

INVESTMENT POLICY IMPLEMENTATION DOCUMENT

AUGUST 2020

LUFTHANSA PENSION PLANS

1. Introduction

- 1.1 The Investment Policy Implementation Document ("IPID") has been prepared by Lufthansa UK Pension Trustee Limited (the "Trustee").
- 1.2 It sets out a description of the investment arrangements of the Lufthansa German Airlines Retirement Benefits Plan (1974), LSG Sky Chefs UK Limited Retirement Fund and Hawker Pacific Aerospace Pension Plan (the "Plans"). It should be read in conjunction with the Statement of Investment Principles ("SIP") for each Plan, which set out the principles underlying these arrangements.
- 1.3 The Trustee has obtained written professional advice from the Plans' investment consultant in preparing the IPID.

2. Strategic and Day-to-Day Management

- 2.1 In order to meet its objectives, the Trustee has established an investment policy for the Plans in conjunction with advice received from its investment consultants and input from the Sponsor companies.
- 2.2 The Trustee's investment policy encompasses a set of funding level triggers, according to which the strategic asset allocation of each Plan is set.
- 2.3 Decisions relating to the day-to-day management of the Plans' assets has been delegated to an investment manager, Mercer Global Investment Europe ("MGIE"), in accordance with guidelines agreed with the Trustee. The Plans' assets are managed on a fund of funds basis, whereby the selection of underlying investment managers is delegated to MGIE. The Trustee regularly reviews the performance and ongoing suitability of MGIE and the underlying investment managers.

3. Funding Level Triggers

- 3.1 The Trustee has a de-risking framework for each Plan to achieve the Plans' long-term funding objectives. This comprises a number of funding level triggers, which reference a 'required return' to achieve the long-term funding objectives. The required returns provide guidance on when to de-risk the Plans' assets in terms of switching from growth to matching assets. When funding level triggers are breached, MGIE will transition the de-risking of the investment strategy without requiring further Trustee instruction.
- 3.2 Full details of the de-risking policies, including the funding level trigger frameworks, are outlined below.

4. Lufthansa German Airlines Retirement Benefits Plan Investment Strategy

4.1 Strategic Asset Allocation

The strategic asset allocation as at 31 July 2020 is set out below. Please note that due to the de-risking framework in place, these target allocations will change over time should the pre-agreed funding level triggers be breached.

| Asset Class | Current Strategic Allocation (%) |
|-------------------------------------|----------------------------------|
| Multi-Asset Credit | 5.0 |
| Absolute Return Fixed Income | 5.0 |
| Corporate Bonds/Tailored Credit | 43.7 |
| Liability Driven Investment ("LDI") | 46.3 |
| Total | 100.0 |

4.2 Investment Manager Guidelines

MGIE will invest in the funds as set out below.

| Fund | Benchmark/Target | Active/ Passive | Initial Allocation* (%) |
|--|---|--------------------|-------------------------|
| Mercer Multi-Asset Credit Fund | Citigroup GBP 1 Month Euro Deposit + 3-5% | Active | 5.0 |
| Mercer Absolute Return Fixed Income Fund (Hedged) | Citigroup GBP 1 Month | Active | 5.0 |
| Mercer Tailored Credit Fund 1 | Harvest efficient credit spread premium (buy and maintain approach) | Active | 43.7 |
| Mercer UK Long Gilt Fund | Bespoke gilt-based | Passive | 4.5 |
| Mercer Flexible LDI £ Fixed Enhanced Matching Fund 2 | Bespoke gilt-based | Passive | 4.8 |
| Mercer Flexible LDI £ Fixed Enhanced Matching Fund 3 | Bespoke gilt-based | Passive | 4.8 |
| MGI UK Inflation Linked Bond Fund | Bespoke gilt-based | Passive | 20.7 |
| Mercer Sterling Inflation Linked LDI Bond Fund | Bespoke gilt-based | Passive | 1.8 |
| Mercer Flexible LDI £ Real Enhanced Matching Fund 1 | Bespoke gilt-based | Passive | 4.8 |
| Mercer Flexible LDI £ Inflation Enhanced Matching Fund 1 | Bespoke gilt-based | Passive | 4.9 |
| MGI UK Cash Fund | FTSE GBP 1 Month Euro Deposit | Passive | 0.0 |
| Total | | | 100.0 |

Figures subject to rounding.

*The allocations will be rebalanced following a trigger breach or annual review.

Where a de-risking trigger is breached, the proceeds will be held in cash pending a review of the Scheme's Liability Driven Investment portfolio.

4.3 Funding Level Triggers

The Trustee has agreed funding level triggers to reduce risk as the funding level approached the investment objective. The current funding level triggers, which will be reviewed periodically, are set out below.

| Funding Level Band | Trigger to move into Band (Funding Level %) | | | | | | | Target Growth Allocation (% of total assets) |
|--------------------|--|----------------------------|-------------------------------|-------------------------------|-----------------------------|----------------------------|-------------------------------|--|
| | Effective from Start* | Effective from 1 July 2020 | Effective from 1 October 2020 | Effective from 4 January 2021 | Effective from 1 April 2021 | Effective from 1 July 2021 | Effective from 1 October 2021 | |
| 1 | - | - | - | - | - | - | - | 10 |
| 2 | 102.8 | 103.1 | 103.4 | 103.6 | 103.9 | 104.1 | 104.4 | 5 |

* Taken as the effective date of the latest investment Guidelines

The Trustees have also implemented a downside monitoring trigger, which if breached will result in discussion around whether any further action is required in response to a deterioration of the funding position. This will be reviewed periodically and at present is set at 95.9%.

5. LSG Sky Chefs UK Limited Retirement Fund Investment Strategy

5.1 Strategic Asset Allocation

The strategic asset allocation as at 31 July 2020 is set out below.

| Asset Class | Strategic Allocation (%) |
|-------------------------------------|--------------------------|
| Multi-Asset Credit | 5.0 |
| Corporate Bonds/Tailored Credit | 42.5 |
| Liability Driven Investment ("LDI") | 52.5 |
| Total | 100.0 |

5.2 Investment Manager Guidelines

MGIE will invest in the funds as set out below.

| Fund | Benchmark/Target | Active/ Passive | Initial Allocation*(%) |
|---|---|--------------------|------------------------|
| Mercer Multi-Asset Credit Fund | Citigroup GBP 1 Month Euro Deposit + 3-5% | Active | 5.0 |
| Mercer Tailored Credit Fund 1 | Harvest efficient credit spread premium (buy and maintain approach) | Active | 42.5 |
| MGI UK Long Gilt Fund | Bespoke gilt-based | Passive | 39.4 |
| MGI UK Inflation Linked Bond Fund | Bespoke gilt-based | Passive | 10.0 |
| Mercer Flexible LDI £ Real Enhanced Matching Fund 1 | Bespoke gilt-based | Passive | 3.1 |
| MGI UK Cash Fund | FTSE GBP 1 Month Euro Deposit | Passive | 0.0 |
| Total | | | 100.0 |

Figures subject to rounding.

*The allocations will be rebalanced following a trigger breach or annual review.

5.3 Funding Level Triggers

The Trustees have also implemented a downside monitoring trigger, which if breached will result in discussion around whether any further action is required in response to a deterioration of the funding position. This will be reviewed periodically and at present is set at 91.1%.

6. Hawker Pacific Aerospace Pension Plan Investment Strategy

6.1 Strategic Asset Allocation

The strategic asset allocation as at 31 July 2020 is set out below. Please note that due to the de-risking framework in place, these target allocations will change over time should the pre-agreed funding level triggers be breached.

| Asset Class | Strategic Allocation (%) |
|-------------------------------------|--------------------------|
| Multi-Asset Credit | 5.0 |
| Absolute Return Fixed Income | 10.0 |
| Corporate Bonds/Tailored Credit | 43.5 |
| Liability Driven Investment ("LDI") | 41.5 |
| Total | 100.0 |

6.2 Investment Manager Guidelines

MGIE will invest in the funds as set out below.

| Fund | Benchmark/Target | Active/ Passive | Initial Allocation* (%) |
|---|---|--------------------|-------------------------------|
| Mercer Multi-Asset Credit Fund | Citigroup GBP 1 Month Euro Deposit + 3-5% | Active | 5.0 |
| Mercer Absolute Return Fixed Income Fund | Citigroup GBP 1 Month | Active | 10.0 |
| Mercer Tailored Credit Fund 1 | Harvest efficient credit spread premium (buy and maintain approach) | Active | 43.5 |
| MGI UK Long Gilt Fund | Bespoke gilt-based | Passive | 5.7 |
| Mercer Flexible LDI £ Fixed Enhanced Matching Fund 3 | Bespoke gilt-based | Passive | 8.4 |
| Mercer Flexible LDI £ Real Enhanced Matching Fund 1 | Bespoke gilt-based | Passive | 8.5 |
| Mercer Flexible LDI £ Real Enhanced Matching Fund 2 | Bespoke gilt-based | Passive | 5.1 |
| Mercer Flexible LDI £ Real Enhanced Matching Fund 3 | Bespoke gilt-based | Passive | 8.0 |
| Mercer Flexible LDI £ Inflation Enhanced Matching Fund 1 | Bespoke gilt-based | Passive | 5.8 |
| MGI UK Cash Fund | FTSE GBP 1 Month Euro Deposit | Passive | 0.0 |
| Total | | | 100.0 |

Figures subject to rounding.

*The allocations will be rebalanced following a trigger breach or annual review.

Funding Level Triggers

The Trustee has agreed funding level triggers to reduce risk as the funding level approached the investment objective. The current funding level triggers, which will be reviewed periodically, are set out below.

| Funding Level Band | Trigger to move into Band (Funding Level %) | | | | | | | Target Growth Allocation (% of total assets) |
|--------------------|---|----------------------------|-------------------------------|-------------------------------|-----------------------------|----------------------------|-------------------------------|--|
| | Effective from Start* | Effective from 1 July 2020 | Effective from 1 October 2020 | Effective from 4 January 2021 | Effective from 1 April 2021 | Effective from 1 July 2021 | Effective from 1 October 2021 | |
| 1 | - | - | - | - | - | - | - | 15 |
| 2 | 91.4 | 92.3 | 93.3 | 94.4 | 95.4 | 96.4 | 97.4 | 10 |

* Taken as the effective date of the latest investment Guidelines

The Trustees have also implemented a downside monitoring trigger, which if breached will result in discussion around whether any further action is required in response to a deterioration of the funding position. This will be reviewed periodically and at present is set at 84.3%.

7. Rebalancing Arrangement

- 7.1 Following suitable advice from the investment consultant, the Trustee has put into place a regular cash flow management policy for the Plans' administrators to follow. MGIE will use their discretion on where disinvestments are sourced from and investments are made to as and when they are required. Disinvestments and investments will be made in accordance with the Plans' strategic asset allocations as outlined above.
- 7.2 If there is to be a deviation from this policy, Mercer will contact the Trustee and seek their approval.

8. Monitoring the Investment Manager

- 8.1 Every quarter a performance report will be produced presenting the performance of both the overall MGIE fund and underlying sub-funds. Changes and/or developments at the underlying investment managers will also be reported as part of this quarterly report.

9. Investment Management Fees

- 9.1 A fee of 14.8 basis points ("bps") is paid to Mercer based on the amount of assets invested in the MGIE funds for the combined Plans.
- 9.2 The investment management fees paid in addition to the above MGIE fee will vary depending on the strategic asset allocation for each Plan and underlying investment managers used. As at the date of this document, the weighted average investment management fees were as follows:
 - Lufthansa German Airlines Retirement Benefits Plan: 8bps
 - LSG Sky Chefs UK Limited Retirement Fund: 6bps
 - Hawker Pacific Aerospace Pension Plan: 10bps

10. **Compliance with this Document**

- 10.1 The Trustee will monitor compliance with this IPID on a regular basis and will review it in response to any material change to any aspects of the Plans' investment policies.

Signed for and on behalf of the Lufthansa UK Pension Trustee Limited

Christian Rodarius

Clive Grimley

Signed

Signed

29 September 2020
Date

29 September 2020
Date