John Deere UK Pension Scheme

Statement of Investment Principles – May 2020

1. Background

This Statement sets down the principles governing decisions about investments for the John Deere UK Pension Scheme (the "Scheme") to meet the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Trustees refer to this Statement when making investment decisions. In preparing it, the Trustees have consulted John Deere Limited and John Deere Bank SA (the "Sponsors").

The investment responsibilities are governed by the Scheme's Trust Deed of which this Statement takes full regard.

As required under the Act, in preparing this Statement the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Limited ("Mercer"), which is authorised and regulated by the Financial Conduct Authority ("FCA") in relation to investment services.

Overall investment policy falls into three parts. The strategic management of the assets is fundamentally the responsibility of the Trustees, acting on advice from their investment consultant, Mercer, and is driven by their investment objectives as set out in Section 3 below. The second element is the day to day management of the assets, which is delegated to a professional investment manager. The final part is the ongoing measurement and monitoring of the performance of the appointed manager against predetermined benchmarks. Again, this is the responsibility of the Trustees.

2. Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Agree the level of risk consistent with meeting the objectives set.
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the 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 the Act (as amended).

3. Investment Objectives and Risk

3.1. *Investment Objectives*

The Trustees aim 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 framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' main objectives are:

- To make sure that the obligations to the beneficiaries of the Scheme can be met.
- To pay due regard to the Sponsors' interests on the size and incidence of the Sponsors' contribution payments.

At the latest actuarial valuation, the Actuary assumed that the Scheme's assets will achieve an investment rate of return on assets which exceeds that available from gilts. Based on advice from the investment consultant about realistic long-term assumptions, the Trustees expect the investment return resulting from the strategy adopted to at least meet the prudent expectations of the Actuary.

3.2. *Risk*

There are various risks to which any pension scheme is exposed. The Trustees consider the risks set out below to be financially material to the Scheme over its anticipated lifetime. The Trustees have therefore adopted the following policy on risk management:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustees aim to mitigate this risk by investing the Scheme's assets in instruments that are expected to react in a similar way to movements in long term interest rates and inflation expectations as the Scheme's liabilities.
- 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 accruing liabilities, as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of taking investment risk.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the investment manager appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment manager is prevented from investing in asset classes outside of their mandate without the Trustees' prior consent.

- Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the investment manager. These reports include an analysis of the overall level of return, along with its component parts, to ensure the returns achieved are consistent with those expected.

- The 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 management involves such a risk and so a large component of the Scheme's assets are passively managed.

- The Trustees believe that Environmental, Social and Governance ("ESG") issues, including climate change, may have substantive impacts on the global economy and therefore investment returns. The Trustees seek to minimise the risks associated with such issues by taking them into account in the selection, retention and realisation of investment managers. Section 10 of this Statement documents the Trustees' policy on ESG integration.

- The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).

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

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Sponsors.

3.3. Investment Strategy

The Trustees implement an investment strategy consistent with its investment objectives. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

The Trustees have given full discretion to the Scheme's investment manager in the day to day management of the Scheme's assets, subject to the investment restrictions set out in Sections 4 to 8.

4. Asset Allocation and Liability Hedging Strategy

The Trustees regard the choice of asset allocation and liability hedging policy as the decision which has most influence on the likelihood that they will achieve their investment objectives. In deciding the asset allocation and liability hedging strategy, the Trustees take advice from Mercer and the Scheme's Actuary and make their decisions in consultation with the Sponsors.

The long-term strategy that has been adopted is shown below and was identified as a strategy that was suitable to meet the investment objectives in Section 3.

Asset Class	Target Allocation %	Rebalancing Range %
Buy and Maintain Corporate Bonds	55.0	50.0 – 60.0
Liability Driven Investment ("LDI")	45.0	40.0 – 50.0
Total	**100.0**	**-**

The rebalancing ranges quoted in the table above are used by the Scheme's investment manager, Legal & General Investment Management Limited ("LGIM"), to rebalance between the Scheme's buy and maintain corporate bond and LDI portfolios.

The Trustees' objective is to hedge 100% of the impact of changes in long-term interest rates and inflation expectations on the value of the Scheme's liabilities (measured on the gilts +0.4% p.a. self-sufficiency basis). This is achieved via the use of a combination of UK government bonds and leveraged LDI solutions held within the LDI portfolio.

LGIM has discretion over the how the liability hedge within the LDI portfolio is constructed, using a range of eligible pooled funds specified by the Trustees. LGIM will monitor the level of liability hedging at each five-year tenor point, as well as at the total Scheme level, and will rebalance the hedge if the level of liability hedging is not within a ±3% tolerance range of the 100% target (at both the tenor point and total Scheme level). LGIM's objective is to maintain a pro-rata hedge relative to the term structure of the Scheme's liabilities, taking into account the liability hedging provided by the Scheme's allocation to the Buy and Maintain credit fund.

The strategy will be reviewed after each triennial actuarial valuation, though if there is a significant change (in the opinion of the Trustees) in capital markets, the circumstances of the Scheme and/or the Sponsors, or the governing legislation between valuations, then an earlier review will be conducted.

5. Investment Manager Structure and Objectives

The Scheme's assets are invested in a portfolio of pooled UK government bond and leveraged LDI funds, as well as in a pooled global buy and maintain corporate bond strategy. LGIM may also invest a proportion of the Scheme's assets in two cash funds from time to time for liquidity management purposes. The Trustees are satisfied that the spread of assets by type and the investment manager's policies on investing in individual securities within each type provides adequate diversification of investments.

The investment objective of the pooled UK government bond funds is to either provide a return that is consistent with the bond in which the fund invests, as is the case for funds that gain exposure to individual UK government bonds, or to deliver a return that is consistent with the UK government bond index the fund is designed to track. For such funds, LGIM aims to deliver a return that is within ±0.25% of the benchmark index each year, for two out of every three years.

The investment objective of the leveraged LDI funds is to provide leveraged exposure to underlying gilts, or exposure to swaps, in order to hedge against changes in the value of the liabilities of LGIM's pension fund clients that are driven by movements in interest rates and inflation expectations.

The investment objective of the global buy and maintain corporate bond strategy is to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade bonds and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality. Overseas interest rate and currency exposure arising via LGIM's investment in non-UK bonds are hedged back to Sterling within the fund.

The policy for investing new contributions is outlined in Section 7.

The Trustees signed a Proposal Form with Legal & General Assurance (Pensions Management) Limited, which led to the issuance of an insurance policy rather than an investment management agreement. Two of the major benefits of investing via an insurance policy are a favourable tax treatment and the protection afforded by the Policyholders Protection Act.

Legal & General Assurance (Pensions Management) Limited is an insurance company and as such is regulated by the FCA and the Prudential Regulation Authority. The day to day responsibility for the investment management of the Scheme's assets is delegated to an associate company, LGIM, which is regulated by the FCA.

The Proposal Form and its attached Principles of Operation set out the terms under which the assets are managed. The investment briefs, guidelines and restrictions under which LGIM operate have been agreed in writing via an Enhanced Service Agreement ("ESA").

The safekeeping of assets is performed on behalf of LGIM by custodian banks specifically appointed to undertake this function, and whose appointment is reviewed at regular intervals by LGIM. The contractual arrangements with the custodian banks offer, in LGIM's opinion, a very high level of protection against negligence or default on the part of the custodian banks.

6. Investment Restrictions

As the Scheme's assets are invested in pooled funds, the investment restrictions applying to these pooled funds are determined by the manager, and are detailed in the insurance policy and ESA agreed between the Trustees and the manager.

7. Realisation of Investments

In general, the Scheme's investment manager has discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The investment manager has a responsibility for generating any cash required when instructed by the Trustees.

The investment manager invests and disinvests cashflows in order to maintain the Scheme's asset distribution as close as possible to the overall benchmark allocation between the buy and maintain corporate bond and LDI portfolios, as well as maintain the level of liability hedging in line with the 100% target as far as possible.

8. Recapitalisation and Releveraging

Since the LDI portfolio contains leveraged funds, the Trustees also consider the impact of recapitalisation and releveraging of these funds on the asset allocation and liability hedging policy.

The Trustees have delegated to LGIM the responsibility of maintaining the overall level of hedging, as well as the structure of the hedge, in the event of a recapitalisation or releveraging event.

Under the terms of the ESA, physical gilts would be sold in the first instance to raise the additional cash required to maintain the hedge ratio (with an expected increase in the amount of leverage employed at the total Scheme level), subject to the asset allocation between the buy and maintain corporate bond and LDI portfolios being within the tolerance ranges set around the target benchmark allocations.

In an instance where the asset allocation and hedge ratio target cannot be maintained as a result of market movements and the Scheme does not hold any physical gilts to sell, LGIM will prioritise the maintenance of the hedge ratio.

Should a re-leveraging event occur within any of the leveraged LDI funds, the Trustees have delegated to LGIM the discretion to use the cash released to reduce the funding cost of maintaining the hedge ratio by purchasing physical gilts and selling leveraged gilts (i.e. deleveraging at the total Scheme level) or to rebalance the Scheme’s asset allocation towards the target benchmark (whilst maintaining the hedge ratio) or to be retained as cash for liquidity management purposes.

9. Monitoring the Investment Manager, Advisers and Decision Making

The investment manager is appointed based on the strength of its capabilities and the perceived likelihood of the manager achieving the expected return and risk characteristics required for the asset classes in which the Scheme invests.

The Trustees will seek guidance from their investment consultant on their forward looking assessment of the manager’s ability to deliver upon its stated objectives over a full market cycle. This view will be based on the consultant’s assessment of the manager’s idea generation, portfolio construction, implementation and business management (amongst other things), in relation to the particular strategies that the Scheme invests in. The consultant’s manager research ratings assist with due diligence and (where available) are used in decisions around selection, retention and realisation of manager appointments.

The Trustees will review an appointment if the investment objective for a manager’s fund changes to ensure it remains appropriate and consistent with the Trustees’ wider investment objectives. As the Scheme invests in pooled investment vehicles, the Trustees accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will look to review the appointment.

The performance of the investment manager is not measured independently at present. However,the Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, year-to-date, 1 year, 3 years, 5 years and since inception.

The Trustees review the absolute performance of the relevant funds, as well as their relative performance versus a suitable benchmark index (where appropriate) and against the manager's stated performance targets (over the relevant time period). The Trustees' focus is on long term performance. However, as noted above, they may review a manager's appointment if:

- There are sustained periods of the manager failing to achieve its stated investment objectives.
- There is a change in the portfolio manager of a fund.
- There is a change in the underlying objectives of the investment manager.
- There is a significant change to the investment consultant's rating of the manager.

The Trustees are long term investors and are not seeking to change investment arrangements on a frequent basis. As the Trustees are invested in open-ended pooled funds, there is no set duration for the appointment of the investment manager. The Trustees will therefore retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to a particular asset class, or the Trustees decide to terminate the mandate following a review of the manager's performance or otherwise.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management plus an additional fee under the ESA for managing the interest rate and inflation sensitivity of the Scheme's assets to the target set by the Trustees.

The Trustees do not actively monitor portfolio turnover costs. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask the manager to report on portfolio turnover cost.

The Trustees meet the investment manager from time to time to review their actions together with the reasons for and background behind the investment performance. As already mentioned, Mercer assists the Trustees in fulfilling their responsibility for monitoring the investment manager.

From time to time the Trustees will review their advisers and the effectiveness of their own decision making.

10. Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues, including climate change, may have a material impact on investment risk and return outcomes. The Trustees have given the investment manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to any of the Scheme's investments. The investment manager is encouraged to exercise these rights in accordance with the UK Corporate Governance Code and UK Stewardship Code. The Trustees will review the investment manager's policies and engagement activities on an annual basis.

The Trustees consider how ESG, climate change and stewardship is integrated within the investment process in appointing new investment managers and monitoring the existing investment manager, through the use of ESG ratings provided by the Scheme's investment consultant. The Trustees will consider how the manager's approach to ESG integration, climate change, stewardship and responsible investment aligns with the Trustees' policies when determining future investment strategy decisions including the selection, retention and realisation of manager appointments. .

The Trustees do not take into account members' views on non-financial matters, including their ethical views, in the selection, retention and realisation of investments, given the difficulty in determining members' views and applying these to a single Scheme investment strategy. However, this position may be reviewed in the future.

11. Additional Assets

Members of the Scheme, who wish to do so, pay Additional Voluntary Contributions ("AVCs"). Members may pay AVCs in "money purchase" style AVC vehicles.

Assets in respect of members' AVCs are held with the Equitable Life Assurance Society, Legal & General Assurance Society and Standard Life Assurance Company in a range of funds.

12. Advisors

12.1. Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment manager.

The Trustees are not responsible for the appointment of the custodians of the assets contained within the various pooled fund investments.

12.2. Actuary

The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the Sponsors' contribution rate.

12.3. Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to an investment manager, all other investment decisions, including strategic asset allocation and selection and monitoring of the investment manager, is based on advice received from the investment consultant. Mercer has been appointed for this purpose.

13. Fee Structures

13.1. Investment Manager's Fees

Annual investment management fees are based on the market value of the Scheme's assets managed by the manager. There is no performance related fee.

The Scheme also pays an additional fee based on the market value of the Scheme's assets (subject to a minimum of £35,000 per annum) for the additional services covered under the ESA.

13.2. Investment Adviser's Fees

The fees for Mercer are either based on fixed quotes for particular projects or on a time cost basis. To ensure that the advisers continue to provide appropriate advice, the Trustees will formally assess their investment adviser from time to time.

14. Review of this Statement

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsors that they judge to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and the Sponsors will be consulted.

The Trustees of the John Deere UK Pension Scheme

………………………………………… Date ………………….
Trustee

………………………………………… Date ………………….
Trustee