Siemens Benefits Scheme

DB Implementation Statement
Year Ended 30 September 2020

Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee is required to produce an annual Implementation Statement, setting out how the policies described in the Scheme's Statement of Investment Principles ("SIP") have been followed.

This is the first such statement prepared by the Trustee of the Siemens Benefits Scheme. It is intended to meet the updated regulations and will be included in the Scheme's Report & Accounts and made public online. In preparing this statement, the Trustee has taken advice from its professional advisors. This Statement focuses on the Defined Benefit ("DB") Section of the Scheme. A separate statement relating to the Defined Contribution ("DC") Section can be found on www.siemens.co.uk/pensions.

This Implementation Statement covers the period 1 October 2019 to 30 September 2020, the Scheme's reporting year, in line with the regulations that came into force in October 2019. As this is the first Implementation Statement to be produced by the Trustee, it is expected to evolve over time.

The document sets out, at a high level, how the Trustee's policies under the terms of the SIP have been implemented. In addition, where relevant, the document describes the areas of the portfolio where stewardship and engagement are most likely to be financially material. As part of this, the statement discloses the Trustee's opinion on the outcomes of voting activity for managers that hold listed equities (see appendix).

This Implementation Statement should be read in conjunction with the SIP which was in effect during the reporting period. This SIP is appended to this Statement. An updated SIP, which came into effect from 30 September 2020, can be accessed here:

https://assets.new.siemens.com/siemens/assets/api/uuid:f45a478a-0e92-4e6e-ac15-1434e4e85e2d/siemens-benefits-scheme-statement-of-investment-principles.pdf

The Trustee confirms that the policies set out in the SIP have been appropriately followed over the year to 30 September 2020.

Summary of how investment decisions are taken

The Trustee has established an Investment, Covenant and Funding Committee ("ICFC") which considers issues, including investments, the Trustee faces in relation to the both the DB and DC sections. The ICFC's remit includes developing and implementing investment strategies, monitoring investment advisors, fund managers and investments. This is done in conjunction with the Scheme's investment advisors and reporting to the Full Board for approval of specific decisions as required by the Committee's terms of reference. The ICFC then regularly monitors these investments and strategies to ensure they are meeting expectations and to make changes where necessary. The Trustee has also appointed an Investment Executive to assist in carrying out these duties.

For the DB Section, the investment strategy is set with the aim of ensuring that the Scheme can meet its obligations to the beneficiaries when they fall due. The Trustee has sought guidance and obtained advice from its investment advisor as appropriate when undertaking investment decisions to meet this objective. For example, the Trustee has received formal written advice from its advisors in respect of new two new credit investments in the Scheme's DB Section over the period into funds managed by Capital Group, Federated Hermes and PIMCO.

Changes to the SIP over the period

The SIP covering the reporting period was reviewed and amended in June 2019 and was published online. The amendments take account of the Scheme's policies and objectives in relation to new regulations which came into effect from 1st October 2019. The main changes set out:

- How the Trustee takes account of 'financially material risks', including (but not limited to) Environmental, Social and Governance factors such as climate change and the impact that these risks could have on the value of investments held.
- How Stewardship activity is carried out by or on behalf of the Trustee.

The Trustee consulted with the Sponsor when making these changes and obtained written advice from its investment advisors.

In September 2020, the SIP was revised to incorporate updated DB investment strategy allocation ranges following an investment strategy decision made by the Trustee to divest from the Scheme's diversified risk premia mandates and to invest the proceeds into credit mandates (the Trustee made this decision in order to allocate more to less risky assets with less volatile returns). In addition, the SIP was reviewed and revised to take account of further regulatory changes which were required for policies on cost transparency, and how asset managers are incentivised. The Responsible Investment section of the SIP was also updated in line with the increasing relevance of issues such as climate change, stewardship and ESG integration. As part of this review, the DB and DC SIPs were combined into one SIP given a number of policies and objectives are consistent and relevant to both sections.

How the Trustee has met the Objectives & Policies Outlined in the SIP

1. Investment Governance

There were no changes to the Scheme's governance structure over the year to 30 September 2020. The Scheme's governance structure includes the role of the ICFC, the role of the Investment Executive, and the way in which the ICFC takes professional advice.

The ICFC continued to receive training on relevant topics from its actuarial, investment and legal advisors and its investment managers (as appropriate). The ICFC also monitored the Scheme's managers on a quarterly basis using reporting provided by their investment advisors as well as attending "manager days" in which they speak directly with the managers on matters including performance, investment strategy, investment process, responsible investment, stewardship and engagement. As well as ongoing training through the quarterly meeting cycle, training also includes a separate annual training day and bespoke training for new Trustee Directors.

Following a review of the investment consulting and fiduciary management industry by the Competition and Markets Authority ("CMA"), trustees of occupational pension schemes are now required to set strategic objectives for their provider of investment consultancy services. The ICFC agreed investment advisor objectives in accordance with the CMA requirements over the period and will score its investment advisors on an annual basis using qualitative and quantitative evidence against a range of areas including: demonstration of added value; delivery of specialist services; proactivity of advice; support with management and compliance; and relationship and service standards.

The Trustee is satisfied that the investment governance processes in place for the Scheme are consistent with the SIP and is appropriate for the circumstances of the Scheme.

2. Investment Strategy and Risk Management

The Trustee keeps the investment strategy under review with its advisors and accordingly made the following key changes to the DB investment strategy over the period.

1. The Trustee implemented a liquidity waterfall process. This is a formal process for rebalancing the Scheme's assets between the Scheme's primary (Liability Driven Investment or "LDI" portfolio) and secondary (absolute return bonds) sources of collateral. The rationale was to implement a process that improves collateral efficiency by a) helping to increase returns on the available collateral and b) reducing the time necessary to raise primary collateral to meet any shortfall that may arise in the LDI portfolio. The Trustee chose to implement the liquidity waterfall using the following managers: the LDI manager (LGIM) and two new absolute return bond fund managers (PIMCO and Federated Hermes).
2. Over the period, the Trustee fully disinvested the Scheme's diversified risk premia allocations with AQR and Bridgewater and invested in credit portfolios managed by Capital Group, Federated Hermes and PIMCO. This decision was taken due to the market impact of the Covid-19 pandemic, which led to widening credit spreads, which in turn increased the forward-looking long-term expected return on credit assets. The Trustees viewed this as a positive move as credit assets provide contractual, less volatile returns relative to the diversified risk premia mandates, thus providing a more stable path for the Scheme to meet its principal objective of meeting its liabilities when they fall due.
3. The Trustee completed an additional buy-in transaction with Legal and General covering c.£550m of liabilities, funded using excess collateral from the LDI portfolio. Prior to executing this transaction, the Trustee considered the implications to the investment strategy and the risk profile of the Scheme. The Trustee completed this transaction on the understanding that it would better help it serve its principal objective as it substantially reduced the Scheme's longevity risk.

For most of the year under review, the Scheme had a target expected return of gilts +1.0% and a target asset allocation over the period of 50% LDI, 10% Liquid Markets, 34% Liquid and Semi-Liquid Credit, 1% Illiquid Credit and 5% Illiquid Market strategies (this allocation was revised when the SIP was updated in September 2020). These metrics are reported to the Trustee on a quarterly basis and where the metrics move outside of target, a discussion around whether to rebalance is triggered at the quarterly Trustee Board meeting. Over the period, as a result of the market volatility caused by Covid-19, the Scheme's DB assets moved outside the target asset allocation ranges in Q1 2020 and remained there for a number of months, for example, as of 30 June 2020, the Scheme had a slight overweight in the LDI portfolio (56% vs. 50% target, where the permitted range was only 5%), and a slight underweight to liquid markets (6% vs. 10% target, where the permitted range was only 5%). The Trustee agreed that not rebalancing the assets was appropriate in this instance and instead opted to maintain this breach for a relatively short amount of time, given the broader context of ongoing changes to the investment strategy (i.e. the full disinvestment from AQR and Bridgewater) and the changes due to be made to the target allocations in the SIP (implemented at the end of the reporting period and will be further discussed in next year's Implementation Statement).

As the Scheme is well funded on a prudent basis, it is able to pursue a low-risk strategy that seeks to maintain its current strong position and to hedge unrewarded risks, such that the dominant investment risk is investment grade credit risk, which is run in order to target asset out-performance over gilts. The Scheme hedges its interest rate and inflation risk arising from pension liabilities, and currency and US interest rate risk arising from its credit assets. The Scheme maintains a high degree of liquidity in its asset allocation, especially as most assets are either gilts or other liquid credit assets.

In accordance with the SIP, the Scheme's progress vs. its strategic objectives is managed and monitored using a Pensions Risk Management Framework ("PRMF"), which is prepared by the investment advisor and is reviewed by the Trustee on at least a quarterly basis. Over the period, the Trustee used the PRMF to monitor various risks as outlined in the SIP, and in particular to ensure that:

- The expected return on investments was close to the return required to meet the primary funding objective of reaching full funding on a prudent gilts +0.25% basis by 2024.
- Investment risk (including that which arises due to mismatch between assets and liabilities) was being kept below agreed levels.
- The Scheme's hedging strategy remained in line with the agreed proportion of the Scheme liabilities.
- The Scheme maintained suitable liquid assets such that the Scheme would not be forced to sell return-seeking investments to pay member benefits or meet potential collateral calls.
- The level of diversification within the investment strategy remained sufficient.

The Trustee confirms that these targets were adhered to over the period. For completeness, and as set out in the SIP, the Trustee continued to consider all three of its bespoke illiquid assets (a Scottish Limited Partnership asset-backed funding arrangement and two buy-in policies) when determining the target investment strategy. These will continue to be included in all relevant analysis going forward.

The ICFC receives quarterly reporting from its investment advisor on the performance of its managers against their objectives as well as detailed risk analysis on the Scheme's overall position against its objectives. Additionally, the ICFC interacts with its managers through its advisors on an ad-hoc basis; for example, requesting details on each of their managers regarding crisis management in light of the outbreak of the Covid-19 pandemic.

As set out in the SIP, over the period the Trustee maintained a risk log (overseen by the Finance, Audit and Risk committee) which was used to track any risks identified, quantify them and outline any mitigations put in place – this was reviewed at each Trustee / sub-committee meeting. In addition, over the period, the Trustee continued to assess the ongoing strength of buy-in counterparties – to do this, the Trustee monitored developments in the counterparties' Solvency II capital requirement ratios (in absolute terms and relative to peers), which was done through the review of 6-monthly monitoring reports provided by Aon on the buy-in counterparties.

The Trustee is satisfied that the implementation of the investment strategy and risk management for the Scheme is consistent with the SIP and is appropriate for the circumstances of the Scheme.

3. Asset managers (reviews, selection and implementation)

Over the period, after seeking guidance and formal advice from its investment advisor, the Trustee selected and implemented new mandates within the Scheme's DB Section. The Trustee's investment advisor carries out checks on the appointment of new asset managers and monitors these managers on an ongoing basis for any significant issues that may be relevant to the Scheme's investment.

In addition to this, the Trustee continued to monitor and review its pre-existing investments over the period. The Trustee also monitored the extent to which its managers and providers adopt TCFD reporting and adhere to principles of responsible investment more broadly, as set out in the appendix. As set out in the SIP, the Trustee shared its SIP with the Scheme's asset managers and requested that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies; the Trustee is currently consolidating this information and the results of this will be included in the next iteration of the Implementation Statement.

The Scheme appointed three new credit managers, Capital Group, Federated Hermes and PIMCO, over the period. Prior to investing the ICFC received training from their investment advisor on the relevant asset classes, as well as detailed analysis which outlined how the new asset classes would affect the Scheme's strategic objectives as set out in the SIP. The Trustee considers (on a case by case basis), whether a mandate should be limited to a single asset class, investment strategy or style; or whether a mandate that combines multiple strategies together would be preferable.

Following these discussions, the ICFC met with the relevant managers, which provided the ICFC with the opportunity to ask questions to ensure that the managers invested in line with the Scheme's SIP. Upon gathering the views of the ICFC, the Trustee was confident that the strategies and decisions of the asset managers were consistent with the Scheme's SIP, which will be reviewed in light of any changes by the managers.

The Trustee reviewed the fees paid to all the Scheme's managers and compared them to market standards in order to ensure the Scheme was paying fees in line with, or better than, market standard for each of their mandates. Whilst the fees paid to each manager were in line with, or better than, market standard, the ICFC identified two potential fee-saving opportunities, and these are currently a point of discussion with the relevant manager.

Throughout the period, the Trustee closely monitored their allocations with AQR and Bridgewater. The Trustee reviewed potential alternatives for the investment strategy, as well as performance triggers which, if breached, would lead to further reviews of the strategies. Following the decision by the Trustee to disinvest completely from AQR and Bridgewater and invest into credit assets to take advantage of wider credit spreads, the ICFC developed a series of quantitative and qualitative triggers for reviewing each of the Scheme's credit managers going forward.

The Trustee has also received information relating to cost transparency and portfolio turnover for each of its asset managers over the period, and this has been included in the appendix for completeness. The Trustee confirms that these metrics are in line with expectations and that no further action is required.

The Trustee confirms that its policies with regards to selecting, implementing and monitoring of its asset managers as set out in the SIP have been appropriately followed throughout the period.

4. Responsible Investment

a. Environmental, Social and Governance ("ESG") Considerations

Over the period, the Trustee continued to take account of ESG factors by taking advice from the investment advisors when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

The Trustee used ratings information provided by the investment advisors, where relevant and available, to monitor the extent to which the Scheme's asset managers' have integrated ESG into their processes (including risks associated with climate change). All the Scheme's managers are UN PRI signatories[1]. Furthermore, on a quarterly basis, the Trustees' investment advisor provides a manager monitoring report containing the UN PRI rating at a firm level for the Scheme's investment managers and an MSCI ESG rating at a fund level for the relevant funds. This data is sourced UN PRI and MSCI. ESG integration and stewardship continued to be explicit topics of discussion between the Trustee, the investment advisors and prospective asset managers.

The Trustee is also currently organising training with its investment advisor on Responsible Investment and is also looking at the next steps required to better integrate ESG considerations into the DB Section's investment strategy, monitoring and decision-making. The Trustee is actively looking at

[1] Principles of Responsible Investment (PRI) is a United Nations supported international network of investors working together to implement its six aspirational principles.

better ways of measuring and managing climate-related risks. This project will be ongoing throughout the next reporting period and a further update will be provided in the next iteration of the Implementation Statement.

b. Stewardship, engagement and voting behaviour

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers. The Trustee's ability to influence investment managers' stewardship activities will depend on the nature of the investments held. As some of the Scheme's assets are invested in pooled funds – where the Trustee holds units in a fund rather than having any direct ownership rights over the underlying assets – the Trustee has less scope to influence managers' stewardship activities (although the Trustee is still able to challenge/question managers on their engagement practices in order to drive change). Where the Trustee has direct ownership of assets through segregated mandates, the Trustee's ability to influence investment managers' stewardship activities is much greater.

The Trustee's policy is to delegate responsibility for the engagement with relevant persons, which includes the exercising of rights, including voting rights, attaching to investments to the investment managers. Each investment manager is expected to exercise voting rights in accordance with their guidelines. The Trustee encourages its managers to engage with investee companies and promote adherence to best practice in corporate governance. The Trustee meets its managers periodically, where the managers will present on these activities and the Trustee holds the managers accountable to the standards expected from the Trustee.

Stewardship and engagement, including the use of voting rights, is most likely to be financially material in the sections of the portfolio where physical equities are held. During the period the Scheme held physical equities through its allocations to AQR Diversified Risk Premia and Bridgewater Optimal; however, it should be noted the Scheme was fully divested from both funds by 31st of August 2020. Although physical equities are also held in the portfolio through Equitix Investment Management, these are real assets and infrastructure where voting and engagement is generally less applicable as the manager is able to directly influence decisions without engaging in the same way as for example, listed equities. Engagement is considered to be of importance for all of the Scheme's other investment managers; Legal & General Investment Management, Capital Group Companies, Inc, Hermes Investment Management Limited, CQS (UK) LLP, Pacific Investment Management Company (PIMCO), Aviva Investors and CBRE Global Investors.

For the Scheme's managers that hold physical equities, an overview of votes cast during the year can be found in the appendix. As previously stated, the Scheme fully divested from AQR Diversified Risk Premia and Bridgewater Optimal as of 31st of August 2020 and therefore the disclosed voting statistics are provided as at date of redemption.

The following investment managers of the Scheme are signatories of the UK Stewardship Code; Capital Group Companies, Inc, Hermes Investment Management Limited, Aviva Investors, Equitix Investment Management Limited, Legal & General Investment Management and PIMCO. The code sets out a clear benchmark for stewardship as the responsible allocation, management, and oversight of capital to create long-term value. These managers have confirmed there has not been any non-compliance with the principles of the code and the Trustee is confident that they provide good quality and transparent reporting of their approach to stewardship. There are no immediate concerns with the fact that the other investment managers used by the Scheme are not signatories to the UK Stewardship Code. Further information on how each of the Scheme's managers have followed the stewardship and engagement policies set out by the Trustee, as well as full disclosure on which ESG-focused standards, codes and memberships the Scheme's managers are members of, can be found in the appendix.

The Trustee confirms that the stewardship, engagement and voting behaviour policies have all been adequately followed over the Scheme year, noting a number of recent changes to regulations in this area and the Trustee policies themselves. The Trustee will continue to disclose more information, as appropriate, on voting behaviour as well as stewardship and engagement next year in line with the commitment made in the 2020 SIP update.

Concluding remarks

The Trustee confirms that the policies set out in the SIP have been appropriately followed over the year to 30 September 2020.

The Trustee will disclose additional information, as appropriate, in next year's statement, to cover the policy changes reflected in the most recent SIP update.

Contact Details

If you have any questions or wish any additional information in relation to this statement, please contact Pensions, Secretary to the Scheme at:

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Appendix

1. Cost Transparency

The Trustee confirms that the costs provided by its managers were within expectations given the nature of each of the mandates, and as such, the Trustee is confident that no action is required on the back of these responses. This information will continue to be reviewed on an annual basis in case any calls to action arise and is expected to evolve over time.

a. **Legal and General Buy and Maintain Credit** – For the period 1 October 2019 to 30 September 2020 the total transaction costs were 0.0142%..

b. **Legal and General Segregated LDI** – For the period 1 October 2019 to 30 September 2020 the total transaction costs were 0.5005%.

c. **AQR Diversified Risk Premia** – The transaction costs for the period 1 July 2019 to 30 June 2020 were 1.96%.

d. **Bridgewater Optimal** – For the period covering 30 September 2019 to 31 August 2020 the transactions costs were 0.347%.

e. **Capital Group Long Dated US Credit** – For the period 1 October 2019 to 30 September 2020 the transaction costs were 0.00595%.

f. **Hermes Absolute Return Credit Fund** – For the period 1 October 2019 to 30 September 2020 the transaction costs were 0%.

g. **CQS Credit Multi Asset Fund** – The total transaction costs for the year to 30 September 2020 were 0.71%.

h. **PIMCO Global Libor Plus Fund** – For the period 1 October 2019 to 30 September 2020 the transaction costs were -0.77%.

i. **Aviva REaLM Commercial Assets Fund** – For the year to 30 June 2020 the total transaction costs were 0.3614%

j. **Aviva REaLM Ground Rent Fund** – For the year to 30 June 2020 the total transaction costs were 0.145%

k. **CBRE UK Property Fund** - For the one-year period ending 30 September 2020 the total sales receipts were £22,495,000 and the total fees for CBRE Global Investors were £191,055. This represents 0.85%.

l. **Equitix Fund III** – For the period 1 October 2019 to 30 September 2020 the transaction costs were 0%.

2. Portfolio Turnover

The Trustee confirms that the portfolio turnover provided by its managers were within expectations given the nature of each of the mandates, and as such, the Trustee is confident that no action is required on the back of these responses. This information will continue to be reviewed on an annual basis in case any calls to action arise.

a. **Legal and General Buy and Maintain Credit** – The portfolio turnover for the year to 30 September 2020 was 4%.

b. **Legal and General Segregated LDI Fund** – Portfolio turnover is not applicable for LDI.

c. **AQR Diversified Risk Premia** – For the period 1 October 2019 to 7 July 2020 the portfolio turnover was 12.8x. Calculated by defining turnover as (buys + sells)/net asset value/2 and excluding flows and rolls.

d. **Bridgewater Optimal** – Bridgewater do not report specific turnover figures for Optimal Portfolio at this time.

e. **Capital Group Long Dated US Credit** – The monthly portfolio turnover is listed below.

January 2020: 4.5%

February 2020: 5.7%

March 2020: 27.2%

April 2020: 18.6%

May 2020: 23.1%

June 2020: 28.5%

July 2020: 18.7%

August 2020: 14.5%

September 2020: 4.8%

f. **Hermes Absolute Return Credit Fund** – Portfolio turnover for the one-year period ending 30 September 2020 was 19.8%.

g. **CQS Credit Multi Asset Fund** – The trailing 12-month portfolio turnover as at end of September 2020 was 112%.

h. **PIMCO Global Libor Plus Fund** – The annualised turnover ratio as of the 30 September 2020 was 295%.

i. **Aviva REaLM Commercial Assets Fund & Aviva REaLM Ground Rent Fund** – For both funds the manager advised there is very little turnover, e.g. a 99-year ground rent is purchased, then after 50 years it is extended.

j. **CBRE UK Property Fund** – For the period 30 September 2019 to 30 September 2020, by value the portfolio turnover was 62.2% (£22,700,000/£36,500,000).

k. **Equitix Fund III** – For the period 1 October 2019 to 30 September 2020 portfolio turnover was 0%.

3. ESG focused standards, codes and/or industry memberships of the Scheme's managers

Glossary:

UN Global Compact – A non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

UNEP FI – The United Nations Environment Programme Finance Initiative is a global partnership established between the United Nations Environment Program (UNEP) and the financial sector.

UK Stewardship Code – The stewardship code is part of UK company law concerning principles that institutional investors are expected to follow. Its principal aim is to make institutional investors be active and engage in corporate governance in the interests of their beneficiaries.

UKSIF – The UK Sustainable Investment and Finance Association is a membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.

SASB – The Sustainability Accounting Standards Board is a non-profit organisation founded to develop sustainability accounting standards.

UN PRI – The Principles of Responsible Investment is a United Nations supported international network of investors working together to implement its six aspirational principles.

IIGCC -The Institutional Investors Group on Climate Change is a leading global investor membership body and the largest one focusing specifically on climate change.

GRESB – Established by a group of large pension funds who wanted to have access to comparable and reliable data on the ESG performance of their investments, GRESB has become the leading ESG benchmark for real estate and infrastructure investments across the world.

Ceres – A sustainability non-profit organisation working with the most influential investors and companies to build leadership and drive solutions throughout the economy.

CA100+ - Climate Action 100+ is a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies to drive the clean energy transition and achieve the goals of the Paris Agreement.

4. Managers approach to Stewardship and Engagement

In addition to requiring its managers to present on stewardship and engagement when the Trustee meets with them, the Trustee also requires each manager to produce an annual statement on their approach to stewardship. Direct responses from each of the Schemes investment managers can be found below.

The Trustee is comfortable with the responses from its managers on this matter and is confident that no action is required on the back of these responses. This will continued to be reviewed on an annual basis in case any calls to action arise.

a. Legal and General Investment Management

"While the core principle of ESG applies to every mandate we manage, the way in which it is integrated depends on multiple factors, such as client objectives and guidelines, the asset class, the industry sector and geographical footprint, as well as the type of instrument and the intended holding period. The process of integrating ESG can differ depending whether it is an index or active investment strategy, as the elements of fundamental analysis allow for more specific sources of information.

For our active investment teams, the integration of ESG-related criteria in the assessment of companies is not intended to result in any negative or exclusion lists. Rather, it aims to enhance our ability to discern between likely outperformers and underperformers within each sector and its ultimate purpose is to support the process of equity or bond selection.

For the underlying companies in which LGIM invests, we are wholly committed to encouraging companies to improve their management of ESG issues. We integrate our thoughts and the consideration of ESG risks and investment opportunities into our communication and engagement with the individual companies, sectors and markets.

The Investment Stewardship Team [...] regularly engages with other institutional investors. This process is formalised through our participation in bodies such as the Investment Association (IA) at which LGIM discusses corporate governance policy and pushes for collective engagement alongside a number of UK investment managers and; the Investor Forum (IF) of which LGIM is a founding member which facilitates collaborative engagement with other members and ensures investors speak with one powerful voice. There are a number of other global organisations that we collaborate with to improve standards, these include: PRI, ClimateAction100, Ceres and Access to Medicine."

b. AQR

"AQR's engagement is done at the firm level and is not yet explicitly incorporated into our investment strategies. Our engagement program is focused on transparency: it is our fervent belief that greater transparency is a positive outcome for all market participants and will lead to better alignment between companies and their investor base and more accurate pricing of ESG risks and opportunities. Engagement is not yet explicitly incorporated into our investment strategies.

As a fiduciary, AQR owes its clients more than honesty and good faith alone. AQR has an affirmative duty to act in the best interests of its clients and to make full and fair disclosure of all material facts, particularly where AQR's interests may conflict with those of its clients. A member of AQR's compliance or legal team is present for all corporate engagement. We assure that all engagement is done with companies where AQR is a meaningful shareholder and where the economic interests of AQR's clients and the portfolio companies are aligned. For proxy voting against our proxy advisor's recommendation, compliance always runs a conflicts test to assure there are no conflicts of interest.

AQR's ESG Stewardship Committee is responsible for monitoring and tracking AQR's engagement activities, ultimately reporting on these to AQR's ESG Steering Committee. AQR's engagement is focused on transparency: we believe that greater transparency is a positive outcome for all market participants and will lead to better alignment between companies and their investor base and more accurate pricing of ESG risks and opportunities."

c. Bridgewater

"Bridgewater as a firm does not directly engage with individual companies. We vote through our proxy voting provider, Glass, Lewis & Co ("Glass Lewis"), who is a signatory of the UN PRI and abides by the principles set forth therein.

Glass Lewis considers ESG issues in the process of generating their recommendations, particularly as it relates to shareholder initiatives and other ESG-related topics."

d. Capital Group Companies, Inc.

"We believe engagement, not exclusion, is a more effective path towards creating a positive outcome for investors. As an active investor, our proxy committees exercise their respective proxy vote in order to manage long-term risks at companies, and in fixed income, we focus on the systematic approach of our engagement in a way that enhances financial strength. In 2019, our proxy committees [...] engaged with more than 400 companies specifically on ESG topics. Our commitment to rigorous global research effort means that only the highest conviction ideas make it into our portfolios.

We discuss a wide range of topics with management – these include corporate transparency, operational performance, governance, board composition, executive remuneration and ESG concerns. We are most concerned with issues that have a material impact on shareholder value over the long term. We will generally engage with companies confidentially as we believe this is a more effective and constructive approach to solving problems and avoids the risk of damage to shareholder value caused by polarized public positions. Where we identify issues that we believe will have long-term impacts, we will engage with companies on these. How management responds about a particular issue demonstrates their understanding of the matter and the steps they take to address it and can provide a useful input in assessing the quality of management. This, in turn, is a key factor in our decision-making regarding investment in a company.

Where our investment professionals identify ESG risks, we may consider intervening where we think it is likely to achieve a materially better financial outcome for our clients. Since engagement with company management is part and parcel of our investment process, intervention would be a natural extension of this approach where there are issues of material concern with respect to long-term shareholder value.

If discreet, direct dialogue with management fails to achieve the desired outcome and we wish to retain investment in the company concerned, we carefully consider whether taking further action could improve shareholder value. This action can take many forms, including holding additional meetings with management specifically to discuss our concerns.

Alternatively, if we believe it is in the best financial interests of our clients, we may sell our shares in a company rather than continue the discussions."

e. Hermes Investment Management Limited

"The Credit team's policy is to pursue engagements with companies that either score poorly from an ESG perspective but reflect good relative value or score well but for whom they have a sizeable position and demonstrate a willingness to engage with us. The team has a dedicated Lead Engager in Aaron Hay, who is responsible coordinating the strategy's engagement initiative. [The team] engages with companies on clients' behalf on environmental, social, strategic and governance issues with the goal of achieving beneficial change with respect to risk management, value creation and fund reputation. All corporate engagement work is sought to be complementary to and integrated with public policy and best practice engagement and voting.

[Prior to investing] the team assesses the likelihood of being able to positively influence the companies. This assessment includes consideration of the nature of the issue; whether we have an existing relationship with the company or individual board members; the size of our clients' holdings; the presence of like-minded investors on the share registry; etc. [the team] generally does not engage with companies where it does not foresee the possibility of success.

Once [the team] has decided to engage with a company, it uses a structured and systematic approach to capturing the background to engagement, articulation of engagement objectives and progress against each, activities undertaken and next steps. These are captured in a company engagement report. [The team] measures progress on each objective using its four-step milestone approach:

- Milestone 1: Raise the issue at the appropriate level

- Milestone 2: Confirmation that the company accepts the issue must be addressed
- Milestone 3: The company has developed a plan to address the issue
- Milestone 4: The plan has been implemented satisfactorily

Engagement then takes the form of open and frequent dialogue with company management at the highest levels."

f. CQS (UK) LLP

"Engagement forms part of our 5-stage ESG process. In addition, we are preparing an engagement strategy and framework which can be shared across the investment teams, outlining the considerations we wish to take into account as a firm, and how these may be relevant sector by sector. CQS also engages with a range of third parties and consultations, especially those from close relationships such as MSCI and the Standards Board of Alternative Investments (SBAI), in which we are member of the ESG Working Group. This is a key means by which to track ESG developments within the market, and also, where possible, input how practices can be developed to cater for Alternative Credit investors.

CQS discloses the average ESG ratings of the Fund compared to the wider credit universe on a monthly basis and CQS also reports on the Weighted Average Carbon Intensity of the Fund."

g. Pacific Investment Management Company LLC (PIMCO)

"In an ESG dedicated portfolio, PIMCO aims to engage intensively with the issuers in the portfolio to help influence ESG policies and drive more sustainable business practices. However, for non-ESG dedicated portfolios like the PIMCO GIS Global Libor Plus Fund there is no explicit objective to actively engage with ESG issuers on sustainability practices.

That said, at the firm level, on an annual basis, our team of over 65 credit analysts conduct more than 5,000 meetings and calls with company management teams. In addition to discussing financial matters, we also focus on strategic issues that relate to ESG risks and sustainable business management practices. For portfolios like the PIMCO GIS Global Libor Plus Fund this engagement is focused on material ESG issues that can have significant impacts on the credit profile of the issuer. Moreover, our non-ESG portfolios might benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies. However, there is no obligation from the portfolio manager to own securities where PIMCO's ESG analyst team is in the midst of a deep dive engagement as ESG engagement is not an objective of our non-ESG portfolios."

h. Aviva Investors

"Responsible investment is embedded in our main investment principles and we have adopted a firmwide Responsible Investment Philosophy. It includes an overall investment belief and a set of clear commitments, a governance framework and outlines how we continue to turn the policy into an investment approach across integration, stewardship, avoidance and market reform.

From a firm perspective, we review our fund specific engagement plans on a quarterly basis, using our ESG heatmap based on external ESG research feeds and our voting history to prioritise our focus both in terms of issues and areas of influence. We work closely with Fund Managers to develop targets. Our engagement activities are not restricted to this engagement plan but are also informed by emerging events and collaborative investor initiatives throughout the year."

i. CBRE Global Investors

"[The fund] invests in the unlisted space. Governance is critical part of our due diligence and ongoing monitoring and management of investments.

Historically we have not formally tracked our success or failure of engagement on specific issues, however we have recorded our voting records and progress towards our goals has been tracked informally to date. Going forward, we will be using the ESG Assessment Framework to rate each investment and track its improvements and success rate for each specific engagement objective set for the vehicle. Should our engagement be successful, we would also see the overall ESG rating within this framework improve.

Within the unlisted indirect real estate space, [the fund] engages with other investors on the Advisory Committees or at AGMs to understand their views on key issues as well as collaborating with others through ESG-related organisations in which we participate."

j. Equitix Investment Management Limited

"When a project is acquired, Equitix looks for at least two seats on the board of the asset in order to ensure proper governance of its investment. The board of each portfolio company is held accountable for the ESG performance of the asset and has an obligation to report back to the Equitix asset management team on a quarterly basis. These reports are reviewed by senior executives and feed into the development of corporate strategy.

We do not hold shares in our assets. Investments are real assets that we typically hold a controlling stake in and will always have board seats on. We are active board members and hold managing agents accountable through this active involvement."

5. Voting disclosure tables

Below is the voting activity over the period for the Scheme's asset managers which held listed equities over the period.

The Trustee confirms that these are within expectations and no further follow up is required, particularly given the fact that the Scheme has already disinvested from both managers.

a. AQR Diversified Risk Premia

Siemens Benefits Scheme redeemed from the AQR Diversified Risk Premia Fund on July 7th 2020. Therefore, the below voting statistics are as at the date of the redemption. AQR does not differentiate between significant or non-significant votes. While AQR does not categorise votes (and generally vote all proxies), AQR's portfolio companies may request reactive engagement on certain votes based on their assessment of significance.

Voting criteria	**AQR Diversified Risk Premia**
Value of trustees' assets	N/A
Number of holdings at period end	N/A

No of meetings eligible to vote during the period	493
No of resolutions eligible to vote during the period	5,903
% of resolutions voted	94.17%
% of resolutions voted with management	93.43%
% of resolutions voted against management	6.57%
% of resolutions abstained	0.02%
% of meetings with at least one vote against management	29.21%
% of resolutions where manager voted contrary to recommendation of proxy advisor?	0.0%
Any use of proxy voting services during the period	Yes (ISS)

b. Bridgewater Optimal

Siemens Benefits Scheme fully divested from the Bridgewater Optimal Portfolio on the 31st of August 2020. Therefore, the below voting statistics are for the period 30th of September 2019 to 31st of August 2020. Bridgewater has not adopted a policy for identifying "significant votes" as any particular voting matter's outcome is inconsequential in the context of the overall portfolios.

Voting criteria	**Bridgewater Optimal**
Value of trustees' assets	N/A
Number of holdings at period end	N/A
No of meetings eligible to vote during the period	2,037
No of resolutions eligible to vote during the period	19,053

% of resolutions voted	98.1%
% of resolutions voted with management	85.1%
% of resolutions voted against management	13.7%
% of resolutions abstained	1.5%
% of meetings with at least one vote against management	47.2%
% of resolutions where manager voted contrary to recommendation of proxy advisor?	0.005%
Any use of proxy voting services during the period	Yes. Bridgewater has engaged Glass Lewis & Co. (“Glass Lewis”) to vote proxies on behalf of our clients.

Registered number: 10126751
PSO reference: SF19/78032

SIEMENS BENEFITS SCHEME

Statement of Investment Principles
DB Section
June 2019

Unrestricted

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1. INTRODUCTION

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 (the "Act"), for the Siemens Benefits Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustee of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005 and other subsequent legislation.

Siemens Benefits Scheme Ltd ('the Trustee') acts as trustee of the Siemens Benefits Scheme and is responsible for the investment of the Scheme's assets and arranges administration of the Scheme. Where it is required to make an investment decision, the Trustee may take advice from the investment consultant and / or other professional advisors as appropriate to ensure that it is appropriately familiar with the issues concerned.

This Statement covers all investment matters relating to investment of the DB assets of the Scheme. A separate Statement of Investment Principles has been prepared to cover investment matters relating to the Investor Plan, the DC Section of the Scheme, and the Scheme's AVC arrangements.

The Trustee will review this Statement at least every three years and as soon as possible either where any significant change in investment policy is contemplated or if there is a significant change in the demographic profile of the relevant members. There will be no obligation to change this SIP as part of such a review.

A copy of this Statement is available to the members of the Scheme on request.

Signed ... . **Date** ...23/7/19........

For and on behalf of the Trustee of the Siemens Benefits Scheme

2. SCHEME GOVERNANCE

The Scheme is an occupational pension scheme set up under corporate trust to provide retirement benefits for employees of Siemens Plc (the "Sponsor") and other Siemens UK employers that participate in the Scheme. It is governed by the Definitive Trust Deed dated 18 December 2017.

Responsibility for setting the strategy and for managing the Scheme rests with the Trustee. This includes responsibility for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the investment managers or its advisors as appropriate.

In order to effectively manage the varied requirements of running the Scheme, a number of Sub-committees are in operation, each with its own delegated powers and terms of reference. At present the Sub-committees are responsible for: administration and communications (ACSC); benefits (BSC); documentation (DSC); investment, covenant and funding (ICFSC) ; finance, audit and risk (FARSC).

The ICFSC, or Investment, Covenant and Funding Sub-committee, develops and implements appropriate investment strategies for both the Defined Benefit Section's assets and members' Defined Contribution funds. This is done in conjunction with the Scheme's investment consultant and following Full Board approval. The ICFSC then regularly monitors these investments and strategies to ensure they are meeting expectations and to make changes where necessary. The Trustee has also appointed an Investment Executive to assist in carrying out these duties.

Throughout this document any references to the Trustee may represent either the Trustee, the ICFSC or the Investment Executive (the latter two with the appropriate delegated authority from the Trustee).

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

3. INVESTMENT OBJECTIVES

The principal objective of the Trustee is to invest the assets of the Scheme to meet its liabilities when they fall due.

In order to fulfil this principal objective, the Trustee seeks to invest the assets in a manner that allows the Scheme to reach full funding on a low-risk basis (Gilts + 0.25%). If the Scheme achieves full funding on this basis, it is expected to be able to generate sufficient returns to remain fully funded without relying on further deficit repair contributions or taking significant investment risk.

The Trustee has set an objective of reaching full funding on the above low risk basis by 2024 (the "Funding Target") and has adopted an Investment Strategy consistent with this Funding Target.

The Funding Target and Investment Strategy were set by the Trustee following advice from the investment consultant, based on results from an Asset-Liability Management analysis, a survey of the Scheme's key stakeholders and input from the Scheme Actuary and the Trustee's covenant advisor.

The Trustee has consulted with the Sponsor when setting the Funding Target and Investment Strategy and will consult on future changes as required. The Trustee will take the Sponsor's comments into account when it believes it is appropriate to do so.

The Scheme's progress towards the Funding Target is managed and monitored using a Pensions Risk Management Framework ("PRMF"). The PRMF is prepared by the investment consultant and reviewed by the Trustee on at least a quarterly basis.

The Trustee has considered the risks associated with the Investment Strategy and believes it to be appropriate at the current time. The Trustee will review this from time to time and may revise either the Funding Target or the Investment Strategy to reflect, for example, changes in market conditions or the Trustee's opinion of the strength of the employer covenant provided by the Sponsor.

4. INVESTMENT STRATEGY

In setting the investment strategy, the Trustee's policy is to:

- Target an expected return on investments close to the return required to meet the Funding Target, based on the Trustee's best judgement of what is necessary to meet the liabilities given its understanding of the contributions likely to be received and the risk level it regards as appropriate.
- Manage the investment risk including that which arises due to mismatch between assets and liabilities and limit the total Scheme risk to below agreed levels.
- Hedge an agreed proportion of the Scheme liabilities' exposure to changes in long-term interest rates and inflation in order to stabilise the funding ratio.
- Maintain suitable liquidity of assets such that the Scheme is not forced to sell investments at particular times to pay member benefits or meet potential collateral calls.

Taking the above into account, the Trustee has agreed a target investment strategy for the Scheme's investable assets as follows:

Category	Allocation (%)	Range (+/-)
LDI	50.0	5.0
Liquid market strategies	10.0	5.0
Liquid and semi liquid credit	34.0	5.0
Illiquid credit	1.0	n/a*
Illiquid market strategies	5.0	n/a*
Total invested assets	100.0	n/a

** Given the nature of the investments no rebalancing ranges have been defined*

The choice of investments is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The Trustee will monitor the strategy regularly to ensure that they are comfortable with the level of diversification. The Trustee will consider the appropriate course of action to take in the event of a breach in a range on a case-by-case basis.

In addition to the above, the Trustee invests in two bespoke illiquid assets: a Scottish Limited Partnership asset backed funding arrangement and a buy-in policy (see Sections 7.4 and 7.5 respectively for more information). The characteristics of these assets are taken into account when determining the target investment strategy.

The Trustee has taken advice to ensure that the investment strategy is suitable for the Scheme, taking into account:

- The Scheme's liability profile.
- The strength of the Sponsor.
- Liquidity requirements.
- Any legal requirements and regulatory guidance.
- Any restrictions in the Trust Deed.

5. INVESTMENT MANAGERS

The Trustee delegates the day-to-day management of the assets to appropriate investment managers.

Investment managers are carefully selected by the Trustee to manage underlying mandates, taking appropriate professional advice on the suitability of those investment managers as required. Mandates may take the form of either:

- a segregated account managed by the Trustee's chosen investment manager; or
- an investment in a pooled investment vehicle operated by the Trustee's chosen investment manager.

Each mandate's performance targets, benchmarks, restrictions and fees are set out in the respective Investment Management Agreements or pooled fund documentation. The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

The Trustee will consider on a case by case basis whether a mandate should be limited to a single asset class, investment strategy or style; or whether a mandate that combines multiple strategies together is preferable.

The Trustee receives a report on the performance of all Scheme assets on a regular basis. The Trustee assesses performance against benchmarks appropriate to each mandate, taking into account the level of risk allowed.

The Trustee, either directly or through the ICFSC or its advisors, will regularly review the activities of the investment managers to satisfy itself that each investment manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of Scheme. The Trustee will also consider whether or not each investment manager:

- Is carrying out its function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

From time to time managers and/or mandates are changed. This may be either due to a change in strategy or because the Trustee has concerns about a specific mandate.

6. INVESTMENT RISKS

There are various risks to which any pension scheme is exposed. The Trustee maintains a risk log which sets out the risks the Trustee has identified and any actions the Trustee has taken to mitigate these risks, including any risks associated with the investments. The following sets out the main risks associated with the Scheme's investments and steps taken by the Trustee to mitigate them. The Trustee notes there are a range of other risks not covered here (e.g. environmental, social and governance factors, including climate change) which may affect the investments and / or the Scheme's liabilities from time to time and which the Trustee also attempts to take into account when setting the investment strategy and / or selecting investment managers.

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

1. Investment strategy risk

The primary investment risk the Trustee focuses on is that the Investment Strategy may fail to deliver the required investment returns. The Trustee recognises that adopting an investment strategy which seeks to deliver higher investment returns over the long term also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities. It also produces more short-term volatility in the Scheme's funding position.

In order to address this, the Trustee has:

- Taken advice on the matter and considered carefully the implications of adopting different levels of risk in order to find the right balance between investing for growth and to match the liabilities;
- Diversified the investments across a range of asset classes, geographies and expected drivers of return;
- Hedged a significant proportion of the interest rate and inflation risks arising from the liabilities.

2. Credit risk

The Scheme is subject to credit risk because the Scheme invests directly in bonds and properties, over the counter ("OTC") derivatives, has cash balances and enters into repurchase agreements. As the Scheme invests in pooled vehicles there is direct credit risk in relation to the pooled investment vehicles and also indirect risk where those pooled investment vehicles hold bonds or properties.

Credit risk arising on bonds held directly is managed by investing in government bonds where the credit risk is minimal, or corporate bonds which are predominantly rated investment grade. The Trustee has appointed an investment manager who is responsible for assessing the credit risk on the corporate bond portfolio and ensuring the Scheme is being appropriately rewarded for taking this risk.

Credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee's investment consultant carries out checks on the appointment of new investment managers and monitors these managers on an ongoing basis for any significant issues that may be relevant to the Scheme's investment.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any exchange and therefore the Scheme is subject to the risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements and, as of August 2016, through clearing. Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade. Credit risk on repurchase agreements is mitigated through counterparty diversification and collateral arrangements.

6. INVESTMENT RISKS

Cash is held within financial institutions that are at least investment grade. The Trustee holds sufficient cash to meet ongoing cash flow requirements, with any surplus cash balances invested in a daily access money market fund that is rated triple A by S&P, Moody's and Fitch.

3. Currency risk

The Scheme is subject to currency risk either through direct investments in assets denominated in non-GBP currencies or through investments in pooled vehicles which invest in overseas markets and so provide indirect exposure to non-GBP currencies. Where currency risk is deemed to be clearly risk additive, the Trustee has taken steps to control currency risk, either through putting in place direct currency hedges or by investing in currency-hedged share classes.

4. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's investments are in bonds, gilts and derivatives (liability matching assets). The values of these investments are sensitive to interest rates and inflation. These investments are used to hedge interest rate and inflation risk arising from the Scheme's liabilities.

5. Other price risk

Other price risk arises principally in relation to the Scheme's return-seeking portfolio, which provides exposure to global equities, emerging markets, property, hedge funds, credit multi-asset, infrastructure and secure income investments either directly or indirectly through pooled investment vehicles. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments.

6. Liquidity risk

There is a risk that the Trustee will not be able to redeem investments at the point they are required at an acceptable price. The Trustee considers this risk when selecting investments and aims to ensure that the investments are sufficiently liquid and that adequate compensation is received for any illiquidity risk. The Trustee also maintains an ongoing cash balance sufficient to cover any short term cash requirements, including benefit payments and margin calls.

7. Custody of assets

The Trustee recognises the risks associated with the Scheme's assets not being held in safe custody. To manage this risk, day-to-day control of segregated custody arrangements has been delegated to a single global custodian appointed by the Trustee. Whilst the Trustee does not directly appoint a custodian of the assets contained within pooled fund investments, the Trustee is satisfied that the managers responsible for the appointment and monitoring of the relevant custodians fulfil this obligation competently. The Trustee has a service level agreement in place with the custodian.

7. OTHER ISSUES

1. Statutory Funding Objective

The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years. The Trustee will consider with its advisors whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding objective.

2. Corporate Governance

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment managers on behalf of the Trustee having regard to the best financial interests of the beneficiaries. The Trustee has been made aware of each investment manager's corporate governance policy where appropriate and has delegated the exercise of such rights to the investment managers – see "Stewardship" below for further details.

3. Responsible Investment

Environmental, Social and Governance Considerations

In setting the Scheme's investment strategy, the Trustee's principal objective is to invest the assets of the Scheme to meet its liabilities when they fall due and to act in the best financial interests of the Scheme and its beneficiaries in meeting that objective. The Trustee recognises that environmental, social and governance factors, including climate change can have a material financial impact on the value of investments held over the time horizon of the Scheme if not understood and evaluated properly.

The Trustee takes account of these factors by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

Non-Financial Factors

The Trustee does not take in to account any non-financial factors (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

For further details on the Scheme's investment beliefs and approach to Responsible Investment, please refer to the Scheme's Responsible Investment Policy.

7. OTHER ISSUES

4. Scottish Limited Partnership

In July 2013, the Trustee entered into an agreement with the Sponsor ("the Orelle agreement"), designed to provide protection to the Scheme in the event of the insolvency of the Sponsor. As part of the Orelle agreement, the Trustee holds an interest in a Scottish Limited Partnership which makes half-yearly distributions to the Scheme.

5. Buy-in policy

In June 2018, the Trustee entered into a buy-in insurance agreement with Pension Insurance Corporation ("PIC"), which provides monthly payments to the Scheme covering benefit payments to the insured population, c.5,900 pensioner members at outset.

6. Realisation of Investments and Cash flow Policy

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.

The Trustee aims to maintain an adequate cash buffer to meet any short-term liquidity requirements.