

# Ford Pension Scheme for Senior Staff

## Statement of Investment Principles

### **Introduction**

#### Purpose Of The Statement

This Statement of Investment Principles (SIP) sets out the principles governing decisions about the investment of the assets of the Ford Pension Scheme for Senior Staff (the Scheme). It has been prepared on behalf of the Trustee of the Scheme (Ford Pension Scheme for Senior Staff Trustees Ltd.) to comply with the Pensions Acts 1995 (PA95) & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Financial Reporting Council's UK Stewardship Code. It is effective from 15 May 2024 and supersedes all earlier versions.

#### Advice

This SIP has been prepared on the basis of written advice from Ford Pension Fund Investment Management Ltd. (FPFIM). The Trustee considered the advice of FPFIM regarding the SIP at a meeting on 19 March 1997 and at subsequent meetings on 1 April 1998, 28 April 1999, 22 February 2000, 22 May 2003, 12 February 2004, 24 February 2005, 27 February 2006, 22 February 2007, 6 December 2007, 27 June 2008, 24 September 2008, 4 December 2008, 23 February 2010, 15 February 2011, 24 May 2011, 21 February 2012, 27 February 2013, 1 November 2013, 16 February 2016, 26 February 2019, 16 September 2020, 28 June 2023, 6 December 2023 and 15 May 2024

#### Description Of The Scheme

The Scheme is a contributory, final-pay scheme, formerly open to senior employees of Ford Motor Company Ltd. and certain of its affiliate and associated companies in the UK (the Company), but now closed. The investments of the Scheme are pooled with the assets of other Ford pension funds whose investment policies are consistent with those set out in this SIP. Cash needed to meet short-term cash flow requirements is held separately. The assets of the Scheme amounted to £85 million as at 31 March 2024 (excluding insurance contracts).

#### Consultation With The Company

The Trustee recognises that the Company has an interest in the investment policies of the Scheme, to the extent that these affect the cost to the Company of funding the pension benefits provided by the Scheme and has consulted the Company in the preparation of this SIP.

#### Investment Powers

The investment powers of the Trustee are set out in the Scheme's Trust Deed and Rules. This SIP is consistent with those powers, and the over-riding provisions of PA95.

#### Maintaining The Statement

The Trustee's policy is to maintain this SIP by reviewing its contents annually or sooner if there is a reason to do so, upon prior written advice periodically as required.

#### Other Sources

This document comprises a broad statement of the Trustee's investment principles. Further details on policies and their implementation are in (i) the written advice provided by FPFIM to the Trustee regarding the preparation of this Statement, referred to above; (ii) the Trustee's Letter of Appointment of FPFIM as its investment adviser and delegate; (iii) the Agreements between FPFIM and the external investment managers appointed by it to manage the assets of the Scheme; and (iv) external advisors with respect to asset allocation.

#### Additional Voluntary Contributions (AVCs)

Members of the Plan may make AVCs which are invested separately from other investments of the Plan. The Trustee has full discretion as to the appropriate vehicles made available for members' AVCs. When deciding whether or not to make any new investments the Trustee will obtain written advice. The written advice will consider suitability of the investments, the need for diversification and the principles contained in this statement. Advice has been taken from Aon Investments Limited who has the knowledge and experience required under section 36(6)

PA95. AVC fund performance is considered annually by the Trustee and a review of AVC funds is carried out every three years, unless otherwise determined by the Trustee.

## **INVESTMENT PRINCIPLES**

### Investment Objectives and Risk

The Trustee considers that its primary responsibility with regard to the management of the Scheme's investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations of the Scheme as they fall due.

In consideration of this responsibility and the Trustee's obligation to manage the investments of the Scheme prudently, the Trustee's investment objectives are as follows:

1. To maximise the long-term return on its investments, consistent with the following further objectives:
2. To ensure that the risk of insolvency or of a loss of asset value that would be disruptive to the Scheme is controlled to a negligible level.
3. To ensure that the risk of the Plan's funding level deteriorating is controlled to an appropriate level.

The Trustee regards "Risk" in the context of PA95 as the likelihood of a failure to meet any of these objectives. The Trustee's policy for the control of this risk is to invest in a portfolio of assets which are suitable for the purposes of the Scheme and are appropriately diversified. The Trustee's strategy to achieve appropriate diversification is to use Asset/Liability modelling or other appropriate methods, based on the results of formal actuarial valuations, to determine the allocation of assets among the main asset classes, and to employ a number of investment managers for each (where applicable) of the main asset classes, in consultation with its investment adviser. The allocation of the Scheme's investments within major asset classes (including allocation ranges) is set out in Attachment 1. The intended long-term allocations described in Attachment 1 will be achieved dynamically over time as funded status improves as set out in the Asset Allocation Glide Path in Attachment 2. This will be monitored by FPFIM on a regular basis. Where adequate funding has been achieved (as agreed by the trustees), the schemes assets will move to preservation of capital (fully hedged to inflation and interest rates) in lieu of maximizing returns. It may involve fewer managers with passive investments. Risks associated with investment manager performance are addressed through regular review. Operational risks associated with the holding of assets are addressed through prudent third-party custody arrangements.

### Expected Return

The primary objective is that the return on investments should be sufficient, taken together with contributions and the Plan's existing assets, to meet the liabilities of the Plan. The Trustee's objective is therefore to achieve a long term overall return on its investments that is at least equal to the discount rates underlying the calculation of the Discount Liability Measure (DLM). The DLM is defined as the going concern value of the Scheme's liabilities calculated using the method and assumptions in Appendix 1 to the Statement of Funding Principles except that the pre-retirement discount rate is set equal to the post-retirement discount rate. Expected return objectives, however, may not meet the DLM, once the trustees agree the plan has sufficient funding.

### Kinds Of Investments To Be Held

The Trustee considers that the following asset classes are generally suitable kinds of investment for the purposes of the Scheme:

- British or foreign equities
- British or foreign fixed income and index-linked securities
- Sterling cash or money market investments
- Alternative Assets: Private Equity, Hedge Funds, Property, Infrastructure and Commodities. Note, no new investments in these asset classes will be made going forward
- Nominal Interest Rate and Inflation Hedging instruments
- Pooled investment vehicles, insurance contracts or unit trusts which invest in or are based on any of the above

- Buy-in policies, whereby an insurer covenants to make payments designed broadly to match some or all of the scheme's liabilities

The Scheme also may include, for the purposes of day-to-day operating or risk control, cash in foreign currency, futures, options, swaps, or forward contracts. The Trustee does not regard these latter as primary investment instruments for the purposes of the Scheme, however, and their use will be strictly controlled by conditions included in the service agreements entered into on behalf of the Trustee with the external investment managers.

#### Diversification And Policy For Compliance With Section 36 PA95 (Choosing Investments) and the Occupational Pension Schemes (Investment) Regulations 2005

The Trustee regards its policy for allocating assets among the various asset classes listed above as the decision which most influences the likelihood that its objectives will be achieved, and that risk will be controlled.

The Trustee's policy regarding asset allocation will be determined from time to time using an Asset/Liability study or other appropriate techniques, based on the results of the latest actuarial valuation. Asset allocation policy provides the principal means of ensuring that the Scheme's assets are appropriately diversified. The Trustee's Asset Allocation Policy is contained in Attachment 1 to this statement.

The day-to-day choosing of which investments to buy, sell or hold is delegated on behalf of the Trustee to external, professional investment managers who are appropriately authorised or qualified as required under Section 34 PA95. Diversification also will be enhanced by employing a number of independent external investment managers for each of the main asset classes (unless passively managed) and by requiring these investment managers to invest in an appropriately diversified range of investments in the context of the benchmarks that they are set, consistent with the requirements of Regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005 including the requirement that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets.

#### Policy For Compliance with Part 3 of the Pensions Act 2004

The Scheme's Trustee maintains a 'Statement of Funding Principles' which specifies that in addition to the statutory funding objective, the Scheme's additional funding objective is to have sufficient assets so as to make provision for 100% of the Scheme's liabilities as determined by a number of actuarial calculations.

The Scheme's funding level on these actuarial calculations will be measured regularly in accordance with the requirements of Part 3 of the Pensions Act 2004.

The Trustee's policy is to invest in an appropriate range of assets with the objective of controlling to an appropriate level the risk that the Scheme's funding level might deteriorate.

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk.

The Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives periodic reports showing:

- Actual funding level versus the Statutory Funding Objective and the Scheme's Additional Funding Objective.
- Performance of individual investment managers versus their peers, or other performance targets.
- Any significant issues with the investment managers that may impact their ability to meet the performance targets set by the Trustee.

#### Realisation Of Investments

The Trustee delegates the realisation of individual investments to its investment adviser and requires that its investment adviser sub-delegate this power to its external investment managers. The Trustee does not require to be notified of such realisations. The Trustee requires that the assets of the Scheme generally should be invested in marketable investment instruments or in suitable insurance products.

#### Arrangements With Investment Managers

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

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

The Trustee receives regular reports and verbal updates from their 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's objectives and assess the investment managers over 3-year periods.

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

Before appointment of a new investment manager, the Trustee with the help of their investment adviser review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's 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 their 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 investment 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. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

#### Financially Material Considerations (including Environmental, Social and Governance considerations)

The Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent level of risk.

The Trustee reviews with its investment advisers on a regular basis what considerations are financially material to the Scheme and its investments.

These considerations include (but are not limited to) the risk that environmental, social and governance considerations, including climate change, impact the value of investments. The

Trustee takes this risk into account by taking advice from their investment advisers when setting the Scheme's asset allocation, when selecting investment managers and when reviewing the performance with investment managers. The Trustee takes a long-term view of these considerations due to the long-term nature of the liabilities of the Scheme.

The Trustee follows established investment criteria (primarily those relating to investment performance, ability to meet the Scheme's benefit payment obligations, risk, and diversification) in selecting, retaining and disposing of investments. Investment managers are requested to take financially material considerations (including social, ethical, or environmental considerations to the extent they are financially material) into account when selecting, retaining and disposing of investments in accordance with those criteria.

#### Non-Financial Matters

In the selection, retention and realisation of investments, the Trustee does not explicitly consider the individual views of the members and beneficiaries of the Scheme (including their ethical views and views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme).

#### Policies on Stewardship

The Trustee recognises its role as a steward of capital and the need to ensure the highest standards of governance and to promote corporate responsibility in the underlying companies in which the Scheme invests. The Trustee recognises that ultimately this protects the financial interests of Scheme members.

The Trustee expects the investment managers to, where appropriate, engage with companies to protect and enhance the value of assets and to exercise any voting rights.

The Trustee reviews the stewardship activities of their investment managers on at least 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 investment managers and ensure their investment managers, or other third parties, use their influence as a responsible shareholder and asset owner.

Investment managers are instructed to consider whether companies are managed in the long-term interests of their shareholders, while also having regard for the environment and society as a whole. 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.

The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and take advice from their investment adviser regarding any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed investment managers. If an incumbent investment manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the investment manager and seek a more sustainable position but may look to replace the investment manager.

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

Where the investment manager has any discretion under the existing mandate over the exercise of voting rights attaching to investments, these rights are to be voted in the sole interests of Scheme members and records of the vote and justification are to be maintained. The exercise of, or other dealing with, other rights attaching to investment is to be conducted in accordance with the investment managers' existing authority and established investment criteria and the Trustee has no additional policy in this regard.

The Trustee receives annual voting transparency reports from their investment managers. These reports present information in line with prevailing regulatory or industry requirements. 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 the investment manager.

Where voting is concerned the Trustee expects their investment managers, to recall stock lending as necessary, in order to carry out voting actions.

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 investment manager or another holder of debt or equity, and other stakeholders. The Trustee may 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 reviews the investment managers and takes advice from the investment adviser on stewardship matters, where appropriate.

#### Costs And Transparency

The Trustee is aware of the importance of monitoring their 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 other costs incurred by investment managers that can increase the overall cost incurred by their investments.

The Trustee receives annual cost transparency reports from its investment managers. These reports present information in line with prevailing regulatory or industry requirements. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme
- The fees paid to the investment managers
- The amount of portfolio turnover costs (transaction costs) and actual portfolio turnover incurred by the investment managers (manager turnover is expected to be minimal and would depend on results of asset/liability modelling, funded status and manager performance all of which may require changes to existing managers and/or asset classes)
- Any charges incurred through the use of pooled funds (custody, admin, audit fees etc)
- The impact of costs on the investment return achieved by the Scheme

The Trustee will only appoint investment managers who offer full cost transparency via industry recognised templates. This will be reviewed before the appointment of any new investment managers.

The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers. Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and investment manager.

The Trustee assesses the "net of all costs" performance of their investment managers on a rolling three-year basis against the specific benchmark and investment objective. The remuneration paid to the investment manager and fees incurred by third parties appointed by the investment manager are provided annually to the Trustee. This cost information is set out alongside the performance of the investment manager to provide context. The Trustee monitors these costs and performance trends over time.

Update: #1, 1 September 1998

Update: #2, 1 May 1999

Update: #3, 18 May 2000

Update: #4, 22 May 2003  
Update: #5, 12 February 2004  
Update: #6, 24 February 2005  
Update: #7, 27 February 2006  
Update: #8, 22 February 2007  
Update: #9, 13 September 2007  
Update: #10, 25 June 2008  
Update: #11, 24 September 2008  
Update: #12, 4 December 2008  
Update: #13, 23 February 2010  
Update: #14, 15 February 2011  
Update: #15, 24 May 2011  
Update: #16, 21 February 2012  
Update: #17, 27 February 2013  
Update: #18, 1 November 2013  
Update: #19, 16 February 2016  
Update: #20, 26 February 2019  
Update: #21, 28 September 2020  
Update #22, 28 June 2023  
Update #23 6 December 2023  
Update #24 15 May 2024

Pension Fund Scheme for Senior Staff

Statement of Investment Principles

Asset Allocation Strategy

**Non-Insurance Contract Assets**

	<u>Present Strategy</u> <u>(30 April 2024)</u> (Pct)	<u>Long Term</u> <u>Strategy</u> (Pct)
Return Seeking Assets	6% ± 1%	3 ± 1%
Public Equity	3% ± 1%	3 ± 1%
Alternative Assets	4% ± 1%	0%
Bonds and Index-Linked Gilts	94% ± 1%	97% ± 1%
Total	100%	100%

**Insurance Contract Assets**

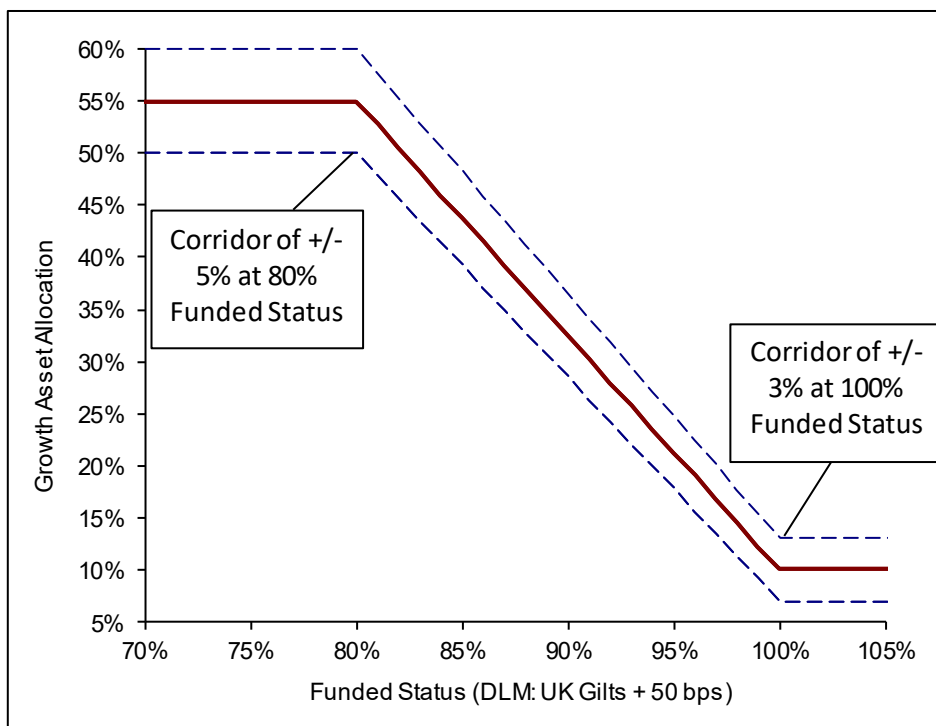
**The scheme's assets consist primarily of a buy-in policy with Scottish Widows Limited, under which the insurer makes payments designed broadly to match benefit payments in respect of in-scope members**



## Pension Fund Scheme for Senior Staff

### Statement of Investment Principles

#### Asset Allocation Glide Path



Note: Once the glidepath has achieved fully funded status, the trustees may decide to further lower their growth asset allocation well below 10%