Statement of Investment Principles – BMW (UK) Operations Pension Scheme

Introduction

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

Effective Date

This SIP is effective from 6 December 2024.

1. Strategy

Investment Objectives

The Trustee's objectives are:

- An overall objective to invest the Scheme's assets in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Scheme into the future.
- A shorter-term objective of investing the Scheme's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Scheme's liabilities.

Strategic Allocation of Assets

The Trustee has divided the assets of the Scheme into two strategic elements. The Trustee will review the Scheme's allocation against the strategic benchmark (taking into account any anticipated evolution) at least on a quarterly basis and will consider steps to rebalance the portfolio back to the strategic allocations as necessary.

The Scheme recently concluded an investment strategy review and is currently in the implementation process. Following the implementation, 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.

The **Risk Reducing Assets** are assets which produce cashflows that can be expected to match the cashflows for a proportion of the membership. The Risk Reducing Assets are invested in a mixture of UK and overseas bonds integrated with a Liability Driven Investment (LDI) strategy and longevity hedge.

The **Return Seeking Assets** are invested with a longer-term horizon to generate the returns needed to provide the remaining expected cashflows for the beneficiaries.

Based on asset-liability modelling as at 31 March 2024, this asset allocation strategy was expected to generate a return of Gilts +0.9% per annum over the long term with an acceptable level of volatility.

Target interest rate hedge ratio*	Target inflation hedge ratio*
100%	100%

*The hedge ratio is calculated as a percentage of Scheme liabilities, measured on a Gilts+0.5% p.a. basis. The Trustee has set interest rate and inflation rebalancing ranges of +/-2.5% and +/-5% respectively. If the hedge ratios move outside of this range, the Trustee will receive advice from its investment adviser, Aon, on whether to rebalance, taking into account the current market environment.

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 it's 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 Scheme's investments and funding position. The Trustee will review climate-related metrics, including the carbon intensity of the invested portfolio. The Trustee will engage with managers who have a relatively high carbon intensity 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 Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustee reviews voting and engagement policies 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 Scheme’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, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

Where the Trustee invests in pooled funds, it has delegated voting and engagement activities to the Scheme’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 Trustee regularly reviews the suitability of the Scheme’s appointed investment managers and take advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers, 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 Scheme'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 Scheme / 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 Scheme, 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, an investment manager or another holder of a security, and other stakeholders. 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 Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme 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 Scheme'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 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 Scheme.

Portfolio Turnover (Transaction) Costs

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

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme'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 Scheme'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 adviser. The Trustee receives regular reports and verbal updates from the investment adviser 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 Scheme 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

Scheme'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 Scheme 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. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Risks

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

- Funding – i.e. that the Scheme 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 Scheme'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 Scheme'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 Scheme's investment managers. It also closely monitors these risks and receives formal quarterly 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 an LDI strategy covering the interest rate and inflation sensitivity for a majority of the liability cashflows and a longevity hedge to protect the Scheme from mortality risks associated with the pensioner liabilities. 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.

2. Implementation

Risk Reducing Assets

The investment managers constituting the risk reducing assets are outlined below.

Risk Reducing Assets

Investment Manager / Insurer (mandate)	Benchmark / Mandate
Goldman Sachs Asset Management (Global Credit GBP hedged)	Bloomberg Barclays Global Aggregate Custom Credit Blend Duration Hedged to GBP Index (Currency Hedged to GBP and Duration Hedged to GBP equivalent)
PIMCO Europe Limited (Global Credit GBP hedged)	ICE ML Sterling Non Gilt Index & ICE ML USD Corporate Index (both duration and FX 100% hedged to GBP)
Insight Investment Management Ltd (UK Credit)	The iBoxx Sterling Non-Gilts Over 10 Years Index
DRC Capital Enhanced Return Whole Loan Strategy (combined portfolio)	Manager performance
LaSalle Investment Management (Real Estate Debt Strategies III)	
ICG Longbow (ICG Senior Debt Partners III)	
ICG Longbow (UK Real Estate Debt Investments V)	
BentallGreenOak (UK Secured Lending Fund III)	
Chorus Capital (Credit Fund IV)	
BlackRock Investment Management (UK) Limited (Geared Passive LDI)	A proportion of the Scheme's liability cashflows, on a gilts basis, overlaying the Sterling component of the Global and UK Credit allocations and benchmarks

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Risk Reducing Assets (Continued)

Abbey Life Assurance Company Ltd (Passive longevity hedge)	To provide a series of floating cashflows that matches and protects the Scheme against the demographic risks associated with its pensioner liabilities, in exchange for a series of fixed cashflows
Schroder Investment Management (ISF Securitised Credit)	SONIA
Insight Investment Management Ltd (Global ABS)	SONIA
Goldman Sachs Asset Management (Short dated credit)	Bloomberg Global Aggregate Corporate 1-5 year Index (hedged to GBP)
BlackRock Investment Management (Absolute Return Bonds)	SONIA
PIMCO Europe Limited (GIS Low Duration Opportunities)	SONIA

Return Seeking Assets The investment managers constituting the return seeking assets are outlined below.

Return Seeking Assets

Investment Manager / Fund (mandate)	**Benchmark / Mandate**
Legal & General Property Limited (Active UK Property)	MSCI UK Pension Funds Quarterly Property Index
CB Richard Ellis Collective Investors Ltd (Active European ex UK Property)	IPD Global Property Fund Index (re-weighted)
Record Currency Management (Passive Currency Hedging)	To provide a passive currency overlay over ▪ 100% of the Scheme's investment with CB Richard Ellis above, ▪ 50% of the Scheme's infrastructure investments in MEIFV and GIPIII listed below, and ▪ 100% of the Euro exposure within the Scheme's investment in LaSalle Real Estate Debt Strategies III (Property Debt Fund) in Risk Reducing assets above.

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Return Seeking Assets (Continued)

Macquarie Infrastructure Funds Management Ltd – MEIFII (European Infrastructure) Macquarie Infrastructure Funds Management Ltd – MEIFV (European Infrastructure) Global Infrastructure Partners – GIP III (Global Infrastructure)	Manager performance

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 Scheme'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 Scheme.

3. General

Additional Voluntary Contributions (AVCs)

AVCs are invested in policies with Prudential or Fidelity, depending on the choices made by members.

Direct Investments

Assets directly held by the Trustee, including policies of assurance such as AVCs, will be regularly reviewed to ensure that they continue to be appropriate, and written advice will be obtained from the Investment Adviser.

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 Scheme's global custodian, to provide independent performance measurement services. JPM will report on a monthly basis on the performance of the investment managers relative to their given benchmarks.

The custody of stocks and shares is handled by JPM for the bond assets, managed by PIMCO, Insight and Goldman Sachs Asset Management. As custodian, JPM provides safekeeping of the Scheme’s assets and performs administrative duties. JPM will also manage the custodial requirements underlying the longevity hedge.

Custody for all other assets excluding direct UK property investment is arranged by the manager itself and no direct custody relationship with the Scheme exists. Deeds relating to direct UK property assets are held by Gowling WLG (UK) LLP (the Scheme’s legal adviser).

The Scheme also participates in a programme of securities lending, organised by JPM, for its bond assets for which it has responsibility. BlackRock also provides a securities lending service for its portfolio. The borrowers are major banks or finance houses, and they provide collateral that has a value greater than that of the securities that are borrowed.

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.