DHL Group Retirement Plan – Defined Benefit Section

Statement of Investment Principles

Last updated September 2021

This Statement of Investment Principles (SIP) is a legally required document, produced by the Trustee for the Defined Benefit Section of the Plan. It sets out the principles the Trustee follows to ensure it suitably invests members benefits that they have built up in the Plan.

Here's a summary of what the Statement of Investment Principles (DB Section) covers:

1. Who has responsibility for the Plan's investment matters

The Trustee	DB Investment Implementation Committee ("the IIC")	Investment Managers & Custodians	Investment Consultants
DHL Trustees Limited, also known as the Trustee. They have the ultimate responsibility for DB investment matters but delegate some of these responsibilities to dedicated sub-committees and third-party organisations with the necessary resources and expertise.	The IIC is responsible for developing investment strategies to achieve the investment objectives set by the Trustee, and for implementing these investment strategies. Please note: the ultimate responsibility for the investment objectives for the DB Sections lies with the Trustee.	Between them, they are responsible for the day-to-day management and record-keeping of investments. The investment managers make decisions about the investments within set guidelines for each individual fund. They must regularly report back to the IIC.	They work with the IIC and Trustee to monitor the investment managers, provide independent expert advice on DB investment matters and assist with projects such as investment strategy and fund changes.
Read about the Trustee and sub-committees here >	**Read about the IIC here >**	**Read about the investment managers & custodians here >**	

2. The Trustee’s investment objectives and strategy

The Trustee’s primary objective is to invest in the best financial interests for members and their beneficiaries, aiming to grow money over time to provide members with an income in retirement and achieve full funding of the Plan. **Read about the objectives here >**

The Trustee’s strategy is to target a specific level of return through investing to achieve full funding by 2030. When deciding which funds will be suitable, they look at a number of aspects including the expected risks and returns of the different funds, as well as their costs and charges. **Read about the strategy here >**

3. Other investment considerations – including Sustainable Investment

Among other investment matters, the Trustee has considered how investment funds’ performance can be influenced by a number of factors including those arising from Environmental, Social and Governance (ESG) issues, including climate change. They believe that ESG issues can play a big role in the value of investments so should be considered by our investment managers. **Read about Sustainable Investment and other considerations here >**

4. The investment manager arrangements

The DB Investment Implementation Committee (“the IIC”) delegates the day to day management of the DHL PIF’s assets to a number of investment managers. The IIC has taken steps to satisfy itself that the investment managers have the appropriate knowledge and experience for managing the DHL PIF’s investments and that they carry out their work competently. **Read about the Trustee’s arrangements with the investment managers here >**

5. Managing risk

The Trustee recognises there are various risks that may affect the DB Plan. These risks have been considered in conjunction with the IIC when establishing the investment objectives. **Read about the risks here >**

6. The Trustee’s obligations to comply with and review this Statement

The Trustee and the IIC regularly monitors its activities to ensure they comply with the principles set out in this Statement. The Trustee – with input from the Funding and Investment Strategy Committee (FISC) and IIC – also reviews this Statement at least every 3 years, or when there are material changes to the Plan, to ensure the principles remain fit for purpose. **Read about the Trustee’s obligations here >**

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DHL Group Retirement Plan ("the Plan")
Statement of Investment Principles – September 2021

1. Introduction

1.1 DHL Trustees Limited (the "DTL board") has drawn up this Statement of Investment Principles (the "Statement") to meet the requirements of Section 35 of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 as amended. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments and is designed to fulfil the spirit of the Myners Code of Best Practice for Pension Scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. As required under the Act, the DTL board has taken appropriate written advice from its investment advisers.

1.2 In preparing this Statement, the DTL board has consulted Deutsche Post AG ("the Founder") of the Plan to ascertain whether there are any material issues of which the DTL board should be aware in agreeing the investment arrangements. However, the ultimate power and responsibility for deciding investment policy lies with the DTL board.

2. Structure of the Plan

2.1 The Plan was established in its current form on 30 April 2009 following the decision to unite a number of DHL UK pension schemes under one Trust. Under this arrangement all existing Schemes prior to 30 April 2009 were transitioned to Sections under the existing Exel Retirement Plan, which was renamed the DHL Group Retirement Plan. There are seven Sections within the combined Plan as listed below:

- The Exel Section;
- The Ocean Section;
- The Tibbett & Britten Section;
- The Express Section;
- The AEI Section;
- The Global Forwarding Section; and
- The Defined Contribution Section – a separate Statement has been prepared for this Section

2.2 The first six Sections listed above provide members with defined benefits on retirement. These are collectively referred to as the "DB Sections" within this Statement.

2.3 The assets of the DB Sections of the Plan are commingled in the DHL Pension Investment Fund (“DHL PIF”). The DHL PIF is a common investment fund which was established on 22 July 1988 and is available to all DB Sections of the Plan.

2.4 The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investment arrangements for the DB Sections. The specific arrangements for the DB Sections are described in detail in a separate Investment Policy Document (“IPD”) which is available upon request.

3. The Plan’s Governance Structure

3.1 The DTL board has delegated specific responsibility with regards to the running of the Plan to the following committees:

- Strategy Committee
- Pensions Operations Committee;
- Audit and Risk Management Committee;
- Funding and Investment Strategy Committee (the “FISC”);
- DB Investment Implementation Committee (the “IIC”); and the
- DC Committee.

3.2 The FISC is an advisory committee and is responsible for recommending appropriate investment objectives to the DTL board for the DB Sections based on advice from the appointed actuary and the investment consultant. The ultimate responsibility for the investment objectives for the DB Sections lies with the DTL board. The IIC is responsible for developing investment strategies to achieve the investment objectives set by the DTL board, and for implementing these investment strategies.

3.3 The investment responsibilities of the FISC are detailed below:

- To recommend the investment objectives for the DB Sections to the DTL board, taking into account the financial position of each DB Section, the strength of the employer covenant and the liability profile of each DB Section. This will involve recommending an expected return target, or a risk budget, and a governance framework to respond to changes in the funding level.
- To consider the opportunistic interest rate and inflation hedging program and make recommendations to the DTL board.
- To consult with the Founder on investment objectives and risk parameters for each DB Section with a view to reaching an agreement for recommendation to the DTL board.

3.4 The responsibilities of the IIC are:

- Select investment classes and investment managers to achieve the DTL board's overall investment objectives.
- Develop a liability hedging program and framework to achieve the target inflation and interest rate hedging ratios, and the process for implementing the target ratios over time.
- Consider and implement improvements to investment efficiency.
- Review the performance of the investment strategy relative to the DTL board's objectives.
- Review and analyse net annual cashflow requirements and ensure suitable arrangements are in place to avoid being a forced seller of assets to meet benefit payments.
- Consider the investment implications of any longevity hedging and make recommendations to the DTL board.
- Agree proposals for investment manager structures for the asset pools, including performance benchmarks, the number of managers to be appointed and their mandates.
- Select new/replacement managers, and remove managers.
- Agree a fee scale for each investment manager with the manager, within an overall range recommended by the investment consultant.
- Agree the terms of the management agreements with new investment managers.
- Agree any changes to the management agreements with existing investment managers.
- Review and monitor the performance of the investment managers.
- Arrange investment manager presentations to the IIC at agreed intervals.
- Review and amend the Investment Policy Document ("IPD") to reflect any changes (in implementation) to investment classes and investment managers (within the DTL board's overall investment strategy).
- Review the Statement of Investment Principles for the DB Sections and make recommendations to the DTL board.

- To prepare the annual Implementation Statement for the assets of the DB Sections and make recommendations to the DTL board.

- In relation to the DB Sections, undertake the governance and reporting requirements relating to climate related risks and the Task Force on Climate-Related Financial Disclosures ("TCFD") and make recommendations to the DTL board.

- To fulfil the risk management responsibilities required of the Plan's risk management framework.

- Consider quarterly reports from the investment consultant, including performance for each manager and the total DHL PIF.

- Review the performance and fees of the investment advisors, taking into account the views of the sub-committee of the IIC, and make recommendations to the DTL board.

- Monitor the performance of the master custodian and the security of the assets, removing the existing custodian and making a replacement appointment if appropriate.

- As required, appoint additional suppliers to provider additional reporting or benchmarking (e.g. in relation to cost transparency or TCFD).

3.5 The DTL board and the IIC will appoint an investment advisor to make recommendations on the investment policy required to meet their responsibilities.

4. Investment Decisions

4.1 The DTL board has adopted the following investment beliefs when considering the expected return, risk and diversification within the investment policy for the DB Sections. These beliefs are intended to guide future decisions relating to the investment of the assets of the DB Sections:

- The Directors believe that the liabilities of each DB Section are bond like. The Directors believe that assets that do not match the liabilities of each DB Section are risky relative to the liabilities, and that these risks need to be understood, quantified, and monitored. They also need to be sufficiently well rewarded to justify the risks taken.

- The Directors believe that liability-related risks can be rewarded because the price of the hedging assets can be inflated (for extended periods of time) by price-insensitive buyers such as pension funds and insurance companies which sometimes wish to reduce these risks at any price.

- The Directors also believe that risks should only be tolerated to the extent that the Directors are satisfied they can be fully underwritten by the Founder.

- The Directors believe that equities, and other return seeking assets, should be expected to outperform UK government bonds over the long-term.
- The Directors believe that assets with low liquidity should offer a liquidity premium.
- The Directors believe that unrewarded investment risks should be removed if markets allow at a fair price (the DTL board would consult with the Founder if this belief suggested a material change in asset allocation or hedging strategy).
- The Directors believe that diversification of risky assets, both across and within asset classes, reduces risk and volatility.

5. Risk Management and Measurement

5.1 There are various risks to which the DB Sections are exposed. In establishing the investment objectives, the DTL board in conjunction with the IIC has considered the following risks:

Risk: The risk that there is a mismatch between the value of the assets and the liabilities for each of the DB Sections.

Policy: The DTL board has considered the implications of this mismatch and accepts that a certain level of risk is required within the policy to achieve the investment objectives. The DTL board recognises 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 respective DB Section’s liabilities. Increasing risk can also produce more short-term volatility in a DB Section’s funding position.

Risk: The risks that may arise from a lack of diversification of investments within the DHL PIF.

Policy: To reduce the impact of this risk the IIC are responsible for ensuring the asset allocation policy in place results in an adequately diversified portfolio, subject to meeting the overall investment objectives set by the DTL board.

Risk: The risk that the day to day management of the assets will not achieve the rate of investment return expected by the DTL board.

Policy: The DTL board recognises that the use of active management involves such a risk. The DTL board attaches a high degree of significance to this risk and has delegated responsibility to the IIC to ensure that, where appropriate, diversified manager structures are in place within each asset class to reduce this risk. In markets where the IIC do not believe that the risk of underperformance is sufficiently well compensated, or sufficiently likely to be compensated, a passive approach is adopted.

Risk: The risk associated with DHL PIF’s assets that are denominated in overseas currencies fluctuating in value due to currency movements.

Policy: To protect against this risk approximately 75% of the DHL PIF's overseas equity exposure, with the exception of emerging markets is hedged back to Sterling. Other assets denominated in non-sterling currencies are fully hedged, with the exception of the legacy private equity mandates due to their materiality and practical differences.

Risk: The risk that the DHL PIF is invested in assets which are unsuitable given the circumstances of the underlying DB Sections.

Policy: The documents governing each investment manager's appointment include a number of guidelines which are designed to ensure that only suitable investments are held. Arrangements are also in place to monitor the investments to help the IIC check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the IIC receive regular reports from the investment manager and the investment consultant. The investment managers are prevented from investing in asset classes outside of their mandate without the IIC's prior consent.

Risk: The risks associated with the DHL PIF's assets not being held in safe custody.

Policy: The custody of the DHL PIF's assets is delegated to a professional custodian either directly or via the use of pooled vehicles.

Risk: The risk that the Founder and the participating employers are unable to continue to support the DB Sections of the Plan.

Policy: The DTL board manage this risk by assessing the interaction between the Plan and the Founder's business, as measured by a number of factors, including the creditworthiness of the Founder (including the participating employers) and the size of the pension liability relative to the financial strength of the Founder (including the participating employers).

5.2 Should there be a material change in the Plan's circumstances, the DTL board will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

6. Portfolio Construction

6.1 The DTL board has adopted the following control framework in structuring the DHL PIF's investments. The implementation of the framework is the responsibility of the IIC:

- To help diversify manager-specific risk, multiple manager appointments within a single asset class are preferred where practical.

- At a total asset level and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- Illiquid investments, such as property or private equity, may be held as long as the IIC judges that the lack of liquidity will not prevent the DB Sections from achieving their investment objectives.

- Investment in derivatives is permitted either directly or within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the DB Sections' mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the IIC will ensure that the assets of the DB Sections are predominantly invested in regulated markets.

- The DHL PIF shall not invest in securities issued by the Founder or its associated companies (other than any such securities held within a pooled fund in which the DHL PIF invests).

- No appointed investment manager shall invest in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the DHL PIF invests).

7. Investment Objectives

7.1 The investment objectives of the DB Sections are linked to the funding objectives and are set by the DTL board, based on recommendations from the FISC and advice from the Actuary and the investment consultant. The DTL board recognises that its primary objective is to invest each DB Section's assets in the best financial interests of the members and beneficiaries of that DB Section.

The funding and investment objective as agreed by the DTL board in consultation with the Founder is to target a 50% (or better) chance of being 100% funded, on gilts + 0.5% per annum, for each of the DB Sections in 2030. In order to meet the funding and investment objective, each DB Section is required to target an expected return in excess of the liability benchmark portfolio[1] over the period to 31 March 2030 (the excess return requirement for each Section is detailed below), after which it is expected that the excess return requirement will reduce to 0.5% per annum (plus an appropriate amount for prudence), thereafter.

<u>Exel, Tibbett & Britten, Express, AEI and Global Forwarding</u>

For these Sections, the objective above translates into an expected return target of 2.0% per annum, above the return on each Section's liability benchmark portfolio to 31 March 2030, and 0.5% per annum (plus an appropriate amount for prudence) thereafter, with the minimum level of risk required.

[1] The "liability benchmark portfolio" represents a portfolio of nominal and index-linked gilts that most closely replicate the interest and inflation characteristics of each Section's liabilities on a gilts + 0.5% pa basis

Ocean Section

For the Ocean Section, the objective above translates into an expected return target of 1.5% per annum above the return on the Ocean Section's liability benchmark portfolio over the period to 31 March 2030, and 0.5% per annum (plus an appropriate amount for prudence) thereafter, with the minimum level of risk required.

In setting the risk and return objectives for the DB Sections, the DTL board has considered the following:

- The need to obtain a sufficient long-term return balanced against the risk that the assets underperform relative to the change in the value of the Plan's liabilities;
- The solvency of the individual Sections and the ability to follow a relatively unconstrained investment policy.

8. Investment Strategy

8.1 For funding purposes, the expected excess return target for each Section is to be achieved from return sources other than active management and funding level improvements due to yields rising ("yield reversion"). To the extent that these sources of return are targeted by the IIC within the investment policy, these are to be allowed for in addition to the excess return requirements outlined in 7.1.

9. Day–to-Day Management of the Assets

9.1 The IIC delegates the day to day management of the DHL PIF's assets to a number of investment managers. The IIC has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the DHL PIF's investments and that they are carrying out their work competently.

9.2 The IIC has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate. The IIC periodically review the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of expected return and risk is consistent with the overall investment objectives.

9.3 The IIC regularly reviews the continuing suitability of the DHL PIF's investments, including the appointed managers. The IIC seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance. The IIC does not set duration expectations for its partnerships but monitors their suitability on an ongoing basis. Some of the DHL PIF's investments are invested in strategies where there is a duration expectation due to the fixed term nature of the underlying investment and/or investment vehicle.

The IIC monitor the suitability of these arrangements on an ongoing basis and any decision to increase (or reduce) the allocation to these fixed term investments would be based on an assessment of their ongoing suitability.

9.4 To incentivise medium to long-term financial performance, the IIC assesses investment manager performance over various periods including 3 years, 5 years and since the inception of the mandate. It heavily biases its review of the ongoing suitability of the investment manager on the assessment of the future performance expectations and the portfolio's role in supporting the overall investment objectives.

9.5 To incentivise the medium to long-term non-financial performance of its investments, the IIC monitor the stewardship and engagement activities for each of its investment managers on an annual basis. The IIC expects its investment managers to directly engage with the debt or equity issuers to improve the issuer's performance on a medium to long-term basis. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

9.6 The IIC also requires each of the investment managers to conform to the Plan's Statement of Investment Principles. The investment consultant confirms that each mandate satisfies the principles of this Statement as part of their appointment.

9.7 The IIC reviews the turnover and ongoing investment costs on an annual basis and has appointed a specialist provider to report on these costs using current industry standard templates. Where an investment manager is unable to provide the information using the current industry standard template, this will be assessed separately by the IIC. Based on the guidance from its investment advisor, each portfolio has an expected investment turnover range. Deviations from that range are reviewed with the investment manager.

9.8 Details of the appointed managers can be found in a separate document produced by the IIC entitled "Investment Policy Document", which is available to members upon request.

10. Realisation of Investments

10.1 The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

11. Cash Requirements

11.1 The DB Sections have varying cashflow requirements. The IIC reviews the cashflow for the DHL PIF and ensures each of the underlying Sections hold sufficient cash to meet the cashflow needs of that DB Section.

12. Additional Voluntary Contributions ("AVCs")

12.1 Each of the underlying Sections had a facility for members to contribute AVCs to enhance their benefits at retirement. The investment principles underlying the arrangements for AVCs are outlined in the Statement for the DC Section.

13. Environmental, Social, Governance ("ESG") risks

13.1 The DTL board delegates responsibility for the Plan's policy on ESG risks to the IIC.

13.2 The IIC believes that ESG issues, including climate change risks, can be financially material to security prices and should therefore be considered as part of the DHL PIF's investment process.

13.3 The IIC has given their investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The IIC believes that good active managers have considered how to best account for ESG factors in their investment process and that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation.

The evaluation of how the IIC's active managers have identified and managed material ESG risks, forms part of the IIC's ongoing appraisal of the manager's appointment.

13.4 The IIC believes that the impact of, and potential policy responses to, climate change creates a material financial risk. In particular, the Directors believe that companies should adjust their business strategies to align with the 2015 Paris Agreement and those that fail to do so can face significant downside, and stranded asset, risks. The IIC expects their investment managers to take into account how companies are adjusting their business strategies to align with the 2015 Paris Agreement, and ensure that any exposure to stranded asset risk, is considered in the selection of individual investments. The identification and integration of climate change risks form part of the IIC's monitoring and ongoing assessment of their managers.

13.5 The IIC believes that active stewardship can improve investment returns and should therefore be considered when appointing active managers.

13.6 The IIC believes that investments in businesses and corporate entities that are involved in the production of controversial weapons are not appropriate under any circumstances. The definition of controversial weapons is likely to develop over time as the Directors consider this and discuss it with investment managers, but is defined (as a minimum) as weapons which are contrary to international treaties or conventions. These investments are prohibited within the Plan's segregated mandates. The Directors understand that given the nature of the Plan's segregated mandates, this exclusion is unlikely to have a material impact on the financial outcomes of the investment portfolios.

13.7 It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG and climate change risks are taken into account is left to the discretion of the investment manager and forms part of the IIC's monitoring and ongoing assessment of these investments.

13.8 The DTL Board and IIC do not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

14. Stewardship: Exercise of voting rights and engagement activities

14.1 The DTL board delegates responsibility for the Plan's policy on stewardship including the exercise of voting rights and engagement activities to the IIC. The IIC believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

14.2 The IIC has given their investment managers full discretion in exercising rights and stewardship obligations relating to the DHL PIF's investments. The IIC expects all their fund managers to monitor investee companies and engage with management on all relevant stewardship matters including performance, strategy, capital structure, risks, management of actual or potential conflicts of interest, social and environmental impact and corporate governance. Furthermore, the IIC encourages its fund managers to work collectively with other managers when practical.

14.3 The IIC requires all appointed fund managers to report regularly to the IIC and disclose all voting and engagement activity undertaken on its behalf. The IIC monitors the approach of each investment manager. In particular, the IIC review the positive outcomes each manager has achieved through its engagement activities and the alignment of the managers' stewardship activities with the DHL PIF's long-term investment horizon.

14.4 The IIC may engage with its investment managers as part of its stewardship monitoring process or, potentially, as a particular stewardship matter is brought to its attention. The IIC has not had and does not expect, direct engagement with the issuers or other holders of debt or equity.

14.5 The IIC is supportive of the UK Stewardship Code ("the Code") and expects the DHL PIF's managers to comply with the Code. Investment managers are required to report on the extent of their adherence to the UK Stewardship Code on an annual basis.

14.6 The IIC expects its fund managers to have effective policies addressing potential conflicts of interest in matters of stewardship. These will be reviewed periodically.

15. Monitoring & Reporting

15.1 The appointment of the investment managers will be reviewed by the IIC from time to time, based on the results of their monitoring of performance and process, and of compliance with the requirements in the Act concerning diversification and suitability, where relevant.

15.2 The Bank of New York Mellon Corporation is used as an external independent performance monitoring agency to consider the DHL PIF's and investment managers' performance against the benchmarks against which they are monitored.

15.3 The IIC hold regular meetings with the investment managers to satisfy themselves that they continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the DHL PIF. The investment managers are also reviewed in light of their approach to material ESG risks as well as their approach to stewardship as outlined in section 13 and section 14.

15.4 The IIC believes that custodian services are a vital part of the management of the DHL PIF's assets and recognise the importance of monitoring the custodial arrangements, which is carried out on a regular basis.

15.5 The DTL board will provide an implementation statement within its annual report and publish it on the Plan's website. The implementation statement will set out how the DTL board has acted on the principles within this Statement and will provide details of the stewardship, engagement and voting undertaken with regards to the Plan's investments.

16. Review of this Statement

16.1 The DTL board will review this Statement, with recommendations from the IIC, 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 DTL board 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 DHL PIF investments.