# Siemens Benefits Scheme

**DC Implementation Statement**
**Year Ended 30 September 2020**

**IMPLEMENTATION STATEMENT**

## 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 Contribution ("DC") Section of the Scheme. A separate statement relating to the Defined Benefit ("DB") 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 engagement activity and voting for managers that hold listed equities.

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 DC Section, the Trustee's principal objective is to provide a range of investments that are suitable for meeting members' long-term, medium-term and short-term investment objectives. The Trustee considers members' circumstances, including the expected range of members' attitudes to risk and term to retirement, and has sought guidance and obtained advice from its investment advisor as appropriate throughout the year when undertaking investment decisions to meet this objective.

**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 extent to which non-financial matters are taken into account (for example, personal preferences of members and beneficiaries about investing in specific industries and/or companies).

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

The SIP has been reviewed and revised in September 2020 to take account of further regulatory changes which are required to expand the SIP 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**

This section details how the investment policies and objectives as stated in the SIP have been adhered to and achieved in practice over the course of the year:

### 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 Trustee's Investment, Covenant and Funding Committee), 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 Objectives

The Trustee provides members with a range of investment choices. For members who do not wish to make an active investment decision, a "Flexible Access Strategy" default lifestyle arrangement is in place. The lifestyle strategy consists of three white labelled building blocks, the "Opportunity Fund", the "Balanced Fund" and the "Consolidation Fund". As members near retirement, the lifestyle strategy will gradually move members from higher allocations in the "Opportunity" fund towards the lower risk, capital preservation focussed "Balanced" and "Consolidation" funds. In addition, there are two further lifestyle strategies and 13 self-select (known as “freestyle”) funds available which members can choose from depending on their risk appetite and if they are comfortable making their own investment decisions.

To help the Trustee maintain a strategic focus with respect to performance monitoring, the Trustee reviews a "Member Experience Dashboard" at Board meetings to ensure its objectives are being met. The reports highlight the past performance experienced, at a member level, of being invested in the Flexible Access Lifestyle strategy (the default). The Trustee expanded this dashboard from September 2019 to also include member experience risk analysis, such as volatility and capital drawdown levels experienced by individual members in the default lifestyle.

The Trustee offers a range of options to members covering the main asset classes and different levels of risk. The Trustee believes this range meets the objective of providing investments suitable for members at different stages of life.

## 3. Investment Strategy

Following a formal freestyle fund range review in the second half of 2019, the ICFC recommended further changes that were approved by the Board. These included:

a) Restructuring the white labelled Global Equity Passive fund to reduce UK exposure and introduce a sterling currency hedge.
b) Reduce the exposure to long dated index linked gilts within the Consolidation Fund.

Both these decisions were implemented, and assets transitioned in June 2020. Other changes that will be implemented post year end are:

c) Replacing a manager within the white labelled Global Equity Active fund;
d) Removing the UK Equity Active fund from the freestyle fund range;
e) Integrating ESG considerations with a new Liquidity fund;
f) Name change of the Siemens UK Equity Fund - Passive to the Siemens UK Equity Fund - Index Tracker; and,
g) Name change of the Siemens Global Equity Fund - Passive to the Siemens Global Equity Fund - Index Tracker.

In addition to quarterly monitoring, the ICFC reviewed an annual Deep Dive report covering performance and risk analysis as at 30 June 2020 on the building blocks and all individual funds in the default arrangement and freestyle range. The analysis showed that the returns over the long-term were consistent with the Trustee's general expectations for respective asset class returns as stated in the SIP. To support the development and monitoring of the investment strategy, the Trustee's also set more specific respective inflation plus return targets for the "Opportunity", "Balanced" and "Consolidation" funds, and following the deep dive analysis are currently considering potential changes to the underlying components.

Over the year, there was an AVC consolidation exercise which saw members move from legacy arrangements into the default arrangement. A further AVC Review will be carried out in 2021 to monitor progress and consider next steps.

### 4. Asset Managers (reviews, selection and implementation)

The Trustee receives quarterly monitoring reports from its investment consultant. This provides information on the funds offered to members, including short and long-term performance and risk related analysis. The reports include a "RAG" (Red, Amber, Green) status to identify funds suffering from prolonged poor performance against benchmark/target. For example, this and further fund specific analysis contributed to the decision to replace the value manager within the global active equity fund. The ICFC agreed a replacement manager in June 2020 and a transition is expected in early 2021.

Over the year there were key staff changes and major developments at various managers the Scheme invested in. For example, the active UK equity fund was downgraded by Aon's manager research team from "Buy" to "Qualified" in Q2 2020, however this has not triggered any changes as the Trustee had already decided earlier in the year to remove the UK active equity fund from the freestyle range. Another example of a major development was where a property fund (which makes up part of the property and infrastructure fund and within the "Balanced" building block fund) was closed to both contributions and redemptions as a result of the independent valuer being unable to physically value the underlying assets as a result of the Covid-19 pandemic. The liquid nature of the other investments held in the other funds meant there was no significant impact to members, who could continue to trade in these funds.

The Trustee’s policies for asset managers set out in the SIP have been appropriately carried out through various monitoring and changes implemented over the year.

### 5. Investment Risks

The Trustee has designed the default investment strategy with an inflation plus absolute return target to mitigate the inflation risk that the growth in investments over members’ working lives will not keep pace with inflation and will not, therefore, secure an adequate retirement benefit. Capital market return and volatility assumptions for each fund, and in turn the respective building block funds, are evaluated on an annual basis as part of the Deep Dive review. Volatility and Capital risk are also monitored within the Deep Dive review as well as within the quarterly reports and member experience dashboard.

The Trustee policies with regards to Investment risks as stated within the SIP have been appropriately carried out through various monitoring and actions over the year.

## 6. Responsible Investment

In 2019, the Trustee group answered and discussed their views in relation to a Responsible Investment ("RI") survey during a workshop co-facilitated by the DC investment consultant and the Scheme lawyer. The discussion led to identifying consensus beliefs and statements that developed into new explicit policies on financially material ESG factors, climate change and stewardship.

The Trustee agreed that an increased familiarity with the ESG profile of the funds the DC section invests in would improve the Trustee's understanding of the risks of each fund and facilitate engagement with managers. The investment consultant supported the Trustee with this analysis with an "ESG Reporting Dashboard" that drew on various data sources such as MSCI ESG data as well as manager transparency reports submitted to the PRI (Principles for Responsible Investment). While all managers are PRI signatories and have senior oversight and accountability for Responsible Investment, there are a number of other areas where managers were behind best practice, for example some managers do not have dedicated Responsible Investment staff nor undertake scenario analysis to assess future ESG/climate-related issues. The Trustee will continue to monitor these issues through these annual reviews and expect to see improvements over time. If it is deemed that progress is not occurring at a satisfactory pace, the Trustee will engage with managers directly.

The DC quarterly reports reviewed by the Trustee contain ESG ratings on all Buy rated managers. These ESG ratings reflect analysis carried out by the investment consultant assessing the investment managers on the extent of ESG integration and Stewardship programs. Over the year, all applicable managers were at least rated two or above on the consultant's four-tier ESG ratings system. [1] This means that these appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

**Voting and Engagement activity over the year**

1. **BlackRock**

Within the default arrangement, the Scheme invests in various BlackRock passive equity indices in the Opportunity building block as well as a BlackRock diversified growth within the Balanced Fund and fixed income strategy within the Balanced and Consolidation Funds. Approximately 70% of the Investor Plan's assets were invested in funds managed by BlackRock at 30 September 2020.

BlackRock votes annually at over 16,000 shareholder meetings, generally taking a case-by-case approach to the items put to a shareholder vote. Their analysis is informed by their internally developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors at a particular company. BlackRock do subscribe to research from several proxy advisory firms, however this research is one among many inputs BlackRock use in their vote analysis process. BlackRock strongly assert that they do not blindly follow proxy advisors' recommendations on how to vote. Rather they use proxy research firms primarily to gather information and analysis into a concise,

[1] More information on the Aon ESG Ratings process can be found here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx

easily reviewable format so that their analysts can readily identify and prioritize those companies where their own research and engagement would be beneficial.

Over the year to 30 September each of the equity funds the Scheme invested in voted on more than 90% of all voteable resolutions and voted against management recommendation on at least 3% of resolutions. All the funds abstained less than 0.7% of the time apart from the Aquila Connect Emerging Markets Fund which abstained on 2.9% of votes.

Over 2020, BlackRock have increased their level of reporting by publishing more voting bulletins. These bulletins provide explanations of the most significant votes at shareholder meetings and is made public shortly after the meetings. These specific significant votes are chosen by BlackRock based on criteria such as level of public attention and impact of financial outcome.

### Voting Example: Qualcomm (March 2020)

BlackRock voted against the Board's recommendations twice in March 2020 on issues relating to executive compensation.

The issues of concern were highlighted by compensation to be awarded to CEO Steve Mollenkopf following actions of his which significantly increased the company's previously suppressed stock price. The company did not provide sufficient justification as to why such action is outside Mr Mollenkopf's realm of responsibilities as CEO and thus why he should be deserving of receiving extra compensation.

BlackRock felt that granting this one-off award suggests a pay plan that is not aligned with shareholders' long-term interests, which is difficult to reconcile with ongoing underperformance versus Qualcomm's peers, raising a perceived pay-for-performance disconnect. They engaged with the Chairman of the Board to express their concerns regarding the appropriateness of awarding the special grant. They also discussed other elements of the plan structure, including the company's approach to peer selection, mix of awards over time, and lack of performance, or time-vesting conditions, associated with Mr. Mollenkopf's special grant.

BlackRock ultimately viewed this to be a failure on the part of the company to address a material issue and so voted against a resolution to approve executive compensation on an advisory basis and also voted against the election of the compensation committee member Harish Manwani to the Board of Directors.

BlackRock will continue to engage with the board and management of Qualcomm on a range of governance, compensation, and material sustainability issues, and they intend to monitor and provide feedback on the quality of relevant disclosures.

For more detail please see the voting bulletin here:
https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-qualcomm-mar-2020.pdf

### Voting Example: Chevron Corporation (May 2020)

BlackRock voted against the Board's recommendations in May 2020, by voting in support of a shareholder proposal requesting that Chevron report on how the company's lobbying aligns with the goals of the Paris Agreement. The report was intended to address the risks presented by any misaligned lobbying and to understand the company's plans, if any, to mitigate these risks.

BlackRock acknowledged that Chevron has been responsive to investors and transparent in their reporting which is aligned with the requirements of both the Task Force on Climate Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). BlackRock also consider Chevron to be a leader among its US peers with regard to board oversight of climate risk, strong corporate governance practices, and reporting in line with SASB and the TCFD. However, they felt that increased transparency around political spending and lobbying relating to climate risk and the low carbon transition would strengthen the company's disclosure. They also held the view that the company could provide investors with a more detailed explanation of the alignment between Chevron's political activities and the goal of the Paris Agreement to limit global warming to no more than two degrees Celsius, which the company supports.

Recent engagements with the company leading up to the annual general meeting have given BlackRock the impression that Chevron is aligned with the spirit of this proposal, as it has articulated a desire to provide more clarity for investors on its internal climate considerations and associated political lobbying.

### Voting Example: Lufthansa (July 2020)

BlackRock believe climate risk is likely to have an impact on the company's long-term strategy and its ability to deliver sustainable shareholder returns. As a result of its climate profile, in the last quarter of 2017 BlackRock wrote to the CEO and Chairman of the Lufthansa Executive Board asking them to closely review the TCFD's recommendations and to consider reporting in alignment with them.

BlackRock reviewed Lufthansa's 2019 annual report and do not believe it demonstrates sufficient progress since their letter in 2017. While the company has adopted the targets set by the aviation sector, BlackRock feel it does not provide clear reporting on its progress towards achieving these targets. In particular, BlackRock are disappointed with the lack of explicit and structured TCFD-aligned reporting.

Additionally, they have concerns about the structure of executive pay at Lufthansa, which they previously expressed by voting against the pay proposal at the 2019 annual general meeting (AGM). They feel that the company's new executive pay proposal does not address these concerns.

As a result of these issues, BlackRock voted against a resolution to approve the actions of the Supervisory Board for the financial year 2019. They believe that Supervisory Board members should be held accountable for the level of oversight provided on governance matters, including executive pay and how management addresses material issues such as climate risk. Given the lack of progress made by the company on its climate disclosures and the insufficient improvement to its executive pay policy, BlackRock chose to withhold support from the re-election of those Supervisory Board members who are most accountable through their membership on relevant board subcommittees. They also voted against approval of the remuneration system for the Executive Board.

### Engagement Policy Summary

Through their stewardship activities BlackRock seek to promote governance practices that help create long-term shareholder value for their clients, the vast majority of whom are investing for long-term goals such as retirement. They believe they have a responsibility to their clients to make sure companies are adequately managing and disclosing sustainability-related risks, and to hold them accountable if they are not.

BlackRock have provided fund specific engagement reports detailing engagement activity over the year for the respective equity funds. For example, within the World Equity Index, BlackRock had a total of 1,432 company engagements with 787 individual companies, the majority of the engagement themes were on Governance, followed by Environmental and then Social issues.

This year BlackRock's investment stewardship team intensified its focus and dialogue with companies facing material sustainability-related risks. Their approach on climate issues is to focus efforts on sectors and companies where climate change poses the greatest material risk to their clients' investments. 'Climate risk' may include a company's ability to compete in a world that has transitioned to a low-carbon economy (transition risk), for example, or the way climate change could impact its physical assets or the areas where it operates (physical climate risk).

In 2020, BlackRock identified 244 companies that are making insufficient progress in integrating climate risk into their business models or disclosures. They took voting action against 53, or 22% of these companies. The remaining 191 companies were placed 'on watch.' Those that do not make significant progress risk voting action against management in 2021.

The Trustee welcome that BlackRock have joined the Climate Action 100+ initiative in January 2020 and look forward to BlackRock using their influence and resource to identify issues, drive collaborative initiatives and positive change in this new capacity.

### Engagement Example: Newmont

BlackRock engaged with Newmont, a U.S. mining company, as part of a materiality assessment conducted by the company to help inform its approach to its annual sustainability report. The company was very receptive to BlackRock's feedback and insights regarding disclosure, and ultimately incorporated it into their 2019 report, published in June. Along with downloadable ESG data tables, the report is aligned with the Sustainability Accounting Standards Board (SASB) Mining & Metals sector standards while also incorporating SASB mapping. The company has also committed to publishing a detailed (TCFD)-aligned report in 2021 on its 2020 activities. BlackRock view this as a best-in-class example for a U.S. mining company.

### Engagement Example: Verizon

BlackRock engaged several times this year with Verizon Wireless, a major U.S. telecommunications company, where they discussed key governance and sustainability issues for the company. The company has pledged to reduce its carbon intensity by 50% from 2025 to 2016 levels and has committed to carbon neutrality by 2035. BlackRock generally regard the company as having strong performance regarding disclosures and responsiveness to shareholder feedback, but they felt that the company could further improve its disclosures by aligning its reporting with the recommendations of the TCFD and SASB.

In April 2020, the company published its first TCFD report, demonstrating a best in class approach across strategy and risk management and in May 2020 published its first index to SASB in its 2019 ESG report. These actions provided investors with greater transparency regarding their performance against material sustainability risks to their business model. More information on BlackRock stewardship activity can be found in their Investment Stewardship Annual Report: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf

2. **Nordea Asset Management**

The Scheme also has equity exposure in the default arrangement through the Nordea Diversified Return fund (within the Balanced and Consolidation funds). Approximately 10% of the Investor Plan's assets were invested in funds managed by Nordea at 30 September 2020.

Nordea Asset Management (NAM) is a signatory of the UN Principles for Responsible Investment (PRI) and is planning to become a signatory to the UK Stewardship Code. They view engagement as a critical aspect of active ownership and consider it a crucial component of their responsible investment philosophy and framework. Their engagement activities entail constructive dialogues with companies through face-to-face meetings, conference calls, letters or even field visits. These provide an opportunity for NAM to improve their understanding of investee companies and gives NAM greater scope to influence them.

With regards to voting activity, Nordea funds utilise two external advisors, Institutional Shareholder Services (ISS) and Nordic Investor Services (NIS). All voting decisions are taken by Nordea's funds, and external advisors only provide input and second opinion when prompted. Nordea deem votes to be significant if they relate to actions or practices which are severely against their principles, or where they feel they need to enact change in the company.

Over the year, in relation to the fund, Nordea voted 39% of all voteable resolutions, voting against management recommendation 12% of the time and abstaining 0% of the time. Nordea provided the following comments to explain why they voted 39% of the time. Nordea have an aggregated voting setup, meaning that they vote on the most important assets of their aggregated positions. Although the focus is at aggregate level, they strive to vote for a large proportion of the holdings and pay special attention to the holdings in Nordea's RI-enhanced products. Nordea's decision whether to vote or not, is mainly based on the size of the holding and the ownership level in the specific company. For companies in which Nordea has a very limited opportunity to enact changes, or if they are unable to efficiently utilise shareholder rights, Nordea might choose not to vote or engage.

While the Scheme does not have a formal policy on the minimum acceptable level of asset manager voting frequency, Nordea's current voting approach is inconsistent with the Trustee expectations of asset managers and there was a concern that their approach may contribute to sub-optimal voting outcomes. On behalf of the Trustee, the investment consultant has discussed these concerns with Nordea's stewardship team. During the meeting, Nordea explained that the reason their voting frequency is low is because of their philosophy to analyse votes on a case by case basis rather than using a generic policy-based approach that may see nuances missed. Having said that, Nordea acknowledge the current voting frequency is insufficient and discussed their plans to increase voting frequency while retaining their core philosophy. In light of Trustee feedback, the fund the Scheme is invested in has also been added to a list of funds alongside Nordea's RI-enhanced products that will receive additional attention.

### 3. Other asset managers

Within the default arrangement, stewardship is also applicable to the M&G Total Return Credit Fund and the Threadneedle Property Fund. Both are signatories to the UN Principles for Responsible Investment and the UK Stewardship Code and provided substantial information relating to their stewardship policies and activity. The investment consultant also monitors these funds regularly and has no significant stewardship concerns at time of writing.

Within the freestyle fund range, Scheme members are invested in six other equity managers – Pzena, Ardevora, Baillie Gifford, Majedie, Aberdeen Standard and HSBC. Over the year, all managers voted on more that 95% of resolutions and abstained on less than 5% of votes. They all utilise the services of ISS or Glass Lewis and are all signatories of the UN Principles for Responsible Investment. All managers apart from Pzena are signatories to the UK Stewardship Code, however they are currently reviewing their stance on this.

The Trustee was concerned by some of the response from Ardevora who provided limited specific examples of voting or engagement over the year. The focus of the investment process at Ardevora is around exploiting behavioural biases and engagement has not traditionally been at the core of the investment process. Following up with the manager, it is apparent that Ardevora are in the process of recruiting three new dedicated Responsible Investment staff. In 2021, the Trustee will ask Ardevora and Nordea to present their future plans in this space.

### 4. AVC arrangements

The fund performance of the legacy AVC arrangements are reviewed on a quarterly basis, and as with the default option, the main underlying equity manager in the AVC arrangements is also BlackRock. Given the relatively small assets invested and that the arrangements are closed to new entrants and contributions, the Trustee do not disclose the stewardship activity of other AVC managers in this report in further detail.

## Conclusion

Over the year, the Trustee can confirm that they have closely adhered to the policies in their SIP. With respect to stewardship, there are some areas of concern around the lack of activity of certain managers. However, the Trustee and their investment consultant have already engaged with the relevant managers, and will continue to engage on a case by case basis, so as to encourage better practices where necessary.

## 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 – Voting data of equity managers within BlackRock arrangement

| Aquila Connect Emerging Markets Fund | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 21808 |
| % resolutions voted | 96.9% |
| % of resolutions voted against management | 8.7% |
| % resolutions abstained | 2.9% |

| Aquila Connect Global Minimum Volatility Fund | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 5,696 |
| % resolutions voted | 96.7% |
| % of resolutions voted against management | 3.3% |
| % resolutions abstained | 0.5% |

| Global Property Securities Equity Index | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 3851 |
| % resolutions voted | 92.6% |
| % of resolutions voted against management | 3.7% |
| % resolutions abstained | 0.4% |

| Dynamic Allocation Fund | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 1611 |
| % resolutions voted | 94.0% |
| % of resolutions voted against management | 4.7% |
| % resolutions abstained | 0.0% |

| Aquila Connect FTSE Developed Core Infrastructure Index | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 1826 |
| % resolutions voted | 99.9% |
| % of resolutions voted against management | 3.0% |
| % resolutions abstained | 0.3% |

| Aquila Connect MSCI World Fund | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 15,148 |
| % resolutions voted | 91.7% |
| % of resolutions voted against management | 6.2% |
| % resolutions abstained | 0.6% |

| Aquila Connect Global Development Fundamental Weighted Index | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 9661 |
| % resolutions voted | 91.9% |
| % of resolutions voted against management | 5.2% |
| % resolutions abstained | 0.6% |

| World (ex-UK) Equity Tracker Fund | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 26,588 |
| % resolutions voted | 93.3% |
| % of resolutions voted against management | 5.6% |
| % resolutions abstained | 0.3% |

| UK Equity Index | 1 October 2019 – 30 September 2020 |
|---|---|
| No. Voteable Proposals | 10,858 |
| % resolutions voted | 98.8% |
| % of resolutions voted against management | 4.5% |
| % resolutions abstained | 0.7% |

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# SIEMENS BENEFITS SCHEME

## Statement of Investment Principles
## DC Section
## June 2019

Unrestricted

SIEMENS BENEFITS SCHEME

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SIEMENS BENEFITS SCHEME

## 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 DC and AVC assets of the Scheme. A separate Statement of Investment Principles has been prepared to cover investment matters relating to the DB Section of the Scheme.

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**

Unrestricted

## 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 advisors. 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 Trustee's principal objective is to provide a range of investments that are suitable for meeting members' long and short term investment objectives. The Trustee has taken into account members' circumstances, in particular the expected range of members' attitudes to risk and term to retirement.

The Trustee has identified a number of investment strategies that have been chosen to maximise the likelihood of members achieving their individual objectives. The investment strategies, including the default option, have been constructed following analysis of the existing membership of the Scheme. This analysis took into account factors such as age, accumulated fund values and term to retirement, to identify different types of member in order to test alternative investment strategies. The design of the default option offered to members reflects this analysis, having carried out multiple simulations of future economic and investment scenarios, and also taking into account the various options members will have regarding the way in which they draw their benefits in retirement.

The aim of the default option is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings and then to gradually diversify their investments to reduce volatility whilst maintaining the potential for a modest level of growth in excess of inflation. The Trustee has put in place the default option in acknowledgement that some members will be unwilling or feel unable to make investment choices.

The Trustee, in conjunction with its advisors, completed its formal review of all investment options (including the default option) during 2016, and implemented the current strategy during 2017.

The Trustee's policies in relation to the default option in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out elsewhere in this document.

A choice of alternative investment strategies, as well as self-select fund options, are offered so members can tailor their investment selections to meet their requirements, if they so wish.

## 4. INVESTMENT STRATEGY

The Trustee offers members a choice of three lifestyle strategies. Members are also free to choose from a range of self-select fund options. The Trustee has chosen one of the lifestyle strategies, Flexible Access, as the default option for members.

The Trustee has taken advice to ensure that the investment strategies and self-select fund options are suitable for the Scheme, taking into account:

- The Scheme's membership profile
- Liquidity requirements
- The ongoing costs to members
- Any legal requirements and regulatory guidance
- Any restrictions in the Trust Deed.

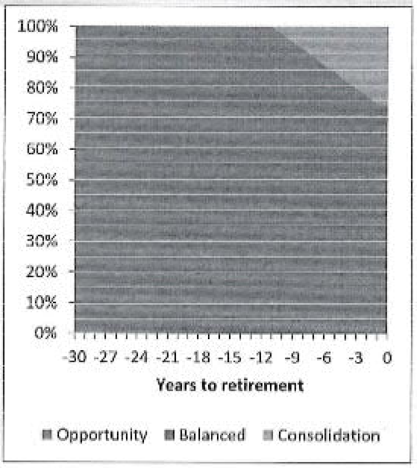
The funds that are utilised in the lifestyle and self-select range have been designed by the Trustee and "white labelled" to reduce disruption to members should a change need to be made at manager or strategy level.

### 1. Flexible Access (Default Option)

The Flexible access strategy has been designed to provide an investment strategy that is appropriate for the majority of members and that provides flexibility on when and how they access their pot.

The strategy invests in the Opportunity fund until 25 years before a member's selected retirement age. During this 'growth' phase, the strategy aims to provide real growth (in excess of inflation) over the long term.

25 years from a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, initially through the Balanced fund and then the Consolidation fund.



## 4. INVESTMENT STRATEGY

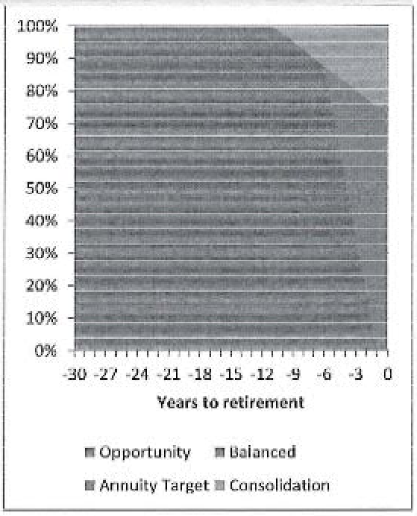
### 2. Traditional annuity

The Traditional annuity strategy has been designed to provide a member with an investment strategy that is appropriate if they expect to purchase an annuity with their pot at retirement.

As for the Flexible access strategy, this strategy invests in the Opportunity fund until 25 years before a member's selected retirement age. During this 'growth' phase, the strategy aims to provide real growth (in excess of inflation) over the long term.

25 years from a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, initially through the Balanced fund and then the Consolidation fund.

5 years from a member's selected retirement age, an allocation to the Annuity Target fund is introduced to protect the accrued pot against fluctuations in the price of an annuity.



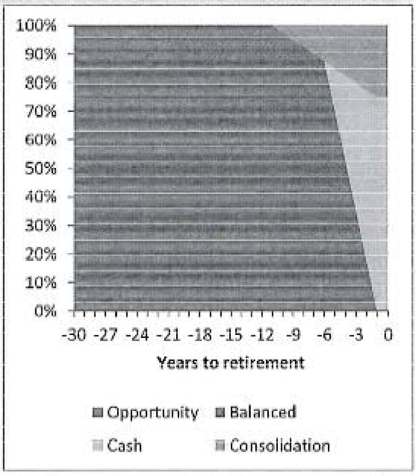

### 3. Cash out

The Cash out strategy has been designed to provide a member with an investment strategy that is appropriate if they expect to take their entire pot as cash at retirement.

As for the Flexible access strategy, this strategy invests in the Opportunity fund until 25 years before a member's selected retirement age. During this 'growth' phase, the strategy aims to provide real growth (in excess of inflation) over the long term.

From 25 years from a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, initially through the Balanced fund and then the Consolidation fund.

5 years from a member's selected retirement age, an allocation to the Cash fund is introduced to significantly reduce market risk within the portfolio.



# 4. INVESTMENT STRATEGY

**4. Self-select**

The Trustee offers a range of funds for members who prefer to make their own investment choices.

**5. Fund range**

The following table illustrates the full fund range available to members. Each fund consists of one or more investments in pooled investment vehicles operated by a range of different investment managers.

Further details of the funds, including the fund objectives, charges and underlying investments is available in the fund factsheets produced by the fund provider.

| Fund | Self-Select | Flexible Access (Default) | Traditional Annuity | Cash Out |
|---|---|---|---|---|
| Opportunity | ✓ | ✓ | ✓ | ✓ |
| Balanced | ✓ | ✓ | ✓ | ✓ |
| Consolidation | ✓ | ✓ | ✓ | ✓ |
| Annuity Target | ✓ | × | ✓ | × |
| Cash | ✓ | × | × | ✓ |
| Inflation Linked Annuity Target | ✓ | × | × | × |
| Passive UK equity | ✓ | × | × | × |
| Active UK equity | ✓ | × | × | × |
| Passive global equity | ✓ | × | × | × |
| Active global equity | ✓ | × | × | × |
| Shariah | ✓ | × | × | × |
| Ethical | ✓ | × | × | × |
| Property and Infrastructure | ✓ | × | × | × |

**6. AVC Section**

Any member opting to pay Additional Voluntary Contributions (AVCs) may choose to invest contributions in any of the options described in 4.1 – 4.5 above.

The Trustee has previously made a selection of funds available to members other than those described above, including with profits, cash, equities and bond funds offered by a range of providers. Members are no longer able to make contributions to these legacy AVC funds, but existing assets may remain invested until further notice.

**7. Expected return on investments**

Over the long-term the Trustee's expectations are:

- For units representing "growth" assets (UK equities, overseas equities, multi-asset funds and property) to achieve a real return (in excess of inflation) over the long term. The Trustee considers

## 4. INVESTMENT STRATEGY

short-term volatility in equity price behaviour to be acceptable, given the general expectation that over the long-term equities will outperform the other major asset classes.

- For units representing monetary assets (UK bonds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing fixed income annuities.
- For units representing inflation linked assets (UK index-linked bonds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing real annuities that increase in line with inflation;
- For units representing cash, to protect the capital value of the investment and achieve a rate of return in line with money market interest rates.

## 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 take the form of an investment in a pooled investment vehicle operated by a specific investment manager and made available to the Scheme through the Fidelity investment platform.

The performance targets, benchmarks and fees for each of the fund options are set out in the respective factsheets as provided by Fidelity. 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 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. The Trustee has adopted a fund structure that should minimise disruption to members in the event of a change. The Trustee will also evaluate and seek to minimise costs and risks to members before making a change.

## 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 Trustee has set out below the main risks facing members. The Trustee notes there are a wide range of other risks which may affect the investments and which the Trustee also attempts to take into account when setting the investment strategy, both for the default option and also when considering the range of other funds to make available to members. These risks could be market related (e.g. fluctuations in equity / currency markets), operational (e.g. a fund manager's performance fails to meet expectations) or due to external factors (e.g. environmental, social and governance factors, including climate change).

The Trustee and its investment advisors carry out periodic reviews to ensure the Trustee understands the extent to which these represent risks to members. Should there be a material change in the Scheme's circumstances, 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. Primary risks to members

The investment options made available to members have been chosen with the aim of enabling members to control the following risks:

- **Inflation risk.** The risk that the growth in investments over members' working lives will not keep pace with inflation and will not, therefore, secure an adequate retirement benefit.

- **Volatility risk.** The risk of significant short-term fluctuations in the value of members' invested capital which some members may be concerned about.

- **Capital risk.** The risk of a significant fall in the value of members' invested capital as they approach retirement.

- **Conversion risk.** The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured.

The default option has been designed with these risks in mind, targeting a higher level of return over inflation earlier in a member's career and modestly reducing this target (and consequently volatility) as a member approaches retirement. Strategies have been identified that seek to mitigate the risk of a significant fall in capital value and the default option increases exposure to these as the member approaches retirement. Flexible Access has been selected as the default option given the flexibility a member has over when and how they access their pension pot.

A range of self-select options are made available to members, allowing them to tailor their investments and risk exposure to their own particular circumstances if they choose to do so.

## 7. OTHER ISSUES

### 1. Custody of assets

Investment in pooled funds gives the Trustee rights to the cash value of the units rather than to the underlying assets. The underlying investment manager of each of the pooled funds is ultimately responsible for the appointment and monitoring of the custodian of the fund's assets.

### 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 default investment strategy (and other lifestyle strategies), the Trustee's primary concern is to act in the best financial interests of the Scheme's members invested in those strategies, seeking the best return that is consistent with a prudent and appropriate level of risk based on members' anticipated term to retirement. 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 applicable to members invested in those strategies if not understood and evaluated properly.

The Trustee takes account of these factors by taking advice from their investment adviser when setting the asset allocation of the funds and lifestyle arrangements offered, and when selecting (and when monitoring the performance of) managers for the default fund, lifestyle strategies and self-select fund options.

**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.

**Members' Views and Non-Financial Factors**

The Trustee does not take in to account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in setting the Scheme's default investment strategy or other lifestyle strategies. However, it recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving. Where applicable the Trustee will consider member feedback on updating the range of ethical funds.

The Trustee has made the Ethical and Shariah funds available to members who would like to invest in funds with these specific considerations.

## 7. OTHER ISSUES

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

### 4. Realisation of Investments

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 ensure that all investments in funds made available to members are sufficiently liquid to ensure daily pricing of the funds.