk	How it is managed	How it is measured
Solvency risk and mismatching risk The general risk (which is the consequence of the combination of other risks listed below) that the change in the value of the assets over time does not keep pace with changes in the value of the liabilities, leading to deterioration in the funding position and an increased contribution requirement.	Through the long-term investment strategy of the Plan and through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.	Through a qualitative and quantitative assessment of the potential future development of the liabilities relative to the current and alternative investment policies.
Active Manager risk This is the risk that the Plan's investment managers	By monitoring the actual deviation of returns relative to the objective and factors supporting the	By the expected deviation of the prospective risk and return, as set out in the manager's objectives,

underperform their performance targets.	manager's investment process.	relative to the investment policy.
Liquidity risk This is the risk that the Plan is unable to raise cash when it needs to without incurring excessive costs.	By the Plan's administrators assessing the level of cash held in order to limit the impact of the cashflow requirements on the investment policy. The risk of not being able to raise additional collateral at times of market stress is reduced by investing across liquid asset classes. A significant proportion of the Plan assets deal on a daily basis and can be liquidated at short notice should cash be required.	By the level of cashflow required by the Plan over a specified period relative to the level of cash income from contributions and investments.
Concentration risk This is the risk of over-exposure to the performance of a single asset which suffers losses relative to the Plan's liabilities.	Through diversification within and across portfolios. The Plan invests across a number of government bonds and corporate bonds in order to diversify the exposure to a single company or bond defaulting.	By the level of concentration within and across markets.
Currency risk This is the risk that the Plan suffers a financial loss through exposure to currencies other than sterling.	By diversification of the Plan's overseas assets across a range of currencies and hedging of these currencies back to sterling.	By the potential for future adverse currency movements and the impact on the value of the Plan assets.
Interest rate and inflation risk This is the risk that the Plan suffers a financial loss through exposure to interest rate and inflation risks on its liabilities or through exposure to interest rate and inflation risks on its assets which differ from those on the liabilities.	By the Liability Driven Investments ("LDI") and bond assets held by the Plan.	By the potential for future adverse interest rate and inflation movements and the impact on the value of the Plan's assets and liabilities.
Credit risk This is the risk that the Plan suffers a financial loss through exposure to defaults by issuers of corporate bonds and other debt assets	Using active management to identify credit risk and avoid defaults.	The potential for future adverse movements in the value of the Plan assets resulting from defaults or deterioration in credit market conditions.

which the Plan holds or through reductions in the market values of those assets.		
Sponsor risk This is the risk that the Company is unable to meet the current and potential future contribution requirements of the Plan	Assessing the interaction between the Plan and the Company's business, as measured by a number of factors, including the creditworthiness of the Company and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Company.	Level of ability and willingness of the Company to support the continuation of the Plan and to make good any current or future deficit.
Environmental, Social and Governance Risk ESG factors can have a significant effect on the performance of the investments held by the Plan e.g. extreme weather events, poor governance.	Delegated to investment managers. The Trustees' policy on ESG risks is set out in Section 2.4 of this Statement.	Sections 2.4 and 2.5 of this Statement also covers how the Trustees monitor the extent to which managers integrate ESG factors and active ownership into their core processes.

A number of the risks outlined above are monitored on a quarterly basis by assessing the impact of the investments on the funding position of the Plan.

All managers may use derivatives from time to time within their mandates. Derivative use is limited to hedging the currency, interest rate and inflation risk associated with the liabilities or with corporate bond assets held. Derivative use is tightly constrained within the managers' Investment Management Agreements, is closely monitored by the Trustee and is never undertaken for speculative purposes.

2.4 Socially Responsible Investment and Corporate Governance

The Trustee believes 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks as well as opportunities that increasingly may require explicit consideration. The Trustee has taken into account the expected time horizon and investment strategy of the Plan when considering how to integrate these issues into the investment decision making process.

The Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the investments. Monitoring is undertaken on a regular basis and is documented periodically. Given that the Plan however is fully funded on a low risk basis and is invested entirely in fixed income securities, a large portion of which are UK government debt, the Trustee acknowledges that the policy only applies to a portion of the Plan's assets.

The Trustee does not explicitly take into account the ethical views, or views in relation to ESG factors or present and future quality of life, of members and beneficiaries when making investment decisions. It makes available on request a copy of the Statement of Investment Principles.

The Trustee has considered the ESG credentials of the insurer when entering into the bulk annuity policy. The Trustee are comfortable that the insurer has developed policies with respect to ESG factors, including climate change considerations.

2.5 Engagement with the Investment Managers

The policy in relation to the Trustee's arrangements with its investment managers is set out below.

2.5.1 Incentivising investment managers to align their investment strategy and decisions with the Trustee's policies:

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustee looks to its investment consultant for its forward looking assessment of a manager's ability to outperform over a full market cycle. This view is based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

Where pooled investment funds are used, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

The Corporate Bond portfolios are actively managed. RLAM is incentivised through remuneration (via a performance related fee) and RLAM and LGIM have performance targets (whereby the Trustee reviews their appointment following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) on an ad-hoc basis.

All manager appointments are segregated and the Trustee has specified criteria in the investment manager agreements for the asset class manager to be in line with the Trustee's specific investment requirements.

2.5.2 Incentivising the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer, and to engage with issuers in order to improve their performance in the medium to long-term:

The LGIM corporate bond mandate is a Buy and Maintain mandate whereby LGIM select a bond, based on a long-term assessment of the issuer's financial prospects, with a view to holding that bond until maturity unless LGIM's assessment of the issuer's prospects changes.

As noted in 2.4, the Trustee will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustee meets with the investment managers at trustee meetings on a quarterly basis and may challenge decisions made including engagement activity and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

The Trustee delegates all voting and engagement activities (including monitoring and engaging with issuers of debt about ESG factors) to the investment manager. When required the Trustee will question managers' voting decisions if it deems them out of line with the investment fund's objectives or the objectives / policies of the Plan.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

2.5.3 Aligning the evaluation of the investment managers performance and the remuneration for investment management services with the Trustee's policies:

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee focus is on long term performance but will put the manager 'On Watch' if there are medium term performance concerns.

If the manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review the Annual Management Charge.

2.5.4 Monitoring portfolio turnover costs incurred by the investment manager:

The Trustee receives MiFID II reporting from its investment managers but does not analyse the information.

The Trustee has moved the LGIM corporate bond portfolio to a Buy and Maintain basis to reduce portfolio turnover and associated costs.

The Trustee has not historically monitored portfolio turnover costs but will ask the investment manager to include portfolio turnover and turnover costs in its presentations and reports to the Trustee.

The Trustee will monitor the information on portfolio turnover costs received from the manager and engage with the manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus. If portfolio turnover is deemed to be higher than expected the Trustee will analyse the portfolio turnover costs in greater detail by comparing a selection of the trades placed by the manager with market data provided by their investment consultant, Mercer Limited.

2.5.5 The duration of the arrangement with the asset manager:

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

The Plan's investments are all open ended and therefore there is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustee has decided to terminate.

3. Implementation

The detailed day to day implementation of the investment policy of the Plan is set out in the accompanying IIPD. The IIPD includes the strategic benchmark asset allocation of the Plan, and the individual investment managers' benchmarks, performance targets, fee scales, controls and investment restrictions. The IIPD also includes the Plan's AVC arrangements and cash flow policy.

4. Monitoring the Investment Managers

Performance of the Plan is measured by Northern Trust, who issue quarterly written reports. In addition, the Trustee meets with each manager on a regular basis, and reviews additional quarterly analysis from their investment consultants. The investment monitoring process adopted considers the achieved returns from each manager, the level of risk taken in pursuit of these returns and ESG factors.

5. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually. The investment managers have confirmed that they will give effect to the principles contained in this Statement as supplied to them and the Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

6. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee and the sponsoring company which it judges to have a bearing on the stated Investment Policy.

This review will occur at least every three years. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

Caterpillar Pension Trust Limited

November 2023

APPENDIX – SIP CHANGES

January 2003 – reduction in equity allocation from 70% to 60%

March 2003 – appointment of Standard Life (Property); change to Invesco's equity benchmark indices for the UK and Asia Pacific (ex Japan) regions

April 2003 - revision of Legal & General's benchmark (increase allocation to Pacific Equities and reduce allocation to Continental European Equities)

July 2003 – revision of Legal & General's benchmark (reduce UK Equity allocation and increase US Equity and Bond allocations)

April 2004 – revision of Baring's benchmark (increase allocation to gilts over corporate bonds) and Legal & General's benchmark (reduce all Equity allocations and increase Bond allocation)

June 2005 – confirmation of agreement to revised investment strategy

September 2005 – introduction of new investment structure (including appointment of Primecap, McKinley, Mercator, Invesco EAFE, Fidelity, Standard Life (UK Equities), BGI (currency hedging), Western (bonds) and Legal & General (bonds)) and increase in equity allocation from 60% to 70%

February 2006 - new SIP guidelines and requirements of new Pension Regulations

October 2006 - revision of weights between Baillie Gifford and Standard Life (UK Equities)

August 2007 - appointment of AllianceBernstein and removal of Invesco

March 2007 - appointment of Origin and removal of Baillie Gifford

April 2008 - appointment of Royal London and removal of Western

November 2008 – revision of Legal & General benchmark (after rebalancing from BGI)

June 2009 – removal of BGI and appointment GSAM and NTRS currency; revision of Fidelity's benchmark (also included the backdated changes to Standard Life's (Property), Royal London's and Legal & General's benchmarks)

September 2009 – removal of Standard Life (UK Equities), AllianceBernstein and Origin and appoint LSV and Majedie; change benchmark weights

May 2012 – change to Legal & General and Royal London benchmarks to reflect switch into index linked gilts for a portion of the portfolio

August 2012 – removal of GSAM and appointment of Wellington; update Appendix 3

October 2013 – removal of Mercator, addition of Legal & General swing and LDI mandates, implementation of de-risking framework

December 2013 – Split into two documents, SIP and Investment Implementation Policy Document (IIPD)

March 2014 – Strategic Asset Allocation amended to reflect switch from equities to LDI following funding level trigger breach.

September 2017 – Transition of active equity assets to Legal & General and removal of the currency hedging programme.

September 2018 – De-risking transition from Legal & General equities to Legal & General Corporate Bonds.

September 2019 – Updated ESG wording.

September 2020 – Inclusion of Engagement with Investment Manager.

February 2023 – Review of SIP.

November 2023 – Amendment to reflect buy-in with the insurer.