VA TECH (UK) Pension Scheme

Statement of Investment Principles – August 2022 (replaces September 2020)

1. Introduction

The Trustee Directors ("Trustees") of the VA TECH (UK) Pension Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. A separate document detailing the specifics of the Scheme's investment arrangements is available upon request.

In preparing this Statement the Trustees have consulted Siemens Energy Limited as Principal Employer. The Trustees do not envisage engaging with other parties in this regard.

2. Process For Choosing Investments

The Trustees have considered their objectives for investing the Scheme assets. They have considered their Investment and Funding objectives together to ensure that the two are compatible. They have then constructed a portfolio of investments consistent with these objectives while avoiding excess complexity.

To the extent that it is applicable, the Trustees take into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations including Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to meet the requirements of Section 35(5) of the Pensions Act 1995 (as amended) and to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives & Strategy

The objectives set out here, and the risks and other factors referenced, are those that the Trustees determine to be financially material considerations in relation to the Scheme.

The Trustees long term objective is to meet its pension obligations by the use of bulk annuities. To this end the Trustees have purchased two bulk annuity policies with Pension Insurance Corporation ("PIC"). The Scheme contains a number of members ("Continuing Members") whose deferred pensions will remain linked to their salaries until 2023, or until leaving employment if earlier. The extent to which each Continuing Member's salary inflation outpaces statutory revaluation in deferment is not currently insured, so will fall due as an additional cost to be funded for over the period to 2023.

However, close to 100% of total known liabilities are expected to be met by the existing annuity policies.

Additional payments may be met from residual assets (see section 5.) and/or payments from the Sponsor.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, any future opportunities to fully buy-out the Scheme may shorten the investment horizon significantly.

4. Risk Management and Measurement

There are various risks to which any pension plan is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees are required to state their policy for measuring and managing risk. The Trustees' policy on risk management over the Scheme's anticipated lifetime is set out below.

The principal risks they have considered are as follows:

- That there are insufficient assets to meet the Scheme liabilities as they fall due. This risk is minimised through matching close to 100% of liabilities through annuities held with a regulated insurance company.

- The Sponsor may be unable or unwilling to finance a shortfall between assets and liabilities. This risk is also minimised through holding annuities to meet the vast majority of benefits.

- Investments in annuity policies represent a concentration of risk that the annuity provider does not make the required payments. These policies are governed by substantial insurance market solvency regulations and, as such, the Trustees believe this risk is low. The Trustees further mitigate this risk through careful choice of provider and contract terms, and periodic monitoring. Furthermore, the Trustees have agreed terms such that "Risicom", a subsidiary of the Siemens Group (that is currently a "reinsurer" to PIC in respect of insurance policies) would be liabile to the Scheme in certain circumstances. The Trustees recognise that annuities are illiquid.

- The Scheme is exposed to credit risk through their investments in index-linked gilt and cash funds, which invest in UK government bonds and cash instruments, respectively. The Trustees believe this risk is low as either the lender is the UK government or the instruments are short-dated in nature and the credit ratings of issuers at least investment grade.

Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered. Given the policy of securing benefits via an annuity contract the likelihood of material changes is considered to be very low and significant alteration to the Scheme's investment arrangements is unlikely to be possible.

5. Portfolio Construction & Day to Day Management of the Assets

The Trustees have invested in two bulk annuities with a single insurer, PIC. There is no explicit fee, with charges embedded in the price of the annuity in each case. PIC is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA and were chosen after a careful review of their suitability.

The Trustees have taken steps to satisfy themselves that PIC have the appropriate knowledge and experience to provide an annuity to the Trustees.

A bulk annuity is not an investment that can be traded on regulated markets. The Trustees are satisfied this is appropriate given the high level of security provided by the annuity and its role in paying benefits as they fall due.

A reinsurance arrangement is in place from PIC to Risicom, a captive insurer of Siemens AG. While this implies some reliance on the ultimate sponsor, this reliance will only apply if PIC themselves become insolvent and the regulatory regime fails to cover all liabilities and if the Trustees then decide to exercise options they have under the arrangement. Hence the Trustees believe this arrangement increases rather than decreases overall security.

The Trustees have chosen to invest the assets held in respect of uninsured liabilities into the LGIM All Stocks Index-Linked Gilt Fund and/or the LGIM Sterling Liquidity Fund. LGIM are authorised by the FCA. The former fund invests in a range of index-linked gilts with an objective of achieving a return in line with the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index. The latter fund invests in a range of high quality cash instruments with an objective of achieving a return in excess of SONIA while ensuring (but not guaranteeing) capital security and liquidity. Both funds trade daily. The allocation between both funds will be assessed periodically by the Trustees with a view to matching the nature and term of the uninsured liabilities as closely as practicable.

The Trustees have taken steps to satisfy themselves that LGIM have the appropriate knowledge and experience for managing the Scheme's index-linked gilt and cash investments and that they are carrying out their work competently.

Assets underlying the All Stocks Index-Linked Gilt Fund and Sterling Liquidity Fund are traded on regulated markets.

The Trustees will not invest directly in the Principal Employer or associated companies.

There is no facility for the Trustees to borrow.

6. Expected Return

An expected return on the bulk annuities has not been determined but is implicit in the price of the bulk annuity. This implies an overall "yield" comparable with the yield obtainable on a portfolio of matching gilts.

The Trustees anticipate returns on the All Stocks Index-Linked Gilt Fund and the Sterling Liquidity Fund to be in line with their respective benchmark indices.

7. Additional Assets

The Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability. A number of funds offered by the Prudential and selected by the Trustees give members access to a range of asset classes.

A bank account is also maintained to facilitate payments in or out of the Scheme and will hold a small balance.

8. Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with the overall principles set out in this Statement.

Each annuity contract will pay out regular cashflows in relation to the members named in the policy and their benefit entitlements, and these cashflows will be available to meet general cash outflows (i.e. they are not applied solely to the benefits covered by the policies).

The assets held in respect of uninsured liabilities are available to meet additional cashflow requirements (in combination with any additional Sponsor payments).

9. ESG, Stewardship and Climate Change

The Trustees believe that environmental, social and corporate governance ("ESG") factors, including climate risk, may have a financially material impact on investment risk and return outcomes over periods relevant to the Scheme's investment time horizon, and that good stewardship can create and preserve value for companies and markets as a whole.

The Scheme's assets are invested predominantly in annuity contracts with PIC. The Trustees are reliant on the policies of PIC on responsible investment and corporate governance and will review these policies from time to time as appropriate. To the extent that it is applicable, the Trustees have delegated consideration of ESG issues, engagement and stewardship obligations (including the exercising of voting rights) attached to the investments to PIC. Given the investment arrangements, the Trustees recognise that they have low exposure to risks arising from long-term sustainability issues, including climate change.

The Trustees will not consider the ESG policies of the investment manager of the index-linked gilt and/or cash funds or the AVC provider and associated investment funds as these are a small proportion of total assets.

10. Non-Financial Matters

Members' views on "non-financial matters" (where non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments.

11. Investment Manager / Insurer Arrangements

Alignment of Investment Manager(s) / Insurer(s) Objectives and Incentivisation

PIC have been appointed with the aim of insuring the Scheme's liabilities and reducing the Scheme's funding level volatility. The Trustees seek expert advice in relation to these appointments. This includes an assessment of PIC's capabilities, knowledge and experience. The annuity policies are managed in line with the Scheme's specific liabilities and investment requirements. Therefore, the policies are aligned with the Trustees' objectives and the terms of the policies incentivise PIC to meet the Trustees' objectives. The Trustees understand that they have no ability to determine or influence the assets in which PIC invests.

The Trustees also invest residual cash in pooled funds managed by LGIM. LGIM have been appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics. The Trustees accept that they have no ability to specify the risk profile and return target of the pooled funds other than through the choice of funds. They have therefore selected funds that best align with the Trustees' own policy in terms of investment objectives and guidelines.

The Trustees have historically made investment manager appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon). However, whilst there is no formally set duration for the current manager mandates, there is an expectation that investments in respect of uninsured liabilities will not be required long term. The Trustees recognise that the annuity investments are illiquid and cannot be traded.

Performance Assessment and Fees

The insurer does not receive ongoing remuneration from the Scheme; instead, the premium paid for the annuity policy covers the insurer's implicit fees, with the Trustees' choice of insurer taking into account the size of the premium. The Trustees are satisfied that this is the most appropriate basis for remunerating the insurer, and is consistent with the Trustees' policies.

LGIM are remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for LGIM to retain their appointment by achieving their objectives and charging a competitive fee. Performance of the All Stocks Index-Linked Gilt Fund and/or Sterling Liquidity Fund is monitored on a regular basis.

Portfolio Turnover Costs

The insurers' obligations to make payments is not impacted by ongoing turnover costs. The Trustees do not monitor investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs.

12. Other Appointments

Actuary

Steve Jones of Mercer is the Scheme's Appointed Actuary

Investment adviser

Mercer has been appointed to provide advice to the Trustees on investment related matters. Given the investment arrangements a low level of advice is anticipated. Fees are charged through a combination fixed fee and budgeted time cost.

Custodian

The assets are held in insurance policies or in pooled funds. Whilst a custodian has been appointed for the safekeeping of the assets underlying the insurance policies and pooled fund, this is not the responsibility of the Trustees.

13. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually.

Investment managers are required to give effect to the investment principles in this Statement so far as reasonably practicable and when exercising any discretion the investment managers must do so in accordance with section 4 of The Occupational Pension Schemes (Investment) Regulations 2005 (as amended from time to time).

Given that, with the exception of the annuity policies, all investments are pooled and appointments are effectively on a non-discretionary basis (investment managers only have discretion within the pooled funds) the Trustees are satisfied that they need only consider changes in pooled fund investment policies that may arise from time to time to check that they do not conflict with this Statement and that the managers invest in line with their policies.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.