

# 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.

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## Effective Date

This SIP is effective from 20 December 2024.

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## 1. Strategy Investment Objectives

The Trustee's objective is to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided.

The Trustee and sponsoring employer have a low appetite for risk. The Trustee reviews the strength of the sponsoring employer periodically and considers employer covenant as part of each triennial strategy review.

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## Choosing Investments

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The Trustee has secured an Annuity Policy with Legal and General Assurance Society Limited ("LGAS") which was implemented on 9 August 2024. The residual assets are invested with BlackRock in a liquidity fund to support the ongoing cashflow requirements of the Plan.

The insurance contract ("buy-in") is an agreement for LGAS to cover all the Plan's liabilities as they fall due. The buy-in protects the Plan from the interest rate, inflation and longevity risk associated with the benefits covered by the policy.

The Trustee retains responsibility for the investment of the Plan's residual assets, and takes expert advice as required from its professional advisers and in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

The Trustee exercises its power of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

The Trustee reviews its investment strategy following each formal actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way). It was reviewed following the Trustee's purchase of an Annuity Policy with LGAS.

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### **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" strategy to keep the member related assets "linked" to the expected cost of purchasing an annuity at retirement. As the DB assets are almost wholly invested in a bulk annuity policy, this provides a good proxy for annuity pricing. The notional strategy is therefore linked to the value of the DB assets.

The key aim of the Trustee is to provide an investment solution that is suitable for meeting members' investment objectives, based on the Trustee's consideration of members' needs. The Trustee believes this arrangement is in the best interest of members.

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### **Environmental, social and governance (ESG) considerations**

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase a bulk annuity and recognise that they cannot therefore directly influence the ESG integration nor stewardship policies and practices of LGAS. The Trustee is satisfied that the LGAS ESG policy reflects the key principles of socially responsible investment.

As part of its delegated responsibilities, the Trustee expects the Plan's remaining investment manager to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments (where applicable). Any decision should not be based solely on personal ethical or moral judgments of these issues but should consider the sustainability of business models that are influenced by them.

### **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. Regarding the annuity policy and the collateral held in relation to them, the responsibility for voting and engagement is with LGAS for these assets.

The Trustee expects the Plan's investment manager to use their influence as a major institutional investor 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 reviews the stewardship activities of its investment manager on an annual basis and whenever the need arises, covering both engagement and voting actions. Where the Trustee, Investment adviser or other stakeholders identify significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of actual or potential conflicts of interest, of an investment manager or other stakeholder; they will consider

the methods by which they would monitor and engage with relevant persons about relevant matters.

The Trustee acknowledges the limited materiality of stewardship for the residual assets that remain invested with BlackRock.

### **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"<sup>1</sup>).

### **Costs and transparency considerations**

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The Trustee paid a premium to LGAS when the annuity policy was initiated, and as a result there are no ongoing fees in respect of the policy (where the majority of the Plan's assets are held).

The Trustee is aware of the importance of monitoring its investment manager's 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 the Plan's investment manager that can increase the overall cost incurred by their investments.

### **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 Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

### **Evaluation of the Investment Manager Performance and Remuneration**

The Trustee evaluates the performance of its investment manager relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the investment manager. The Trustee also reviews the remuneration of the Plan's investment manager regularly to ensure that these costs are reasonable in the context of the kind and balance of investments held.

### **Arrangements with investment managers**

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The vast majority of the Plan's assets are invested with LGAS in the form of an Annuity Policy. The remaining holdings are invested in a BlackRock

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<sup>1</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Liquidity Fund and cash. The Annuity policy is intended to cover all of the Plan's liabilities.

Following the purchase of the Annuity Policy, and with the exception of the residual investments, the responsibility for managing arrangements with the asset managers lies with LGAS. This responsibility may include ensuring that arrangements with appointed investment managers are aligned to achieving the long-term objectives of LGAS and, as established within the contractual terms of the Annuity Policy, of the Plan. When selecting an insurer to provide a bulk annuity the Trustee considered ESG as one of the factors in its decision making process and undertook due diligence.

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. In respect of the residual assets, this includes monitoring the extent to which the investment manager:

- makes decisions based on assessments about medium- to long-term financial and non-financial performance with the issuer of an underlying security; and
- engages 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.

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.

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 the investment manager is 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 Annuity Policy removes most of the investment risks to which the Plan may otherwise be exposed.

The main residual risks are:

- The risk that LGAS fail to make the pension payments covered by the Annuity Policy as they fall due ('Annuity default risk'). This risk is mitigated by protections offered due to LGAS being regulated by the Financial Conduct Authority and The Prudential Regulation Authority.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities and expenses ("cash flow risk"). The Trustee and its advisers will manage the Plan's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs. LGAS is responsible for providing the cash for benefit payments covered by the Annuity Policy.
- The failure by the asset managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the asset managers and on an ongoing basis thereafter.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review.

The Trustee's policy is to monitor these risks on a regular basis.

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## 2. General

### **Additional Voluntary Contributions (AVCs)**

AVCs are invested in policies with Fidelity.

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### **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.

The Trustee will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005 when selecting direct investments.

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### **Custody & Accounting**

The majority of the assets are invested in the annuity policy underwritten by LGAS. The remainder of the assets are currently invested with BlackRock.

Custody for remaining Plan's assets is arranged by the manager itself and no direct custody relationship with the Plan exists.

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### **Investment Adviser**

Aon Investments Limited has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995.

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### **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.

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