# Statement of Investment Principles – BMW (GB) Limited Employee Benefits Plan

**Introduction**

This Statement of Investment Principles (SIP) has been prepared by the Trustee of the BMW (GB) Limited Employee Benefits Plan ("the Plan") to comply with the requirements of the Pensions Acts 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005.

The Plan is a Defined Benefit ('DB') arrangement with a Defined Contribution ('DC') underpin. At retirement, members are entitled to the greater of the DC benefit or the DB benefit.

**Effective Date**

This SIP is effective from 15 December 2023.

## 1. Strategy

**Investment Objectives**

The Trustee's objectives are:

■ An overall objective to invest the Plan's assets in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Plan into the future.

■ A shorter term objective of investing the Plan's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Plan's liabilities.

**Allocation of Assets**

The **Risk Reducing Assets** (100%) are assets which support paying the member benefits and Plan expenses as they fall due. The Risk Reducing Assets are invested in a mixture of cash, UK corporate bonds and asset backed securities ('ABS') integrated with a liability driven investment ('LDI') strategy to closely match changes to the value of the Plan's liabilities.

Based on asset-liability modelling as at 30 June 2023, this asset allocation strategy was expected to generate a return of 0.75% per annum in excess of the liabilities with an acceptable level of volatility. The Trustee has agreed that reasonable deviations around the strategic allocations from time to time are acceptable with 5% generally seen as the limit for any deviation in normal circumstances.

| Risk Reducing Assets | Target interest rate hedge ratio* | Target inflation hedge ratio* |
|---|---|---|
| 100.0% | 100% | 100% |

*The hedge ratio is calculated as a percentage of the Gilts+0% liabilities. The Trustee has set the interest rate rebalancing range at +/-2%. If the hedge ratio moves outside of this range, the Trustee will receive advice from its investment consultant, Aon, on whether to rebalance, taking into account the current market environment. For inflation, the Trustee will monitor the change in inflation and once it exceeds a trigger point, the Trustee will instruct Aon to perform a more detailed review and rebalance if required.

**DC Element**

For the DC element of the Plan, the Trustee's objective is to invest members' assets so as to enhance the value of the potential DC benefit and to reduce the volatility of that value at retirement. Furthermore, the Trustee aims to provide protection for members' accumulated assets in years approaching retirement against:

■ Volatility in the capital value; and

- Fluctuations in the cost of purchasing annuities.

The Trustee has adopted a "notional" lifestyling strategy. The idea behind this strategy is to keep the member related assets "linked" to the unit prices of lifestyling funds to ensure benefit stability in the 5 years prior to retirement. Member units are notionally invested in return seeking assets up until 5 years before retirement. The member units are notionally switched into long dated corporate bonds and cash in a 75:25 split on a gradual basis over the 5 year period to retirement. The notional lifestyling strategy is implemented using unit prices for the Long Corporate Bond Fund and Managed Cash Fund at Standard Life.

**Illiquid Investments**

The Trustee does not currently hold any illiquid investments on behalf of DC members.

The Trustee does not have any specific concerns with illiquid investments. However, at this time, they believe the current assets utilised reflect the optimal mix for members at each stage of the "notional" lifestyling strategy, in terms of expected risk, expected return and diversification.

The Trustee would be willing to consider the use of illiquid investments in the future. This is a consideration that would form part of any future review of investment strategy or selection of investment manager.

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## Environmental, social and governance (ESG) considerations

The Trustee recognises that climate change is one of the material ESG factors that pose a potential financial risk over a timescale its concerned about, and that as an institutional investor, the Trustee has an ability to help tackle the challenges posed by climate change (such as reducing the portfolio's climate footprint).

Where possible, the Trustee periodically considers how climate-related risks may impact on the Plan's investments and funding position. Where possible, the Trustee will review climate-related metrics, including the carbon intensity of the invested portfolio.

**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 Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

The Trustee invests in pooled funds and so has delegated voting and engagement activities to the Plan’s investment managers. As part of this delegation, the Trustee accepts responsibility for how the managers steward assets on its behalf, including the casting of votes in line with each managers’ individual voting policies. The Plan does not invest in equities, so voting responsibilities are not applicable to the Plan.

The Trustee reviews voting and engagement activities of its investment managers on an annual basis to ensure they are in line with the Trustee’s expectations and in members’ best interests. The Trustee will review the alignment of the Trustee's investment beliefs to those of the Plan’s investment managers and ensure its managers, or other third parties, 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 (where applicable), along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee regularly reviews the suitability of the Plan's appointed investment managers and takes advice from its investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers, as well as any prospective managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee undertakes to engage with the manager (via different medium such as emails, calls or face-to-face meetings) and seek a more sustainable position but may look to replace the manager.

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

It is the expectation of the Trustee that the Plan's investment managers will provide transparency on engagement and voting actions as appropriate:

- The transparency offered for engagements should include objectives and relevance to the Plan / method of engagement / progress and perspectives around shortcomings / outcomes to date / escalation points and procedures as necessary.
- The transparency for voting should include voting actions and rationale with relevance to the Plan, in particular where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the investment manager.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with the issuer of an underlying security, or another holder of security, and other stakeholders on relevant matters (including but not limited to performance, strategy, ESG issues and corporate governance). In general, the expectation is that the fund managers will carry out these engagement activities on behalf of the Trustee.

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

In setting and implementing the Plan's investment strategy the Trustee does not explicitly take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

## Costs and transparency considerations

**Investment Manager Remuneration and Costs**

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

On an annual basis the Trustee asks all of its investment managers to

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

provide full cost transparency data in line with the appropriate Cost Transparency Initiative ("CTI") data template, the new industry standard for institutional investment costs data. This allows the Trustee to understand exactly what it is paying its investment managers. The Trustee works with its investment adviser and investment managers to understand these costs in more detail where required.

The Trustee will only appoint new investment managers which offer full cost transparency via the CTI templates to manage assets of the Plan.

**Portfolio Turnover (Transaction) Costs**

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Plan's investment adviser monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

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 high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the disclosed costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with its investment strategy.

**Evaluation of Performance and Remuneration**

The Trustee assesses the performance of its investment managers on a quarterly basis and the remuneration of its investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

The Trustee assesses value for money received from its investment managers on a regular basis by benchmarking its investment managers relative to the wider market. This enables the Trustee to have a detailed understanding of its overall costs irrelevant of net of fees performance and identify opportunities to challenge its investment managers where a particular manager is an outlier.

The Trustee prefers to appoint its investment managers on a performance fee basis, rather than on a fixed annual management fee basis.

The Trustee is supported in its cost transparency monitoring activity by its investment adviser.

## Arrangements with investment managers

The Trustee regularly monitors the Plan's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's investment policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- Make decisions based on assessments about medium- to long-term financial and non-financial performance with the issuer of an underlying security; and
- Engage with the issuer of an underlying security in order to improve performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant. The Trustee receives regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan objectives, and typically assesses the investment managers over 3-year periods.

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

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's investment policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustee will express its expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where investment 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 investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

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## Risks

The Plan is exposed to a number of different investment risks. These include risks relating to:

- Funding – i.e. that the Plan has insufficient assets to cover 100% of the accrued liabilities
- Mismatching – arising from a difference in the sensitivity of asset and liability values to financial and demographic factors
- Cash flows – arising from a shortfall of liquid assets relative to the Plan's immediate liabilities
- Investment managers – arising from a failure to meet target returns
- Diversification – an inadequate spread of investments and sources of return
- Covenant – the possibility of failure of the Plan's sponsor
- Operations – fraud, poor advice or negligence.

The Trustee reduces its exposure to these risks by careful structuring of its funding and investment management arrangements and through its contracts with the Plan's investment managers. It also closely monitors these risks and receives formal regular reports on funding, cash flows, investment managers (including performance) and diversification.

Mismatching risk is reviewed as part of the triennial actuarial valuation process and has been mitigated with the use of a LDI strategy. Operational risk is reduced as far as possible by due diligence on the appointment and review of investment managers and advisers, and by contracts of engagement.

## Implementation

**Risk Reducing Assets**

A benchmark allocation of 100% of the Plan's assets is invested in risk reducing asset classes with the investment managers outlined below.

**Risk Reducing Assets**

| Investment Manager/Insurer (mandate) | Objective |
|---|---|
| Insight Investment (LDI Active 71 Fund) | The Insight LDI Active 71 Fund is a bespoke QIAIF managed with sub-funds that have different objectives outlined below. |
| Liability Hedge Sub-Fund (Geared passive LDI) | To provide a return that matches the manager's benchmark, which has been constructed as a proportion of the Plan's liability cashflows, on a gilts basis, overlaying the UK Corporate Long Maturities Bond Fund benchmark. |
| Liability Hedge Sub-Fund (Sterling Liquidity Fund and Sterling Liquidity Plus Fund) | To provide a money market rate of return. The Liquidity Fund aims to move in line with SONIA and the Liquidity Plus Fund aims to return 0.25% above SONIA per annum, gross of fees. |
| Cash Plus Sub-Fund (Liquid ABS Fund and Global ABS Fund) | To generate a return above the 1 month SONIA. |
| Active Sub-Fund (UK Corporate Long Maturities Bond Fund) | To outperform the iBoxx Sterling Non-Gilts Over 10 Years Index by 0.85% per annum net of fees over 3 year rolling periods. |
| Insight Investment – Sterling Liquidity Fund | To provide a money market rate of return. The Liquidity Fund aims to move in line with SONIA. |

**Short Term Cash Management**

For administration purposes, the Plan also invests some of the assets for short term cash management in the BlackRock ICS Sterling Liquidity Fund.

**Choosing investments**

In general individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required to ensure that the Plan's benefit outgo and other expenditure can be met.

The Trustee, and investment managers (to the extent delegated), will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005, when selecting investments on behalf of the Plan.

## 3. General

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|---|---|
| **Additional Voluntary Contributions (AVCs)** | AVCs are invested in policies with Fidelity. |
| **Direct Investments** | Assets directly held by the Trustee will be regularly reviewed to ensure that they continue to be appropriate, and written advice will be obtained from the Investment Adviser.<br>The Trustee will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005 when selecting direct investments. |
| **Custody & Accounting** | The Trustee employs JP Morgan Chase Bank (JPM), the Plan's global custodian, to provide independent performance measurement services. JPM will report on a quarterly basis on the performance of the investment managers relative to their given benchmarks.<br>Custody for all the Plan's assets is arranged by the manager itself and no direct custody relationship with the Plan exists. |
| **Investment Adviser** | Aon Investments Limited has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995. |
| **Review of SIP** | This SIP will be reviewed at least every three years or immediately following a change of investment policy. Written advice on any changes will be taken from the Investment Adviser and the Sponsoring Company will also be consulted. |