Siemens Fire Safety & Security (PFP) Pension Scheme

Statement of Investment Principles

August 2019

Contents

Glossary

AVCs	Additional Voluntary Contributions
ESG	Environmental, Social and Governance
LDI	Liability Driven Investment
LGIM	Legal & General Investment Management Limited
Scheme	Siemens Fire Safety & Security (PFP) Pension Scheme
Trustees	The Trustees of the Scheme
UNPRI	United Nations Principles for Responsible Investment

1. Introduction

This statement is made in accordance with the requirements of legislation[1] and, in determining a suitable investment strategy for the Scheme, the Trustees have considered the Pension Regulator's Investment Guidance for defined benefit pension schemes.

The main body of this statement sets out the principles and policies that govern investments made by the Trustees of the Scheme. Details of the specific investment arrangements in place are set out in the Appendices.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustees.

[1] In particular, the Pensions Act 1995, the Occupational Pensions (Investment) Regulations 2005 and the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

2. Investment Governance Structure

Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees will obtain and consider written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

Legal Advice

Whenever deemed necessary, the Trustees will seek advice from their legal adviser on investment matters.

Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

Investment Managers

Day-to-day management of the Scheme’s assets is delegated to one or more investment managers.

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

Members’ Views

The Trustees recognise that it is likely that members and beneficiaries will hold a broad range of views on ESG and other non-financial matters. Whilst the Trustees will seek to avoid investing in a way that is likely to be strongly opposed by those individuals, the Trustees do not directly take such views into account when determining the Scheme’s investment strategy.

The Trustees believe that their duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustees' Investment Objectives are designed to ensure this duty is achieved.

3. Investment Beliefs

The investment beliefs stated below have been developed by the Trustees and are reflected in the Scheme's investment strategy.

Risk versus Reward

Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.

Asset Allocation

Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

Diversification

Asset diversification helps to reduce risk.

Use of Pooled Funds

Taking into account the size of the Scheme's assets, it is expected that pooled funds will typically be a more practical way of implementing the Scheme's investment strategy than establishing segregated mandates with investment managers.

Use of Active Management

Active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility. In addition, it is recognised that active management may help to mitigate the financial impact of ESG risks.

For each asset class, the Trustees will consider whether the higher fees associated with active management are justified.

4. Investment Objectives

Defined Benefit Assets

The Trustees' primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due;
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members; and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustees' investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments;
- expected levels of investment return on different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position;
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

AVCs

AVCs are held separately from the Scheme's other investments and the Trustees aim to make a variety of funds available with the member choosing which funds to use. From time to time the Trustees review the ongoing suitability of the AVC arrangements.

Details of the current AVC arrangements are provided in Appendix 1.

Defined Contribution Assets

There are a small number of members with defined contribution (DC) benefits who have notional funds invested in the LGIM Diversified Fund within the main scheme assets. As such, the investment principles that relate to the assets in relation to defined benefits also apply to the assets in relation to defined contributions.

5. Use of Investment Managers

Investment Manager Selection

When selecting an investment manager, the Trustees will:

- ensure that the investment manager has the appropriate knowledge and experience;
- ensure that the investment manager's mandate is appropriate; and
- consider the investment manager's approach to ESG matters.

Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees will normally select investment managers who are signatories to the UNPRI and who publish the results of their annual UNPRI assessment. This principle may be waived if a fund offered by a non-signatory manager is deemed to have investment characteristics which are particularly important for meeting the Trustees' investment objectives.

Manager Implementation

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

Use of Derivatives

The investment managers are permitted to use derivative instruments to reduce risk or for efficient portfolio management. Risk reduction would include mitigating the impact of a potential fall in markets or the implementation of currency hedging whilst efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

Leverage

The instruments used by the investment managers of the Liability Matching Assets may result in the Liability Matching Assets being leveraged. Since these assets are closely aligned to the liabilities, the allocation to Liability Matching Assets (and any associated leverage) reduces the volatility of the Scheme's funding position and therefore reduces risk.

Stewardship

The Trustees recognise that the membership might wish the Trustees to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustees invest in pooled investment vehicles and accept that ongoing engagement with the underlying companies (including the exercise of voting rights) will be determined by the investment managers' own policies.

The Trustees recognise that the investment managers' engagement policies are likely to be focussed on maximising financial returns and minimising financial risks rather than targeting an environmental or societal benefit.

6. Risk Mitigation

Identification, measurement and management of risk form an integral part of the process adopted by the Trustees to determine the strategic asset allocation. The principal investment risks are listed in the Trustees' *Investment Risk Policy*. That Policy also provides an explanation of how the investment risks are managed.

Risk Capacity and Risk Appetite

In determining a suitable investment strategy, the Trustees consider how the volatility of the funding position is likely to be affected by changes to the asset allocation. An important consideration for the Trustees is whether a potential investment strategy is consistent with the ability of the sponsoring employer to address any future increase in deficit that may arise due to market movements.

Self-Investment Risk

Legislation imposes a restriction that no more than 5% of a pension scheme's assets may be related to the sponsoring employer. The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

ESG Risks

Since the Trustees invest in pooled investment vehicles, it is accepted that the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

Liquidity Risk

The majority of the Scheme's investments will be liquid and will be realisable for cash at relatively short notice without incurring high costs. However, the Trustees recognise that the liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

Details of the liquidity characteristics of the funds held are provided in Appendix 2.

7. Monitoring

The Trustees regularly review the Scheme's investments to ensure that the assets continue to be managed in accordance with each manager's mandate and that the choice of managers remains appropriate.

Furthermore, the Trustees regularly monitor the position of the investment managers with regards to ESG matters.

The Trustees receive quarterly updates from the fund managers providing an update on performance, asset allocation decisions and ESG factors and shareholder engagement.

The Trustees meet with representatives of their investment managers every year.

The Trustees regularly consider whether fund manager performance has been in line with expectations given market conditions and whether the level of risk has been as expected.

In addition, the investment advisor regularly participates in Trustee meetings. At those meetings, the advisor provides an assessment of the ongoing suitability of the funds selected by the Trustees.

The investment adviser regularly meets with the managers of pooled funds on its approved list.

8. Future Amendments

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment strategy.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

Signed: [signature] Date: 26/9/19

For and on behalf of the Trustees of the Siemens Fire Safety & Security (PFP) Pension Scheme.

Appendix 1: The Trustees' Investment Strategy

Strategic Asset Allocation

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets –** Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.

2. **Liability Matching Assets –** Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

In addition, the Trustees may hold cash. Cash will normally be held in the Trustees' bank account if it is to be used to make payments due in the short-term whereas cash that is to be held for more than a few weeks will normally be held in a cash fund (the LGIM Sterling Liquidity Fund).

At the time of preparing this statement (as at 31 July 2019), the split of the Scheme's assets between Growth and Liability Matching Assets was 26% Growth and 74% Liability Matching. This split is not regularly rebalanced and will vary over time as market conditions change.

The Trustees will review the strategic asset allocation periodically, and at least every three years, to ensure that the investment strategy remains consistent with the Trustees' funding objectives. As part of such a review, the Trustees will consider the risks associated with the investment strategy.

Investment Strategy Implementation

The Trustees have selected funds managed by LGIM to implement the Scheme's investment strategy.

Further details of the investment strategy and the funds used are provided below.

Design of the Growth Asset Portfolio

The structure of the Scheme's Growth Assets has been designed to offer diversification across a range of underlying asset classes.

The strategic allocation for the Scheme's Growth Assets is as follows:

Pooled Fund	Allocation as at 31 July 2019
LGIM Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged	60%
LGIM Diversified Fund	40%
Total Growth Assets	**100%**

The allocation of the Growth Assets is not automatically rebalanced but will be monitored and rebalanced at the discretion of the Trustees.

Appendix 1: The Trustees' Investment Strategy (continued)

Design of the Liability Matching Portfolio

The Scheme's Liability Matching Assets are invested in a global buy and maintain credit fund, gilt funds and leveraged LDI funds managed by LGIM. The LGIM funds used are:

- LGIM Buy & Maintain Global Credit Fund (Distribution)
- LGIM Over 15 Year Gilts Index Fund
- LGIM Over 5 Year Index Linked Gilts Index Fund
- LGIM Matching Core Real Long Fund
- LGIM Matching Core Real Short Fund

LDI Leverage Management Policy

In an environment of rising yields, leverage increases, and if the leverage of an LGIM LDI fund breaches the upper threshold, LGIM will require a recapitalisation to lower the leverage of the relevant fund. This will ensure that leverage within the LDI funds remains within a permissible range. The Trustees decide where such payments should be taken from. The Trustees have provided LGIM with authority to use the following funds to recapitalise any LDI funds in the following order:

1) LGIM Diversified Fund,
2) LGIM Global Equity Market Weights (30:70) – 75% GBP Hedged,
3) LGIM Buy & Maintain Global Credit Fund (Distribution),
4) LGIM Over 15 Year Gilts Index Fund,
5) LGIM Over 5 Year Index-Linked Gilts Fund.

In an environment of falling yields, leverage falls, and if the leverage of an LGIM LDI fund falls below a minimum threshold, LGIM will make a cash payment from the relevant fund to raise the leverage. This will ensure that leverage within the LDI funds remains within a permissible range. The Trustees decide how such payments shall be invested. The Trustees have provided LGIM with authority to invest any such cash proceeds in the LGIM Diversified Fund.

Cashflow Management Policy

Any investments or disinvestments will be made at the discretion of the Trustees, but the Trustees will maintain a *Cashflow Management Policy* which will record how such payments should be structured. The *Cashflow Management Policy* will be designed to ensure the allocation of the Scheme's assets remains closely aligned with the strategy described in this statement.

To ensure the Scheme operates efficiently, the Trustees may share the *Cashflow Management Policy* with the individual(s) responsible for processing payments from the Scheme.

Appendix 1: The Trustees' Investment Strategy (continued)

The *Cashflow Management Policy* will be reviewed from time-to-time by the Trustees and, as a minimum, at least every three years in line with a review of this statement. Given that the *Cashflow Management Policy* is designed to keep the Scheme's asset allocation aligned with the investment strategy and investment principles described in this statement, the sponsoring employer is satisfied that the *Cashflow Management Policy* can be amended by the Trustees without consulting the sponsoring employer.

Long-Term Journey Plan

The Trustees have agreed to fund the liabilities on a gilts +0.25% p.a. discount rate basis, a low risk basis. The Scheme was fully funded on this basis as at the last triennial actuarial valuation (31 March 2018) and the Trustees are currently considering whether changes to the investment strategy are required in order to better protect the strong funding position.

Additional Voluntary Contributions

The Scheme's AVC arrangements are held with Friends Life and Equitable Life.

Appendix 2: Fund Details

This Appendix provides a summary of the funds selected by the Trustees' to implement the Scheme's investment strategy. The details provided below were correct as at August 2019.

The following points should be noted:

- AMC – the Annual Management Charge applicable to each fund represents the fee payable to the fund manager.
- Additional expenses – these are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.
- T = Trade date.

LGIM Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged		
Objective	To provide diversified exposure to UK and overseas equity markets while reducing foreign currency exposure to 75% of the overseas assets.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+2	
Fee	AMC:	0.10% per annum

LGIM Diversified Fund		
Objective	To provide long-term investment growth through exposure to a diversified range of asset classes. Long term expected rate of return is broadly similar to developed market equities, as represented by the FTSE Developed World Index (50% hedged to GBP). The long-term expected annualised rate of return for this Fund is the Bank of England Base Rate +3.5% pa, over a full market cycle.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+2	
Fee	AMC:	0.30% per annum
	Additional expenses:	0.01% per annum

Appendix 2: Fund Details (continued)

LGIM Buy & Maintain Global Credit Fund (Distribution)		
Objective	To capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality. Income from investments will be distributed monthly by the cancellation of units.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+2	
Fee	AMC:	0.13% per annum
	Additional expenses:	0.06% per annum

LGIM Over 15 Year Gilts Index Fund		
Objective	Employs an index-tracking strategy aiming to replicate the performance of the FTSE Actuaries UK Conventional Gilts (Over 15 Year) Index to within +/- 0.25% pa for two years out of three.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+1	
Fee	AMC:	0.025% per annum

Appendix 2: Fund Details (continued)

LGIM Over 5 Year Index Linked Gilts Index Fund		
Objective	Employs an index-tracking strategy aiming to replicate the performance of the FTSE Actuaries Index-Linked Gilts (Over 5 Year) Index to within +/- 0.25% pa for two years out of three.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+1	
Fee	AMC:	0.025% per annum

LGIM Matching Core Funds		
Objective	To provide liability hedging based on the liability cashflows of a typical UK pension scheme.	
Legal Structure	Unit-linked insurance policy	
Trading Frequency	Weekly	
Notice Period	T-2	
Settlement Period	T+2	
Fee	AMC:	0.16% per annum
	Additional expenses:	0.05% per annum