<u>ZF UK Pension Plan</u>

<u>Statement of Investment Principles ("SIP")</u>

Purpose of this Statement

This SIP has been prepared by the Trustee of the ZF UK Pension Plan (the "Plan"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Plan.

The Plan's investment strategy is derived from the Trustee's investment objectives. These objectives have been taken into account at all stages of planning, implementing and monitoring the investment strategy.

Details on the Plan's investment arrangements are set out in the Investment Implementation Document ("IID").

Governance

The Trustee of the Plan makes all major strategic decisions including, but not limited to, decisions on the Plan's asset allocation and the appointment and termination of investment managers.

It is the Trustee's policy to exercise its investment powers in line with the Plan rules and applicable legislation. To this end, the Trustee takes appropriate written investment advice, including where required to do so by law, and other professional advice as necessary for securing compliance with its legal obligations. The Trustee believes that its investment advisers, Isio, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be via a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Plan.

The Trustee has established an Investment Committee ("IC") to oversee the implementation of the Plan's investment strategy, and to speed up the process of consultation with the Company on investment matters. The IC comprises representatives from:

- The Trustee
- The Company
- The Plan Secretary

The role of the IC is to conduct in-depth research on investment strategies and review objectives and the changes to investment strategies to achieve them.

Investment objectives

The Trustee invests the assets of the Plan with the aim of ensuring that all members' current and future benefits can be paid. The Plan's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Plan's circumstances. The Plan's funding target is specified in the Statement of Funding Principles.

The Plan's present investment objective is to achieve a return of around 2.0% per annum above the return on a liability matching portfolio of UK Government bonds.

Investment strategy

The Trustee takes an holistic approach to considering and managing risks when formulating the Plan's investment strategy. The Trustee's policies in relation to investment matters aim to be pragmatic and proportionate in the context of the circumstances of the Plan.

The Plan's investment strategy was derived following careful consideration of the risks and financially material considerations set out in Appendix B. The considerations include the nature and duration of the Plan's liabilities, the risks of investing in the various asset classes and also the strength of the sponsoring companies' covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in some "matching" assets and investing in a suitably diversified portfolio of assets, which overall are expected to perform in excess of the liabilities over the long term. The matching assets are designed to mirror movements in the Plan's liabilities to hedge risks associated with interest rates and inflation. This portfolio is expected to gain exposure to these factors through physical holdings in UK government bonds or derivatives. Outside of this portfolio, the Plan is expected to hold predominantly credit-based sub assets classes, however, may also make allocations to other growth asset classes such as equity and property. The balance between "matching" and "non-matching" assets is decided by considering the risks outlined in Appendix B and in particular, a key consideration is the strength of the Plan's sponsoring employer.

The assets of the Plan consist predominantly of investments which are traded on regulated markets. The majority of investments can be realised quickly, if necessary, although there would be a risk of capital loss. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements, both for benefit payments and collateral calls, in most foreseeable scenarios.

The Trustee may use derivatives for efficient portfolio management to manage the Plan's risk profile, including the Plan's inflation and interest rate exposure, and to rebalance the Plan's asset allocation as required from time to time. The Trustee authorises the use of derivatives within parameters agreed with each investment manager.

Leverage and collateral management

The Trustee will consider, and implement as required, all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Plan's liability hedging (LDI) portfolio.

The Trustee has a stated collateral management policy. The Trustee has agreed a process for meeting collateral calls, should these be made by the Plan's LDI investment manager. The Trustee will review this policy on a regular basis.

Further details on this can be found in the IID.

Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Plan as listed in the IID. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments, although the Trustee will explain to its investment managers in advance, what they consider to be most significant votes in line with the Plan's stewardship priority;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies, processes and views into account when selecting and monitoring managers. Alignment between the investment managers' management of the Plan's assets and the Trustee's policies and objectives are a fundamental part of the appointment process of an investment manager and the ongoing oversight of the activity undertaken by the investment managers, as set out in the table below, on behalf of the Plan. The Trustee also takes into account the performance targets the investment managers are evaluated on when monitoring the investment managers' performance.

The investment managers are required to exercise their discretion in selecting investments in accordance with all applicable laws and regulations, including section 36 of the Pensions Act 1995. The investment managers are also expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

The Trustee has appointed a custodian to operate alongside the investment managers in place. The custodian provides safekeeping for the assets and performs all associated administrative duties such as the collection of dividends.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Plan's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance and asset allocation, which are considered at the relevant IC meeting. • The Plan's investment managers are invited, in person, to present to the Trustee on their performance, strategy and risk exposures.	• There are significant changes made to the investment strategy. • Underperformance versus the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustee receives information from its investment advisers on the investment managers' approaches to engagement. • The Trustee will engage, via its investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Plan's stewardship priorities) regularly. The Trustee will share any agreed stewardship priorities to ensure alignment in voting and engagement activity.	• The manager has not acted in accordance with their policies and frameworks (including stewardship priorities). • The manager's stewardship policies and priorities are not in line with the Trustee's policies and any priorities in this area.

The Trustee's policies in relation to the Trustee's arrangement with asset managers, including the Trustee's policies in relation to the exercise of rights and engagement activities, are set out in more detail in Appendix C.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will, where appropriate, review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Plan invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Plan's total asset value. The Trustee will monitor this periodically to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from its investment advisers.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed: Mike Smaje

Position: Trustee

Date: 23 April 2024

Appendix A – ESG Beliefs and Stewardship Priorities

The Trustee has agreed a set of ESG specific investment beliefs and these are set out in a separate ESG beliefs statement.

The Trustee has agreed climate change as its stewardship priority and this will be clearly shared with the investment managers.

As good stewards of its investments, the Trustee has set this stewardship priority in members' best interests. This priority will be communicated to investment managers to influence stewardship activity.

The Trustee recognises that climate change could pose systemic risks which could in turn affect the returns achieved from the investment strategy.

Appendix B – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks / financially material considerations	Definition	Policy
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree a funding basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	• When developing the Plan's investment and funding objectives, the Trustee takes into account the strength of the covenant, ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, which are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Plan's assets and present value of liabilities from	To hedge an agreed proportion of these risks using an LDI strategy to limit exposure, whilst ensuring compliance

	changes in interest rates and inflation expectations.	with all regulatory guidance in relation to leverage and collateral management.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay the Plan's routine cashflow requirements, and to meet regulatory guidance around providing collateral to the LDI portfolio.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit (including counterparty credit risk)	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default. For derivative contracts held directly by the Plan, the counterparties will be limited to those on the manager's approved panel and the contracts will be marked to market, with collateral posted frequently. The manager is expected to manage excessive counterparty concentration.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.	When appointing a new manager, the Trustee considers how they integrate ESG factors into its investment strategy.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	The Trustee regularly monitors the level of unhedged currency risk in the Plan's investment strategy. If the unhedged currency position increases to a level that is deemed unacceptable, then the Trustee can introduce currency hedging.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	The Trustee has not imposed any constraints on the investment arrangements or managers employed relating to non-financial factors.

Appendix C

The Trustee has the following policies in relation to the investment management arrangements for the Plan:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• In the Plan's segregated LDI portfolio (or wherever a segregated portfolio is used), the manager invests in line with the Investment Management Agreement. This has been tailored to be in line with the Trustee's policies. • Where the Plan is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective (and considers the pooled funds' policies when appointing / monitoring managers). • The Plan's mandates for Private Debt, Private Debt Secondaries, and Infrastructure Equity are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements or pooled fund documents and, if it is not satisfied with the performance, will discuss with the relevant manager and consider escalation where appropriate. • The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of its ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee reviews fees from time to time and when appointing a new manager. • The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • In carrying out these reviews and evaluations, the Trustee has regard to its

	investment policies in place from time to time.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee will review the Total Expense Ratio of the managers from time to time and will ask for further information if required. In particular, excessive turnover by the investment manager will lead to an elevated Total Expense Ratio prompting further investigation by the Trustee.
The duration of the Plan's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Plan invests in. o For closed-ended funds or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Plan's liquidity requirements. o For open-ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
Voting Policy - How the Trustee expects investment managers to vote on its behalf	• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on its behalf. • The Trustee has delegated the exercise of any voting rights to the Plan's investment managers on the basis that voting rights should be exercised with the aim of preserving and enhancing long-term shareholder value. • The Trustee has set climate change as its stewardship priority for the Plan and has communicated this to the investment managers to make clear what they consider to be the most significant votes.
Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'. Relevant matters include (but are not limited to) matters concerning an issuer of debt or equity, including their	• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on its behalf. • The Trustee, via its investment advisers, will engage with managers about 'relevant matters' (including the Plan's stewardship priorities) regularly.

performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG governance.	• Example stewardship activities that the Trustee has considered are listed below. ○ Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities. ○ Asset manager engagement and monitoring – on an annual basis, the Trustee assesses the voting and engagement activity of its asset managers. The results of this analysis feeds into the Trustee's investment decision making. ○ Collaborative investor initiatives – the Trustee will consider joining/ supporting collaborative investor initiatives.