Registered number: 10126751
PSO reference: SF19/78032

SIEMENS BENEFITS SCHEME

Statement of Investment Principles

September 2020

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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 Siemens Benefits Scheme Ltd ('the Trustee') acting as trustee of the Scheme and is in compliance with the requirements of The Occupational Pension Schemes (Investment) Regulations 2005 and other subsequent legislation.

The Trustee 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 advisor(s) and / or other professional advisors as appropriate to ensure that it is appropriately familiar with the issues concerned.

A copy of this Statement is available to the members of the Scheme on request. The latest version is also made available on the Trustee's website: https://new.siemens.com/uk/en/company/jobs/life-at-siemens/my-pension.html

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 “Employer”) and other Siemens UK employers that participate in the Scheme. It is governed by the Definitive Trust Deed dated 18 December 2017.

The Scheme is a hybrid pension arrangement incorporating a Defined Benefit (DB) section and a Defined Contribution (DC) section.

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 asset managers or its advisors as appropriate.

To manage the requirements of running the Scheme, various committees are in operation, each with its own delegated powers and terms of reference. At present the committees are responsible for: administration and communications; benefits; documents; investment, covenant and funding; finance and audit.

The Investment, Covenant and Funding Committee, or ICFC, 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 advisor(s) and following Full Board approval 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.

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

3. COMPLIANCE WITH INVESTMENT REGULATIONS

Section 35 of the Pensions Act 1995 requires the Trustee to prepare and maintain a Statement of Investment Principles for the Scheme. This document has been prepared for this purpose.

This section explains how the Trustee expects to meet the requirements as set out in section 2 of The Occupational Pension Schemes (Investment) Regulations 2005. This section applies to both DB and DC arrangements, except for 2A below which applies only to the DC default arrangement.

(1) (a) and (b) Review of the Statement of Investment Principles

The Trustee will review this SIP at least every three years and as soon as possible after any significant change in investment policy. There will be no obligation to change this SIP as part of such a review.

(2) (a) and (b) Taking advice on the Statement of Investment Principles / Consulting the employer

When reviewing the SIP, the Trustee shall obtain and consider written advice from the Trustee's investment advisor(s) and will consult with the employer.

(3) (a) The Trustee's policy for securing compliance with the requirements of section 36 of the 1995 Act (choosing investments)

The Trustee's policy in relation to this requirement is set out in section 8, including specific considerations in relation to the DC section where an investment platform is used.

(3) (b) The Trustee's policy in relation to:

(i) the kinds of investments to be held & (ii) the balance between different kinds of investments

The Trustee's policies in relation to this requirement for the DB section are set out in sections 4 and 5, and in relation to this requirement for the DC section in sections 6 and 7.

(iii) risks, including the ways in which risks are to be measured and managed

The Trustee's policies in relation to this requirement are set out in section 9, covering risks in relation to both the DB and the DC section.

(iv) the expected return on investments

The Trustee believes that, as the investment horizon lengthens, the probability increases that returns on "growth" assets (e.g. equities, multi-asset funds and property) will be greater than risk-free assets (e.g. UK gilts). This belief is applicable to both the DB and the DC section. Some further comments on expected return on DC investments are set out in section 7.

The Trustee and its investment advisor(s) monitor changes in expected returns on investments. The effect any changes will have on the ability of the Scheme to meet the investment objectives will be considered and the investment strategy of the Scheme will be reviewed if required.

(v) the realisation of investments

The Trustee's policy is to hold enough investments in liquid assets to meet cash flow requirements in foreseeable circumstances without disrupting the Scheme's asset allocation or incurring excessive transaction costs.

In the DB Section, the Trustee monitors the amount of cash and other liquid instruments held to ensure that all liabilities e.g. benefits, collateral, margins, expenses and other cash calls can be paid as required.

In the DC Section, the Trustee aims to ensure that the DC default arrangement and other investment options made available to members are sufficiently liquid to ensure daily pricing. The Trustee will take advantage of the ability to invest the underlying assets in less liquid assets where possible providing it does not reduce the liquidity of the overall fund range made available to members.

3. COMPLIANCE WITH INVESTMENT REGULATIONS

The asset managers have ultimate 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.

(vi) financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments

The Trustee's primary duty in relation to investment strategy (in respect of both the DB and the DC section) is to invest the Scheme assets in the best financial interests of members and beneficiaries, having regard to an appropriate level of risk. The Trustee expects (and expects its managers) to take account of any financially material considerations in the selection, retention and realisation of investments, including Environmental, Social and Governance ("ESG") considerations (e.g. climate change) where these are considered relevant financial factors.

(vii) the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustee does not take in to account any non-financial factors (for example, personal preferences of members and beneficiaries about investing in specific industries and/or companies) in the selection, retention and realisation of investments. This includes when setting the Scheme's DC default arrangement.

The Trustee does however recognise the importance of offering a suitable range of investment options for DC members who wish to express a personal preference in their pension saving, which may be non-financial in nature. The Trustee aims to offer a suitable range of funds to cater for these preferences and, where appropriate, will consider member feedback on the range of funds to offer.

(3) (c) The Trustee's policy in relation to:

(i) the exercise of the rights (including voting rights) attaching to the investments

(ii) undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters

The Trustee's policy in relation to this requirement (in respect of both DB and DC sections) is set out in section 10.

3. COMPLIANCE WITH INVESTMENT REGULATIONS

(3) (d) The Trustee's policy in relation to the trustees' arrangement with any asset manager, setting out the following matters or explaining the reasons why any of the following matters are not set out:

> ***(i) how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies mentioned in sub-paragraph (b)***
>
> ***(ii) how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with the issuers of debt or equity in order to improve their performance in the medium to long-term***
>
> ***(iii) how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies mentioned in sub-paragraph (b)***
>
> ***(iv) how the Trustee monitors portfolio turnover costs incurred by the asset manager, and how the Trustee defines and monitors targeted portfolio turnover or turnover range; and***
>
> ***(v) the duration of the arrangement with the asset manager***

The Trustee's policy in relation to this requirement is set out in section 8.

2A (1) Additional requirements in relation to the DC default arrangement

This section sets out how the Trustee meets specific requirements in relation to the DC default arrangement.

(1) (a) the aims and objectives of the trustees in respect of such investments

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 has considered members' circumstances, including the expected range of members' attitudes to risk and term to retirement.

The aim of the DC default arrangement is to provide members with the potential for higher levels of growth (an initial target of Consumer Price Inflation plus 4%) 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 (Consumer Price Inflation plus 2% in the final years before retirement). The Trustee has put in place the DC default arrangement in acknowledgement that some members will be unwilling or feel unable to make investment choices.

(1) (c) how the aims and objectives and the policies mentioned in (3) (b) above are intended to ensure that assets are invested in the best interests of the group of persons consisting of relevant members and relevant beneficiaries

The Trustee's policies for the DC section as set out in 3 (b) above are applicable to both the DC default arrangement and all other DC investment options. To ensure the DC default arrangement remains appropriate for the relevant members and beneficiaries, the Trustee conducts regular analysis of the Scheme's membership (at least every three years) and takes this into account when setting the strategy. More information on the DC default arrangement, and the considerations used to set this strategy, can be found in section 7.

4. DB INVESTMENT OBJECTIVES

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

To meet 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 enough 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 advisor(s), 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 Employer when setting the Funding Target and Investment Strategy and will consult on future changes as required. The Trustee will take the Employer'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 advisor 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 covenant provided by the Employer.

5. DB 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	45.0	5.0
Liquid market strategies	0.0	5.0
Liquid and semi liquid credit	50.0	5.0
Illiquid credit	1.0	n/a*
Illiquid market strategies	4.0	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 three bespoke illiquid assets: a Scottish Limited Partnership asset backed funding arrangement and two buy-in policies (see Section 11 for more information). The characteristics of these assets are considered when determining the target investment strategy.

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

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

6. DC INVESTMENT OBJECTIVES

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 has considered members' circumstances, including the expected range of members' attitudes to risk and term to retirement.

The Trustee has selected investment strategies that have been chosen to maximise the likelihood of members achieving their individual objectives. The investment strategies, including the DC default arrangement, 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 DC default arrangement 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 DC default arrangement is to provide members with the potential for higher levels of growth (an initial target of Consumer Price Inflation plus 4%) 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 (Consumer Price Inflation plus 2% in the final years before retirement). The Trustee has put in place the DC default arrangement in acknowledgement that some members will be unwilling or feel unable to make investment choices.

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.

The Trustee's policy is to review the suitability of the investment objective and whether the DC default arrangement and other investment options are expected to meet this objective at least once every three years.

7. DC 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 DC default arrangement 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.

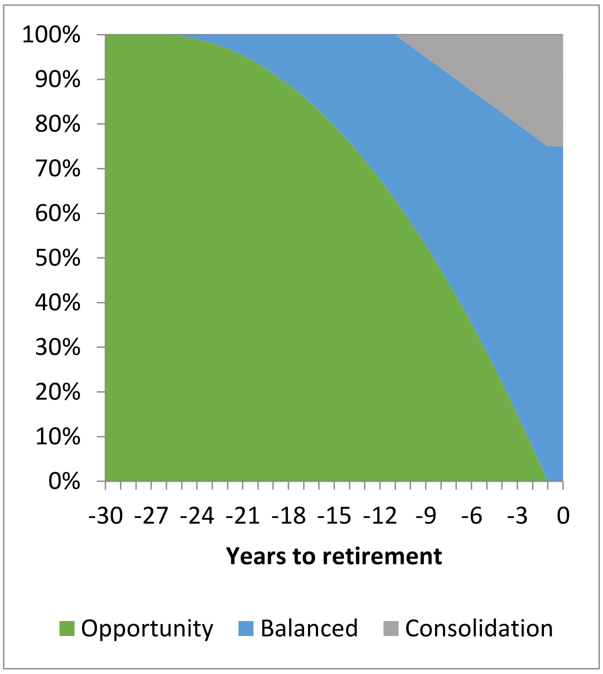
The funds that are utilised in the lifestyle and self-select range have been designed by the Trustee and "white labelled" to reduce disruption to members should a change need to be made at manager or strategy level.

- **Flexible Access (DC default arrangement)**

The Flexible access strategy has been designed to provide an investment strategy that is appropriate for most 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 by investing in, for example, equities, property and infrastructure investments.

25 years from a member's selected retirement age, lower risk investments (for example multi-asset funds, corporate and government bonds) are gradually introduced, initially through the Balanced fund and then the Consolidation fund.



7. DC INVESTMENT STRATEGY

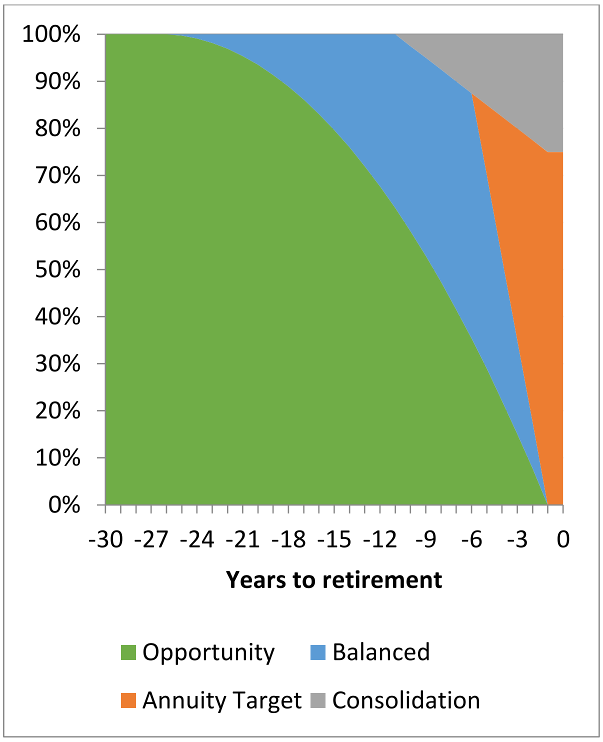
• Traditional annuity

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.



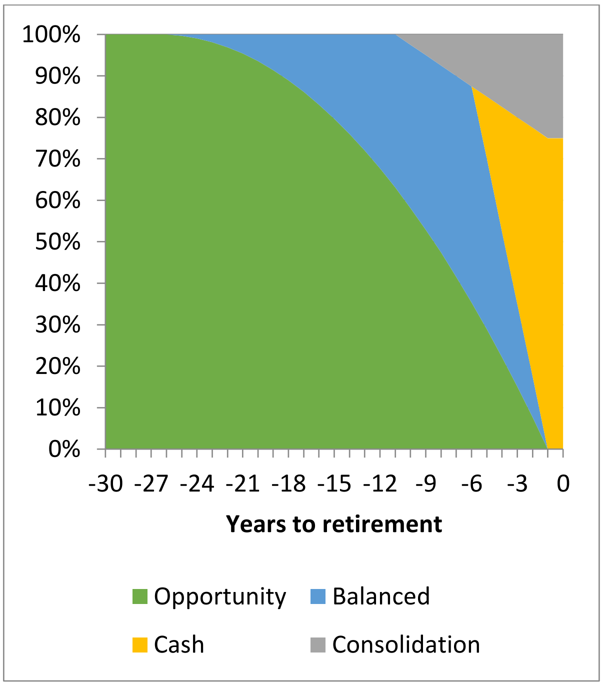
• Cash out

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.



7. DC INVESTMENT STRATEGY

- **Self-select**

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

- 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 asset managers.

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

Fund	Self-Select	Flexible Access (DC default arrangement)	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	✓	✗	✗	✗

- **AVC Section**

Any member opting to pay Additional Voluntary Contributions (AVCs) may choose to invest contributions in any of the options described in this section.

The Trustee has previously made funds available to members other than those described above, including with-profits, cash, equity 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.

- **Expected return on investments**

Over the long-term the Trustee's expectations for the DC investments are:

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

7. DC INVESTMENT STRATEGY

- 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.

8. ASSET MANAGERS

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

Asset managers are carefully selected by the Trustee to manage underlying mandates, taking appropriate professional advice on the suitability of those asset managers as required in line with section 36 of the 1995 Act.

Mandates may take the form of either:

- a segregated account managed by the Trustee's chosen asset manager; or
- an investment in a pooled investment vehicle operated by the Trustee's chosen asset manager;
- In the case of the DC section, an investment in a pooled investment vehicle operated by the Trustee's chosen asset manager and made available to the Scheme through the Fidelity investment platform.

As far as possible the Trustee aims to follow a comparable approach for selecting asset managers in both the DB section and the DC section and has the same standards and expectations for each section. The Trustee does however recognise that liquidity and charge cap constraints specifically, and investing via an investment platform generally, can place certain constraints on the availability of asset managers for the DC section. The Trustee will work with the investment platform provider and its advisor(s) to seek to minimise the effects of this on the overall investment strategy.

Each mandate's performance targets, benchmarks, restrictions and fees are set out in the respective Investment Management Agreements, pooled fund documentation or the respective factsheets as provided by the investment platform provider. The documents governing the manager appointments include 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 regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies as set out in this statement. This includes monitoring the extent to which the asset managers:

- Make decisions based on assessments about medium- to long-term performance of an issuer of debt or equity; and
- engage with issuers of debt or equity to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment advisor(s).

The Trustee has, with support from its advisor(s), developed separate frameworks for monitoring the performance and suitability of the investments of the DB and the DC sections. The Trustee receives regular reports and verbal updates from the investment advisor(s) covering investment strategy, performance, diversification, and longer-term positioning of the Scheme's investments. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and (where possible) assesses the asset managers over a range of different time horizons with more weight given to long-term performance and risk-adjusted returns.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year. The Trustee expects, over time, to follow the framework of the Task Force on Climate-related Financial Disclosures ("TCFD") and expects its asset managers (and other providers where appropriate) to do the same when producing their financial

8. ASSET MANAGERS

disclosures. The Trustee will monitor the extent to which its asset managers and providers adopt TCFD reporting.

The Trustee shares the policies, as set out in this SIP, with the Scheme's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee will seek to understand the manager's investment approach and policies, reviewing the governing documents and fee structures associated with the investment. When investing in a pooled investment fund, the Trustee will consider the extent to which the investment approach of that fund aligns with the Trustee's policies. Where a segregated mandate is used, the Trustee may use its discretion, where appropriate, to agree specific guidelines within the Investment Management Agreement that align with the Trustee's policies. Where this is not possible the Trustee may express its expectations to the asset managers by other means (for example, through a side letter, in writing or verbally at trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary) and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term performance. Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary. In the DC Section, the Trustee has adopted a fund structure that should minimise disruption to members in the event a change is required. The Trustee will also evaluate and seek to minimise costs and risks to members before making a change.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Cost Transparency

The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by their asset managers that can increase the overall cost.

The Trustee receives annual cost transparency reports covering their investments from the asset managers (via their investment advisor(s)/the investment platform provider), which allows it to understand total asset manager costs. The Defined Contribution section costs, along with estimated impact on representative members, are made publicly available in the Chair's Statement.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a reasonable level of transaction costs is acceptable provided it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying asset managers' fund holdings change over a year. The Trustee's investment advisor(s) include this in the monitoring they provide and the advisor(s) flag to the Trustee where there are concerns.

In the DC Section, the Trustee assesses the (net of all costs) performance of their asset managers over a range of different time horizons by comparing performance against benchmark and the stated investment objective. Cost information is set out alongside this performance to provide context. The Trustee monitors these costs and performance trends over time.

9. 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 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 asset managers.

The Trustee and its investment advisor(s) carry out periodic reviews to ensure the Trustee understands the extent to which these represent risks to the investments. Should there be a material change in the Scheme's circumstances or the market environment, the Trustee will review whether and to what extent the investment arrangements should be altered, including 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. This applies to both DB and DC sections' investments.

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, as well as the potential for more short-term volatility. This would lead to a requirement for either increased contributions (by the Employer or member for DB or DC section respectively) or more investment risk in future or the member extending their working life (DC section only).

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;

In the DB section, the Trustee has also hedged a significant proportion of the interest rate and inflation risks arising from the liabilities.

In the DC section, the Trustee offers three lifestyle approaches (including the DC default arrangement) which have been tailored to reduce risk as a member approaches retirement age, as well as freestyle options with differing risk ratings.

2. Primary risks to members

The investment options made available to members in the DC section 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.

9. INVESTMENT RISKS

The DC default arrangement 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 DC default arrangement increases exposure to these as the member approaches retirement. Flexible Access has been selected as the DC default arrangement 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 circumstances if they choose to do so.

3. Credit risk

The Scheme is subject to credit risk in both the DB and DC sections.

- In the DB section, the Scheme invests directly in bonds and properties, over the counter ("OTC") derivatives, has cash balances and enters into repurchase agreements and these arrangements are all subject to credit risk.
- The Scheme invests in pooled investment vehicles in both the DB and DC sections. There is direct credit risk in relation to the pooled investment vehicles and indirect risk where those pooled investment vehicles hold bonds or properties.
- The Scheme is also subject to credit risk in relation to the buy-in policies held in the DB section (see section 10).

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 asset managers who are responsible for assessing credit risk on the corporate bond portfolios 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, where appropriate, diversification of investments. The Trustee's investment advisor(s) 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 the case of the DC section, the Trustee also considers the security of the pooled investment arrangement on a periodic basis.

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.

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.

Credit risk associated with the buy-in policies is assessed prior to transaction. The Trustee has also sought to reduce risk by transacting with more than one counterparty. While the Trustee assesses the ongoing strength of the counterparties periodically, the Trustee does not have the ability to terminate the contracts and so would be reliant on the insurance regime to ensure the ultimate creditworthiness of these contracts if a counterparty did experience difficulty.

9. INVESTMENT RISKS

4. 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.

5. 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.

6. Other price risk

Other price risk arises principally in relation to the Scheme's investments in property, infrastructure and secure income investments. These investments are made either directly or indirectly through pooled investment vehicles. The Scheme manages this exposure to overall price movements by maintaining a diverse portfolio of investments.

7. 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 to cover any short-term cash requirements, including benefit payments and margin calls.

8. 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. The Trustee has a service level agreement in place with the custodian.

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.

9. Risk associated with Climate Change

The Trustee is aware of the risks posed by climate change, and how these risks will differ over the short, medium, and long term. These include both risks associated with transitioning to a low carbon economy, and physical risks as a direct result of climate change. The Trustee includes ESG-related risks, including climate change, on the Scheme's risk register as part of ongoing risk assessment and monitoring. The Trustee's policy on ESG related risks, including climate change, is set out in the next section.

10. RESPONSIBLE INVESTMENT

1. Environmental, Social and Governance Considerations

In setting the Scheme's investment strategy, the Trustee seeks to act in the best financial interests of the Scheme and its beneficiaries. The Trustee recognises that ESG 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 the investment advisor(s) when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance. The Trustee uses ratings information provided by its investment advisor(s), 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). The Trustee's expectation is that ESG integration (and stewardship) will be explicit topics of discussion between the Trustee, the investment advisor(s) and a prospective asset manager before any new asset manager appointment is finalised.

The Trustee considers climate-related risks when setting the Scheme's investment strategy, including the effect that climate change may have on individual asset classes or investment mandates. The Trustee takes advice from its investment advisor(s) when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance, and where deemed appropriate, considers modelling tools such as scenario analysis.

The Trustee periodically has training on Responsible Investment to stay up to date on industry best practice in this area.

2. Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries. The Trustee expects its asset managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability and positive change.

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

The Trustee reviews the suitability of the Scheme's appointed asset managers and takes advice from its investment advisor(s) as required. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee will engage with the manager and seek a more sustainable position. Ultimately, the Trustee may look to replace the manager.

The Trustee's policy is to review the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's asset managers and ensure their managers, or other third parties, will use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with the underlying investee companies and assets to promote good corporate governance, accountability and positive change.

10. RESPONSIBLE INVESTMENT

The Trustee will engage with its asset managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee expects the Scheme's appointed asset managers to comply with the United Nations Global Compact and will level scrutiny on their asset managers accordingly. It is the expectation of the Trustee that the Scheme's asset managers will prioritise and actively monitor for these risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate. The Trustee may periodically request a "look through" to the underlying investments from managers to allow this engagement.

The transparency for voting should include voting actions and rationale with relevance to the Scheme. Where voting is concerned, the Trustee expects the asset managers to recall stock lending procedures as necessary to carry out reflective voting actions.

The Trustee recognises that collaborative behaviours can further work to mitigate the risks identified above. The Trustee will look to collaborate where necessary to protect and enhance the value of Scheme assets and encourages its asset managers to actively participate in investor initiatives, for example by becoming a signatory of the UN Principles for Responsible Investment.

From time to time the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity and other stakeholders. The Trustee may, for example, engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

The Trustee has entered into various buy-in insurance agreements. The Trustee expects the providers of these insurance agreements to operate to a similar standard in respect of ESG and Stewardship as set out for asset managers above.

11. OTHER ISSUES

1. Statutory Funding Objective

The Trustee obtains and considers proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet the statutory funding requirements of the DB section.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years. The Trustee considers 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. Scottish Limited Partnership

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

3. 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.

In July 2020, the Trustee entered into a buy-in insurance agreement with Legal & General ("L&G"), providing monthly payments to the Scheme covering benefit payments to the insured population, c.2,100 pensioner members at outset.