ZF UK Pension Plan

(Plan Registration Number 12009911)

Annual Report For The Year Ended 31 March 2020

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The Trustee's Report

Introduction

This report relates to the operation of the ZF UK Pension Plan ("the Plan") during the year ended 31 March 2020. The Investment Report on pages 13 to 20 forms part of this report.

The Plan was established by a Trust Deed dated 6 August 2014. The Plan was a contracted-out salary related scheme. The Plan is a registered pension scheme under Schedule 36 of the Finance Act 2004. It was registered with Her Majesty's Revenue and Customs (HMRC) on 11 August 2014.

The Plan was formerly known as the TRW Pension Plan. With effect from 31 December 2018 all of the assets and liabilities of both the ZF Lemforder (UK) Pension Plan and the ZF Great Britain Retirement Benefits Scheme were transferred into the Plan. This is referred to elsewhere within this report as the "Plan Merger". All sections of the Plan were closed to any future accrual from 30 January 2019.

Details of the Plan's benefits can be found on the Plan website (trwpensions.co.uk).

Management of the Plan

The Plan has a corporate Trustee, ZF UK Pensions Trust Limited. The names of the Directors, including the dates of any appointments and resignations during the year, are as follows:

Name	Nominated/appointed by	Date of appointment	Date of resignation
Mr S Batterbee (Chairman)	Employer		
Mr P Birkett	Members		
Ms J Braithwaite	Employer		
Mr G Henman	Employer		
Mr R Hines	Members	6 December 2019	
Mr D Hopkins	Employer		31 December 2019
Mr N Huish	Members		10 June 2019
Mr P Lakie	Employer		
Mrs N Loomes	Employer		
Mr J Simmons	Members	6 December 2019	
Ross Russell Ltd	Employer		

With effect from 10 June 2019 Mr Lakie's term of office as a member nominated director came to an end. However, with effect from 31 December 2019 Mr Lakie was re-appointed as an employer nominated director.

The Principal Employer makes all appointments and replacements. The appointment of member nominated directors is in line with the following Trustee's arrangements for their appointment.

The Pensions Act 2004 requires trustees of pension scheme to implement their own arrangements for appointing member nominated directors.

The Trustee's arrangements involve inviting nominations for vacancies from deferred or pensioner members.

The Trustee's Report (Cont)

The nominations are then reviewed by the Trustee's appointments sub-committee and a shortlist is created. Short-listed candidates are then interviewed by a different sub-committee and a decision on an appointment is made.

Successful candidates are appointed for a period of four years.

The Trustee held four full meetings during the period to consider matters relating to the administration of the Plan. The Trustee has, by resolutions passed at ordinary meetings, set up a number of sub-committees to deal with specified matters.

The quorum for the transaction of the business of the Trustee is currently five directors, three of whom are to be directors nominated by the Principal Employer, and either two member nominated directors or a member nominated director and an independent director. Trustee decisions are usually unanimous but they may be taken by a majority vote.

The Trustee has delegated authority to a standing sub-committee to deal with ill health early retirement applications and items of trustee discretion. The Trustee has also appointed a specialist standing sub-committee to deal with investment matters, which met five times during the year. Other sub-committees meet as required to produce reports and recommendations for the Trustee.

The Trustee has delegated the day-to-day management and operation of the Plan's affairs to professional organisations.

Changes to Plan Rules

There have been no changes to the Plan Rules during the year under review.

The Principal Employer

The Principal Employer is ZF Pension Sponsor UK Limited (formerly TRW LucasVarity Limited), which is a wholly owned subsidiary of ZF Friedrichshafen AG.

Participating Employers

The participating employers whose employees were entitled to be members of the Plan were ZF Automotive UK Limited (formerly TRW Limited), ZF Lemforder UK Limited and ZF Services UK Limited.

Trust Deed and Rules

A copy of the Trust Deed and Rules is available for examination in Human Resource Departments and personal copies can be obtained on written applications to the Trustee Secretary at a cost of £25.

The Trustee's Report (Cont)

Plan advisers

The Trustee retains a number of professional advisers in connection with the operation of the Plan. In line with UK pension scheme best practice, the Trustee has a policy of periodically reviewing all of its external advisers and service providers

The advisers currently appointed are as follows:

Scheme Actuary	Mr M Davis (from 12 December 2019)
Advising Actuaries	Hymans Robertson LLP
Administrator of the Plan benefits	Barnett Waddingham (from 1 December 2019) Capita Employee Benefits (to 30 November 2019) XPS Administration (to 30 September 2019) Scottish Widows Administration Services (to 30 September 2019)
Legal Advisers	Travers Smith LLP
Independent Auditor	KPMG LLP
Investment Managers	Arcmont Asset Management (from 1 June 2020) Legal & General Investment Management CBRE Global Investors M&G Investments Barings Global Investment Funds PLC Schroder Investment Management Invesco Real Estate Management (to 30 September 2019) Swiss Life Asset Manager (to 30 September 2019)
Investment Adviser	Hymans Robertson LLP
Custodians of the Plan assets	Bank of New York Mellon
Investment Performance Measurement	Mellon Analytics
Bankers	National Westminster Bank (to 11 March 2020) Barclays Bank (to 20 December 2019) Lloyds Bank (from 24 September 2019)
Medical Adviser	Health Management Limited
Secretary to the Trustee	Mr A Saker

Changes in and other matters relating to Plan advisers

Except those noted above there have been no other changes to Plan advisers and other matters during the Plan year under review.

The Trustee's Report (Cont)

Financial development of the Plan

During the year the value of the net assets increased by £27,961,000 to £1,737,840,000 as at 31 March 2020. The increase comprised net withdrawals from dealings with members of £82,960,000 together with a net increase from the return on investments of £110,921,000.

Plan Audit

The financial statements on pages 25 to 40 have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

Tax status of Plan

The Plan is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and, to the Trustee's knowledge, there is no reason why the Plan's registered status should be prejudiced or withdrawn.

Plan membership

	Number as at start of year	Changes in year	Number as at end of year
Deferred pensioners	9,211		
Late notifications		(16)	
Transferred out		(259)	
Retired		(184)	
Retired (small pensions paid as a lump sum)		(7)	
Died		(26)	
			8,719
Pensioners and dependants	3,802		
Late notifications		5	
Reclassified Suspended Pensioners		174	
New pensioners		186	
Small pensions paid as a lump sum		(8)	
Dependant ceased		(6)	
New dependant		63	
Died		(253)	
			3,963
	13,013		**12,682**

The member numbers shown above reflect the number of member records held by the Plan.

The late notifications above are in respect of movements with an effective date prior to the Plan year. Reclassified Suspended Pensioners were not in receipt of a pension and therefore excluded from membership statistics in the Report and Accounts for previous years. Going forwards it has been agreed to include those members whose pensions are temporarily suspended in the total figure for current pensioners.

The Trustee's Report (Cont)

Pension increases

The increases to pensions from 1 April 2020 were dependent on which section of the Plan each person is a member.

For pensions in deferment:

Section	Pension Element	Increase
All sections excluding members of the sections listed below	All pension	1.8% (1)
	Temporary and Early Retirement Allowance	1.7% (2)
Steering Systems and UK (leavers pre 1 January 1986)	All pensions	0.0%
Steering Systems and UK (leavers post 31 Dec 1985 and pre 1 Jan 1991)	Pension accrued pre 1 January 1985	0.0%
	Pension accrued post 31 December 1984	1.8% (3)
Steering Systems and UK (leavers post 31 December 1990), 100ths (2004), Closed SRBS A (2004), and 100ths (2006)	Pension accrued pre 6 April 2009	1.8% (3)
	Pension accrued post 5 April 2009	1.8% (4)
ZF Lemforder	Pension accrued pre 6 April 2009	1.7% (5)
	Pension accrued post 5 April 2009	1.7% (6)
ZF Great Britain	Pension accrued pre 6 April 2009	1.7% (5)
	Pension accrued post 5 April 2009	1.7% (6)

Notes:

- Annual CPI increase (January 2020) up to a maximum of 7%
- Annual CPI increase (September 2019)
- Annual CPI increase (January 2020) up to a maximum of 5%
- Annual CPI increase (January 2020) up to a maximum of 2.5%
- The Occupational Pensions (Revaluation) Order – Higher revaluation percentage
- The Occupational Pensions (Revaluation) Order – Higher revaluation percentage

The Trustee's Report (Cont)

Pension increases (Cont)

For pensions in payment:

Section	Pension Element	Increase
All sections excluding members of the sections listed below	Pension in excess of GMPs	1.8% (1)
	Temporary pensions	1.7% (2)
SRBS A, C, A (57.5), and C (57.5)	All pension	1.8% (1)
	Temporary pensions	1.7% (2)
Steering Systems	Pension in excess of GMPs accrued pre 1 April 1992	2.5% (3)
	Pension in excess of GMPs accrued post 31 March 1992	2.7% (4)
UK	Pension in excess of GMPs	2.7% (4)
100ths (2004), and SRBS A (2004)	Pension accrued pre 6 April 2005	1.8% (5)
	Pension accrued post 5 April 2005	1.8% (6)
	Temporary pensions	1.7% (2)
100ths (2006)	All pension	1.8% (6)
	Temporary pensions	1.7% (2)
ZF Lemforder	Pension in excess of GMP accrued pre 6 April 2006	2.1% (7)
	Pension in excess of GMP accrued post 5 April 2006	2.1% (8)
ZF Great Britain	Pension in excess of GMP accrued pre 1 July 2001 and pension accrued from 1 April 2005 to 5 April 2006	5% (9)
	Pension accrued from 1 July 2001 to 31 March 2005	5% (10)
	Pension accrued post 6 April 2006	2.4% (11)
Guaranteed Minimum Pensions:		
GMP earned between 6 April 1978 and 5 April 1988		N/A (12)
GMP earned between 6 April 1988 and 5 April 1997		1.7% (13)

Notes:

(1) Annual increase in CPI (January 2020) up to a maximum of 7%
(2) Annual increase in CPI (September 2019)
(3) Fixed 2.5% a year
(4) Annual increase in RPI (January 2020) up to a maximum of 5%
(5) Annual increase in CPI (January 2020) up to a maximum of 5%
(6) Annual increase in CPI (January 2020) up to a maximum of 2.5%
) Annual increase in RPI (October 2019) up to a maximum of 5%
) Annual increase in RPI (October 2019) up to a maximum of 2.5%
) Fixed 5% a year
) Annual increase in RPI (September 2019) up to a maximum of 7% and a minimum of 5%
) Annual increase in RPI (September 2019) up to a maximum of 3%
) All increases are provided by the State
) Annual increase in CPI (September 2019) up to a maximum of 3%. Additional inflationary increases are provided by the State.

The Trustee's Report (Cont)

Additional Voluntary Contributions (AVCs)

The Actuary has certified that the rate of interest to be applied to cash accumulation AVC balances held for the year ending 31 March 2020 for the plan is 2.7% (2019: 2.2%).

For those who retire, die or transfer their AVCs in the year ending 31 March 2020, no terminal bonus will be paid. AVCs paid to an external provider receive the return declared by those providers. The Plan's AVC arrangements were closed to further contributions from 5 April 2006.

Money Purchase Underpin Account

This is applicable to members of the Closed 80ths Section of the Plan. Each year, twice the member's contributions are credited to the account. Interest is applied to the balance of the account on an annual basis equal to the full rate of return of the Plan.

The full rate of return in the Plan for the year ended 31 December 2019 was 13%.

Transfer values

All cash equivalents (transfer values) paid during the year were calculated and verified in the manner required by the Pension Schemes Act 1993 and subsequent amendments. No discretionary benefits are included in the calculation of transfer values.

A cash equivalent is the amount which a Plan member is entitled under social security legislation to have applied as a transfer payment to another permitted pension arrangement or a buy-out policy.

Data Protection Act 2018 and General Data Protection Regulation

On 25 May 2018 the Data Protection Act 1998 was replaced by the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. The GDPR and the 2018 Act introduced some significant changes, including new contractual obligations, enhanced reporting obligations and tougher enforcement and / or sanctions for non-compliance.

Under the new regulations, pension scheme trustee continues to be classed as data controllers, with legal responsibility for compliance falling to them. Scheme Actuaries are also classed as data controllers (jointly with the Trustee) in accordance with guidance issued by the Actuarial Profession. Barnett Waddingham LLP act as a data processer as the administrators of the Plan.

The Trustee has worked with its advisers to receive relevant training, and continues to do so to ensure continued compliance with data protection legislation.

Codes of Practice

The Trustee is aware of and adheres to the Codes of Practice issued by The Pensions Regulator ("TPR"). The objectives of these codes are to protect members' benefits, reduce the risk of calls on the Pension Protection Fund ("PPF") and to promote good administration.

The Trustee's Report (Cont)

The Pensions Regulator: Record Keeping

TPR issues guidance on all aspects of pension scheme data record keeping to all those responsible for the data (the trustees) and those who administer pension schemes. The guidance covers both common data and scheme-specific data (conditional). The guidance sets out good practice in helping trustees to assess risks associated with record keeping. Improved data means that trustees and employers will be able to make a more precise assessment of their financial liabilities. Schemes are expected to keep their data under regular review and set targets for the improvement in the standard of data recorded.

More information can be found at:

http://www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx

GMP equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The Trustee of the Plan is aware that the issue will affect the Plan, and has already considered this in detail. Work is ongoing as further guidance becomes available. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Further details are disclosed in Note 24 of the financial statements.

Covid-19

The scale and spread of Covid-19 (Coronavirus) virus worldwide, and the actions taken by governments in response, have caused and will likely continue to cause disruption to almost all sectors and financial markets. As a result, there has been a dramatic downturn in many global markets accompanied by volatile, but generally falling, government bond yields. However, the Plan is significantly hedged against interest rate and inflation movements and has only indirect equity exposures, and the Trustee directors are pleased to note that the funding level in the Plan has been relatively stable. As Trustee we continue to monitor the situation and we will respond as appropriate to emerging issues. The Trustee regards the impact of Covid-19 as a non-adjusting subsequent event. No adjustments have been necessary and none have been made to the financial statements as at 31 March 2020.

Contact for further information

If, as a Plan member, you wish to obtain further information about the Plan, including copies of the Plan documentation, your own pension position, or who to contact in the event of a problem or complaint, please write to or telephone: Barnett Waddingham the Plan administrators:

Barnett Waddingham LLP
3 Devon Way
Birmingham
B31 2TS

Tel: 0330 135 9988

Alternatively you may contact the Plan administrators online at:
https://logon.bwebstream.com/shared/contact

Or email: ZFUKmembers@Barnett-Waddingham.co.uk

The Trustee's Report (Cont)

Additional information

Pensions Act 1995 and 2004

Appointment of Advisers

The Pensions Act 1995 requires the Trustee to appoint its own advisers. All the advisers have formally accepted the appointments and confirmed that they will notify the Trustee should any conflicts of interest arise in relation to the Plan. The advisers are listed on page 3.

Internal Disputes Resolutions Procedure

The Trustee has an internal disputes resolution procedure in place. Information on how to refer a complaint to the internal disputes resolution procedure is available by writing to the Trustee Secretary at:

ZF UK Pension Plan
Stratford Road
Shirley
Solihull
B90 4GW

Funding Documents

The Plan's latest Statement of Funding Principles was produced as part of its latest actuarial valuation, which was calculated as at 31 March 2018 and completed on 23 May 2019. A Schedule of Contributions for the Plan was signed on 23 May 2019, which took effect from 23 May 2019.

Internal Controls

A compliance statement is produced annually by the Trustee Secretary and the Plan's administrator for the Trustee, to provide information regarding the administration of the Plan. The Statement outlines the statutory requirements along with non-statutory best practice. It details any breaches that have occurred during the year. In response to the Pensions Regulator's code on internal controls the Trustee has prepared a schedule of risks faced by the Plan. The contents of the risk register are taken into account when the Trustee set its goals, as part of its annual business plan.

The Trustee’s Report (Cont)

Statement of Trustee's Responsibilities

Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension Scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Plan will not be wound up.

The Trustee is also responsible for making available certain other information about the Plan in the form of an Annual Report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, maintaining, and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Plan by or on behalf of the Employer and the active members of the Plan and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for adopting risk-based processes to monitor whether contributions are made to the Plan by the Employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustee's Report (Cont)

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, the Plan is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its Technical Provisions. The Technical Provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent full actuarial valuation of the Plan was carried out as at 31 March 2018. This showed that on that date:

The value of the Technical Provisions was:	£1,388 million
The value of the assets was:	£1,656 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method.

Significant Actuarial assumptions:

Discount rate before retirement:	Dependent on term and assumed to be 1% p.a. above the market implied gilt yield curve.
Discount rate after retirement:	Dependent on term and assumed to be 1% p.a. above the market implied gilt yield curve.
Price inflation (Retail Price Inflation):	Market expectation of future inflation dependent on term as measured by the market implied gilt based inflation curve.
Price inflation (Consumer Price Inflation):	1.0% p.a. lower than the market implied RPI assumption at all terms.
Pension increases:	Inflation linked increases are assumed to be in line with price inflation adjusted to take account of any maximum or minimum increase that may apply.
Deferred revaluation:	Inflation linked increases are assumed to be in line with the relevant price inflation assumption capped at any maximum or minimum increase that may apply. Fixed increases are assumed to increase at the appropriate fixed rate.
Mortality:	Post-retirement mortality base tables: A suite of bespoke assumptions which reflect the characteristics of the Plan membership. The "VitaCurves" adopted will be based on pooled experience from occupational pension schemes as collated by Club Vita. They will make allowance for observed variations in mortality according to age, gender, reason for retirement (illness or normal health), pension amount, salary and postcode based lifestyle group. Pre-retirement mortality base tables: ANC00/AFC00 Future improvements in longevity will be assumed to be in line with the CMI model, with a long term rate of improvement of 1.5% for males and females.

The financial statements on pages 25 to 40 do not take into account liabilities which fall due after the year end. As part of the triennial valuation, the Scheme Actuary considers the funding position of the Plan and the level of contributions payable.

The Trustee's Report (Cont)

Approval of Trustee's Report (including Investment Report)

Further disclosures required by legislation are provided in the Investment Report.

This report and the accompanying Investment Report were approved by the Trustee on

Date: 8 October 2020

Signed on behalf of the Trustee:

P Lakie	*J Braithwaite*
Director	Director

The Investment Report

Investment managers

As at 31 March 2020 the following investment managers were appointed by the Trustee:

- Legal & General Investment Management
- CBRE Global Investors
- M&G Investments
- Barings Global Investment Funds PLC
- Schroders Investment Management

The Trustee's appointed investment managers were regulated during the year by either the Prudential Regulation Authority, the Financial Conduct Authority or the Commission de Surveillance de Secteur Financier. In addition, CBRE Global Investors is a member of the Royal Institution of Chartered Surveyors. The investment management costs are borne by the Plan and detailed in the financial statements.

When choosing investments, the Trustee and the fund managers (to the extent delegated) is required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The Trustee' responsibilities also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Plan's assets.

The Trustee expects that the investment managers will take into account these responsibilities in the exercise of their delegated duties. These matters are, however, kept under review by the Trustee, in consultation with their investment adviser and investment managers

Internal controls

The Trustee has received and reviewed the following reports dealing with the internal controls of its appointed investment managers and custodian:

Company	**Appointment**	**Reporting period**
Bank of New York Mellon	Custodian	1 April 2019 to 31 March 2020
Legal & General Investment Management	Investment Manager	1 January 2019 to 31 December 2019
CBRE Global Investors	Investment Manager	1 January 2019 to 31 December 2019
M&G Investments	Investment Manager	1 January 2019 to 31 December 2019
Barings Global Investment Funds PLC	Investment Manager	1 September 2018 to 31 August 2019
Schroder Investment Management	Investment Manager	1 January 2019 to 31 December 2019

The Investment Report (Cont)

Asset allocation

The Trustee acts on the advice of its Investment Sub-Committee, its investment adviser and the Plan Actuary to put in place an investment structure whereby the Plan's liabilities determine the type of assets held by the Plan. This approach to investments is called 'liability driven investment' (LDI). The Trustee considers the investments to be suitable to the Plan's stated objectives. The central features of this strategy are as follows:

- To manage the interest rate and inflation risk inherent in the Plan's liabilities by the use of physical and derivative assets.
- A controlled use of derivatives to increase the yield on the Plan's physical assets through exposure to credit markets.

At the year end the majority of the Plan's assets were managed by Legal & General Investment Management. These assets form a 'collateral pool' designed to support the LDI strategy. The collateral pool comprises the following physical assets:

- UK Gilts
- UK Index-linked Gilts
- Money Market Instruments'
- Cash

The remainder of the Plan's assets are a combination of:

- Property
- Asset backed securities
- Secured Loans
- Global high yield credit
- Bonds
- Private Loans

Changes during the year

In April 2019 the Plan's equity collar expired and the final value of £113.19m was swept into the collateral pool managed by LGIM. The Plan's Swiss Life Infrastructure Funds and Invesco Real Estate Fund received as part of the Plan merger were sold to ZF in Germany based on the Q3 2019 Net Asset Value, with the proceeds paid into the collateral pool managed by LGIM.

Also during the Plan year, approximately £22.4 million was transferred from the collateral pool managed by LGIM to a private lending fund with Barings Investment Funds Plc.

The Investment Report (Cont)

The Plan's largest physical investments

The Plan's largest 20 physical holdings excluding pooled investment vehicles, cash and derivatives at the year end is shown in the table below.

Asset Class	Security	Maturity	Market Value (£'million)	% of total net assets
UK Treasury	Fixed 4.250%	07/12/40	357.09	20.55
UK Treasury	Fixed 4.250%	07/12/49	231.30	13.31
UK Treasury	Index Linked 1.250%	22/11/32	116.57	6.71
UK Treasury	Index Linked 0.375%	22/03/62	113.48	6.53
UK Treasury	Fixed 1.750%	22/07/57	106.63	6.14
UK Treasury	Index Linked 0.625%	22/11/42	80.72	4.64
UK Treasury	Index Linked 0.125%	22/03/46	79.71	4.59
UK Treasury	Index Linked 0.625%	22/03/40	76.37	4.39
UK Treasury	Fixed 3.750%	22/07/52	74.20	4.27
UK Treasury	Index Linked 0.500%	22/03/50	73.99	4.26
UK Treasury	Fixed 1.625%	22/10/71	68.26	3.93
UK Treasury	Index Linked 0.125%	10/08/28	57.38	3.30
UK Treasury	Index Linked 0.250%	22/03/52	57.02	3.28
UK Treasury	Index Linked 0.125%	22/03/58	45.34	2.61
UK Treasury	Index Linked 0.750%	22/03/34	44.53	2.56
UK Treasury	Fixed 4.500%	07/09/34	43.59	2.51
UK Treasury	Index Linked 0.125%	22/03/26	41.96	2.41
UK Treasury	Index Linked 0.125%	22/03/29	39.67	2.28
UK Treasury	Fixed 2.500%	22/07/65	39.23	2.26
UK Treasury	Index Linked 0.125%	22/03/44	35.58	2.05
			1,782.62	**102.58**[1]

[1]The % of total net assets exceeds 100% due to the negative value of the Plan's derivative liabilities and repurchase liabilities

The Investment Report (Cont)

Implementation Statement for 2019 DB Regulations

Statement of Compliance with the ZF UK Pension Plan's Stewardship Policy for the year ending 31 March 2020

Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Plan's Stewardship and Engagement policy during the period from 31 March 2019 to 31 March 2020.

Stewardship policy

The Trustee's Stewardship and Engagement policy (as stated in the Statement of Investment Principles) sets out how the Trustee will behave as an active owner of the Plan's assets which includes the Trustee's approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engage with their investment managers and any other stakeholders.

The Plan's Stewardship and Engagement Policy is reviewed periodically in conjunction with reviews of the Plan's Statement of Investment Principles (SIP). The last review was completed in September 2020.

The following changes were made to the Stewardship and Engagement policy during the year ending 31 March 2020:

In October 2019, the following statements were added.

- *The Trustee believes good management of companies should lead to more sustainable and predictable returns.*
- *When appointing new managers, the Trustee will consider the managers' approach to voting and engagement*.

You can review the Plan's Stewardship and Engagement policy which can be found within the Plan's Statement of Investment Principles, at www.trwpensions.co.uk.

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees believe it is important that their investment managers take an active role in the supervision of the companies in which they invest and engage with the management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on their dialogue with their investment managers which is undertaken in conjunction with their investment advisers. The Investment Sub-committee (ISC) of the Trustee Board meets regularly with their managers and the Trustee considers managers exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.

The Trustee also monitors its compliance with the Stewardship and Engagement Policy on a regular basis and is satisfied that it has complied with the Plan's Stewardship and Engagement Policy over the last year.

As the Plan no longer holds any equity investments (either directly or through multi-asset mandates), this statement does not include details of any votes cast on the Trustee's behalf.

The Investment Report (Cont)

During the year the Trustee appointed two private debt managers, Barings and Arcmont. The ISC received a presentation from Barings in which they covered the manager's integrated ESG policy and approach to active ownership. Arcmont have confirmed in their documentation the use of ESG screening and analysis as part of their investment due diligence combined with ongoing monitoring and management engagement in relation to ESG performance. The nature of private lending means voting is not a consideration for these mandates.

Engagement activity

The ISC holds meetings with the Plan's investment managers on a regular basis where Responsible Investment and stewardship issues are discussed in further detail. Over the year to 31 March 2020, the ISC met with 3 of their 5 managers which account for over 95% of Plan assets.

Although the ISC met with LGIM, the Plan's LDI manager over the year, the nature of this mandate means that all holdings are in government bonds and bond derivatives. As such the ISC does not consider stewardship and engagement issues are relevant to this mandate.

Discussions on stewardship and engagement with other managers are summarised below.

Date	Fund manager	Subject discussed	Outcome
07/10/2019	M&G	ESG integration in investment process	M&G explained to the ISC how ESG considerations are incorporated in the investment process, and outlined M&G's Target Outcomes under each element of their ESG capabilities.
28/11/2019	Barings	ESG integration in investment process	Barings explained to the ISC how they take ESG into account as part of their fundamental credit analysis. They included examples of deals turned down due to ESG concerns and gave details of their ESG tracking process and tools.

Review of policies

The ISC has committed to reviewing the managers' RI policies on an annual basis. This review will consider managers' broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year.

The Investment Report (Cont)

Statement of Investment principles

The Statement of Investment Principles deals with the following topics:

- Fund managers
- Investment adviser
- Investment objectives
- The kind and balance of investments
- Risk
- Expected return on investments
- Mandates to the investment managers
- Investment management fees
- Realisation of investments
- Statutory funding objective
- Socially responsible investment
- Exercise of voting rights
- Custodian

The current statement, implemented from 8 October 2020, is included on pages 44 to 51. A separate copy of the statement can be obtained by writing to the Trustee Secretary.

Departures from investment principles

There were no significant departures from the stated principles during the year under review. Small deviations from the benchmark allocation are to be expected as a result of fluctuations in asset prices.

Employer related investments

During the year the Plan had no investment in ZF Friedrichshafen AG, and no direct investments in any connected employer.

There were no member contributions due from the employer.

Stock lending

As at 31 March 2020, the majority of the Plan's assets were held under the segregated custody of Bank of New York Mellon, which did not engage in any stock lending.

Review of investments

During the year the Trustee, with the help of its professional advisers, has carefully considered the Plan's investments. They are satisfied that the investments conform to all the statutory criteria.

Investment performance

Independent performance measurement is provided to the Plan by Mellon Analytics.

Benchmark

The investment performance benchmark for the Plan is the Plan's liabilities. The Plan's liabilities are measured on a Technical provisions basis (Statutory Funding Basis) and other actuarial bases. In order to meet the Plan's immediate and long term funding objectives, the Plan's assets must outperform its liabilities. The performance of the Plan's assets measured against its liabilities for the Plan year ending 31 March 2020 is shown below:

The Investment Report (Cont)

Asset performance	Liabilities measured on a Technical provisions basis	Liabilities measured on an Economic basis[1]
+7%	9%	7%

As a consequence of the Plan's asset and liability outperformance, the Plan's estimated funding position as at 31 March 2020 is:

Date	Funding position on a Technical Provisions basis	Funding position measured on an Economic basis
31 March 2020	114%	95%

[1]An Economic basis refers to a level of funding that incorporates more prudent assumptions about future investment returns (i.e. a discount rate in line with yields available from UK Government bonds or swaps) and life expectancy than the Technical Provisions basis. At this level of funding the Plan would be expected to be in a position to deliver benefits on a self sufficient basis with a high degree of certainty.

Returns

The return of the Plan measured over one, three and five years is detailed below.

Period to 31 December 2019	Annual Return
Last Year	13.01%
Last 3 years	5.55%
Last 5 years	10.52%

Source: Mellon Analytics (for asset performance) and Hymans Robertson (for Liability performance). These figures are based upon various estimates and assumptions and have been provided for the sole use and benefit of the Trustee of the ZF UK Pension Plan and not for any other party. Hymans Robertson LLP makes no representation or warranty to any third party as to the accuracy or completeness of the information.

Custody of Investments

The majority of the Plan's segregated assets are held by the Trustee's appointed custodian, Bank of New York, Mellon. A custodian agreement between Bank of New York Mellon and ZF UK Pensions Trust Limited details the terms on which the custodian holds the Plan's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Plan's assets are held by the custodian under the control of the Trustee. Physical documents are held in a strong room and access is limited by the custodian's own strict security procedures. Regular reconciliations of the holdings are carried out and a copy of the custodian's report on internal controls is kept and revised by the Plan Administrator.

The Plan's investments held by the custodian are registered as follows:

- United Kingdom investments are in the name of the nominee of the custodian with the designation account 'ZF UK Pensions Trust Limited' or some other account designation specifying they are the assets of ZF UK Pensions Trust Limited.
- United Sates investments are in the name of a nominee with designation on the books and records of the custodian which is specific to ZF UK Pensions Trust Limited.
- Other investments are in the name of either the custodian or a nominee with a designation to make clear the registered holder is not the beneficial owner.

The Investment Report (Cont)

The custodian will only release title documents after a series of security checks have taken place. These include:

- A dual electronic instruction to the custodian involving the use of passwords.
- The custodian has received payment

Cash is placed on short-term deposit with banks in the name of ZF UK Pensions Trust Limited.

Summary of contributions payable in the year

During the year, the contributions payable to the Plan by the Employer under the Schedules of Contributions were as follows:

	£'000
Employer contributions	275
Contributions payable under the Schedule of Contributions (as reported on by the Plan auditor) and reported in the financial statements	275

Date: 8 October 2020

Signed on behalf of the Trustee:

P Lakie
Director

J Braithwaite
Director

Independent Auditor's Statement about Contributions to the Trustee of the ZF UK Pension Plan

We have examined the summary of contributions to the ZF UK Pension Plan for the year ended 31 March 2020, which is set out on page 21.

In our opinion contributions for the Plan year ended 31 March 2020 as reported in the summary of contributions on page 21 and payable under the Schedule of Contributions have in all material respects been paid from 1 April 2019 to 22 May 2019 at least in accordance with the Schedule of Contributions certified by the Actuary on 18 December 2018 and subsequently at least in accordance with the Schedule of Contributions certified by the Actuary on 23 May 2019.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 10, the Plan's Trustee is responsible for procuring that contributions are made to the Plan, in accordance with the Schedule of Contributions. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the Employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Plan and to report our opinion to you.

Respective responsibilities of Trustee and the auditor

This statement is made solely to the Plan's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan's Trustee, for our work, for this statement, or for the opinions we have formed.

Iryndeep Kaur-Delay for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Date: 8 October 2020

Independent Auditor's Report to the Trustee of the ZF UK Pension Plan

Opinion

We have audited the financial statements of the ZF UK Pension Plan for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Plan in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's Report (including the report on actuarial liabilities and the summary of contributions). Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in its statement set out on page 10, the Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Plan, or has no realistic alternative but to do so.

Independent Auditor's Report to the Trustee of the ZF UK Pension Plan (Cont)

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee, for our audit work, for this report, or for the opinions we have formed.

Iryndeep Kaur-Delay for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Date: 8 October 2020

The Financial Statements

Fund Account

for the year ended 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Contributions and benefits			
Employer contributions	4	275	275
Total contributions		275	275
Transfers in	5	-	78,108
Other income	6	6	219
		281	78,602
Benefits paid or payable	7	(20,936)	(16,937)
Payments to and on account of leavers	8	(59,643)	(89,891)
Administrative expenses	9	(2,662)	(2,386)
		(83,241)	(109,214)
Net withdrawals from dealings with members		(82,960)	(30,612)
Returns on investments			
Investment income	10	31,062	28,542
Change in market value of investments	11	82,125	59,071
Investment management expenses	12	(2,266)	(3,094)
Net return on investments		110,921	84,519
Net increase in the fund during the year		27,961	53,907
Net assets of the Plan			
At 1 April		1,709,879	1,655,972
At 31 March		1,737,840	1,709,879

The notes on pages 27 to 40 form part of these financial statements.

The Financial Statements (Cont)

Statement of Net Assets

available for benefits as at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Investment assets:			
Bonds	11	2,114,923	2,007,868
Pooled investment vehicles	14	334,241	381,493
Derivatives	15	11,114	685,851
Additional voluntary contributions	17	713	715
Reverse repurchase agreements	16	62,301	279,144
Cash	11	25,437	19,079
Other investment balances	16	10,722	7,214
		2,559,451	3,381,364
Investment liabilities:			
Derivatives	15	(21,071)	(559,985)
Repurchase agreements	16	(799,276)	(1,110,238)
Other investment balances	16	(6,884)	(820)
		(827,231)	(1,671,043)
Total net investments	11	1,732,220	1,710,321
Current assets	21	11,434	4,086
Current liabilities	22	(5,814)	(4,528)
Net assets of the Plan at 31 March available for benefits		1,737,840	1,709,879

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 11 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 27 to 40 form part of these financial statements.

These financial statements were approved by the Trustee on

Date: 8 October 2020

Signed on behalf of the Trustee:

P Lakie	*J Braithwaite*
Director	Director

Notes to the Financial Statements

1. Basis of preparation

The individual financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (Revised 2018).

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on the financial statements, although it has required certain additions to or amendments of disclosures in the financial statements.

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Plan has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least twelve months from the date of approval of these financial statements. In reaching this conclusion, the Trustee considered the impact of the COVID-19 outbreak and have taken into account plausible downside assumptions of the sponsoring employer to gain comfort that it will continue to make contributions as they fall due. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the financial statements on a going concern basis.

2. Identification of the financial statements

The Plan is established as a trust under English law. The address for enquiries to the Plan is included in the Trustee's Report.

3. Accounting policies

The principal accounting policies of the Plan which are applied consistently are as follows:

Currency

- The Plan's functional and presentational currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Plan year-end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Contributions

- Contributions made by the Employer are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are payable.

Other income

- Claims on term insurance policies and other forms of income are accounted for on an accruals basis.

Payments to members

- Pensions in payment are accounted for in the period to which they relate.
- Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.
- Where members have a choice regarding the form and timing of their benefit, benefits are accounted for on an accruals basis on the later of the date of retiring or leaving and the date the option is exercised. Other benefits are accounted for on an accruals basis on the date of retiring or leaving.
- Individual transfers in or out of the Plan are accounted for when member liability is accepted or discharged which is normally when the transfer amount is received or paid.
- Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Plan, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within "Benefits paid or payable".

Expenses and other payments

- Expenses are accounted for on an accruals basis.
- Investment management expenses and rebates are accounted for on an accruals basis and shown net within "Returns on investments". Transaction costs are included in the cost of purchases and sale proceeds.

Notes to the Financial Statements (Cont)

Investment income

- Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- Income from certain pooled investment vehicles is accounted for when declared by the fund manager.
- Income from cash and short term deposits is accounted for on an accruals basis.
- Receipts from annuity policies are accounted for as investment income on an accruals basis.
- Investment income arising from the underlying investments of the pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the unit price. Thus, it is reported within "Change in market value".
- Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income.
- Interest payable on repurchase agreements is accounted for in the period it falls due.

Investments

- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- Quoted securities in active markets are usually valued at the current bid prices 31 March 2020, or at the valuation date nearest to the year end.
- Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV) determined in accordance with fair value principles, provided by the pooled investment manager.
- Bonds are stated at their clean prices. Accrued income is accounted for within "Investment income" and within "Investment income receivable" included as "Other investment balances".
- Annuities purchased by the Trustee which fully provide the benefits for certain members are not included as assets of the Plan as they are deemed not material.
- With profit AVC policies are reported at the policy value provided by the insurance company based on the cumulative reversionary bonuses declared and the current terminal bonus.
- Exchange traded futures are valued as the sum of the daily mark-to-market, which is a calculated difference between the settlement prices at the reporting date and the inception date.
- Over the counter (OTC) derivatives are valued using the following valuation techniques:
  - Swaps – current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
  - Forward foreign exchange (Forward FX) – the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
  - Options are valued at their mark to market value. If a quoted market price is not available on a recognised exchange their fair value is calculated using pricing models such as Black-Scholes, where inputs are based on market data at the year end date.
- Repurchase agreements are accounted for as follows:
  - Repurchase agreements (repo) – the Plan continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.
  - Reverse repurchase agreements (reverse repo) – the Plan does not recognise the securities received as collateral in its financial statements. The Plan does recognise the cash delivered to the counterparty as a receivable in the financial statements.

Notes to the Financial Statements (Cont)

4. Contributions

	2020 £'000	2019 £'000
Employer contributions	275	275

In accordance with the Schedule of Contributions dated 18 December 2018 and 23 May 2019, ZF Services UK Limited will pay contributions of £91,667 per month until 30 June 2019.

5. Transfers in

	2020 £'000	2019 £'000
Group transfers in from other schemes	-	78,108

The group transfer in the prior year represents the assets transferred in respect of members of the ZF Lemforder UK Pension Plan and the ZF Great Britain Ltd Retirement Benefits Scheme as a result of the Plan merger in the form of an asset transfer from Swiss Life, Schroders, Invesco and Union, plus cash.

6. Other income

	2020 £'000	2019 £'000
Other	6	219

7. Benefits paid or payable

	2020 £'000	2019 £'0000
Pensions	15,760	13,635
Commutation of pensions and lump sum retirement benefits	4,910	3,095
Lump sum death benefits	266	207
	20,936	16,937

8. Payments to and on account of leavers

	2020 £'000	2019 £'000
Individual transfers to other schemes	59,643	89,891

Notes to the Financial Statements (Cont)

9. Administrative expenses

	2020 £'000	2019 £'000
Administration and processing	782	386
Actuarial fees	417	346
Audit fee	76	54
Website	7	4
Investment adviser fees	311	362
Risk Management and administration review	51	55
Legal and other professional fees	271	407
Medical fees	8	12
Microfiche archiving	-	4
Financial advice	246	294
Covenant review	-	58
Trustee and Secretarial expenses	422	330
PPF Levy	61	64
Longevity analysis	10	10
	2,662	2,386

Administrative expenses are met by the Plan.

10. Investment income

	2020 £'000	2019 £'000
Income from bonds	29,363	28,657
Income from pooled investment vehicles	5,775	5,285
Income from derivatives	1,810	-
Annuity income	(12)	74
Interest on cash deposits	893	(5,474)
Repurchase agreements	(6,767)	-
	31,062	28,542

Income from repurchase arrangements is included within 'interest on cash deposits'.

11. Reconciliation of investments

	Value at 31 March 2019 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 31 March 2020 £'000
Bonds	2,007,868	1,090,693	(1,113,514)	129,876	2,114,923
Pooled investment vehicles	381,493	406,572	(408,653)	(45,171)	334,241
Derivatives	125,866	572,568	(705,836)	(2,555)	(9,957)
AVC investments	715	-	(39)	37	713
	2,515,942	2,069,833	(2,228,042)	82,187	2,439,920
Cash deposits	19,079			(62)	25,437
Other investment balances	(824,700)				(733,137)
	1,710,321			82,125	1,732,220

Notes to the Financial Statements (Cont)

11. Reconciliation of investments (Cont)

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Plan such as fees, commissions and stamp duty.

Transaction costs analysed by main asset class and type of cost are as follows:

	Fees £'000	Commission £'000	Taxes £'000	2020 Total £'000
Other	-	12	-	12

	Fees £'000	Commission £'000	Taxes £'000	2019 Total £'000
Other	93	9	-	102

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. The amount of indirect costs is not separately provided to the Plan.

12. Investment management expenses

	2020 £'000	2019 £'000
Non-Property Management Expenses		
Legal & General Investment Management	790	1,166
M&G Investments	813	939
Bank of New York Mellon	193	780
Schroders	49	11
Other	421	-
	2,266	2,896
Property Management Expenses		
CB Richard Ellis – UK Properties	-	2
Property Management cost		
Other professional fees	-	196
	-	198
	2,266	3,094

13. Taxation

The Plan is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Notes to the Financial Statements (Cont)

14. Pooled investment vehicles

The Plan's investments in pooled investment vehicles at the year-end comprised:

	2020 £'000	2019 £'000
M&G Investments Versatile European Loans Fund	124,193	141,307
Legal & General Liquidity Fund	8,720	16,229
Barings Global Multi-Credit Strategy Fund	157,317	184,069
Schroders ISF Global Bond Fund	22,686	23,658
Invesco Real Estate European Fund	-	12,118
Swiss Life Infrastructure Fund	-	3,892
CBRE European Property Unit Trusts	40	220
Barings Private Lending Fund	21,285	-
	334,241	381,493

15. Derivatives

Objectives & policies

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Plan as follows:

Swaps – the Trustee's aim is to match off the Plan's long term liabilities with its fixed income assets, in particular in relation to the liabilities' sensitivities to interest rate movements and inflation. The Trustee has entered into interest rate, inflation and credit default swaps to better align the Plan's assets to the long term liabilities of the Plan.

Futures – the Trustee did not want cash held to be 'out of the market' and therefore bought exchange traded index based futures contracts which had an underlying economic value broadly equivalent to cash held.

Forward FX – the Trustee has taken out a number of foreign exchange forwards to hedge its overseas currency assets back into sterling.

Options – The Trustee's objective in the prior year was to benefit from the potentially greater returns available from investing in equities but wished to minimise potential losses of value through adverse equity price movements. It had therefore taken out a series of 'put', 'call' and 'at the money' options which provided the Plan with exposure in global developed equity markets but restricted the negative returns the Plan can make by capping the positive returns the Plan could earn. The Plan also held some bond options to help hedge interest rate risk. The Trustee no longer hold option contracts, as it no longer invests in equities.

At the year end the Plan had the following derivatives:

	2020		2019	
	Asset £'000	Liability £'000	Asset £'000	Liability £'000
OTC Swaps	10,589	(13,017)	6,754	(8,455)
Futures	116	-	-	-
Forward FX contracts	409	(8,054)	1,112	(65)
Options	-	-	677,985	(551,465)
	11,114	(21,071)	685,851	(559,985)

Notes to the Financial Statements (Cont)

15. Derivatives (Cont)

A summary of the Plan's outstanding derivative contracts at the year-end aggregated by key characteristics is set out below:

(1) OTC Swaps

Nature	Notional amounts £'000	Duration	Asset value £'000	Liability value £'000
Credit default swaps	175,000	2030	-	(4,171)
Interest rate swaps	31,028	2062	6,154	(6,196)
Inflation swaps	124,722	2035	2,322	(716)
Zero coupon swaps	447,350	2070	2,113	(1,934)
Total 2020	778,100		10,589	(13,017)
Total 2019	1,942,809		6,754	(8,455)

(2) Futures

Nature	Economic exposure £'000	Expires	Asset value £'000	Liability value £'000
Bond futures	(26,693)	<1 year	116	-
Total 2020	(26,693)		116	-
Total 2019	-		-	-

(3) Forward FX

Type	Notional amounts £'000	Duration	Asset value £'000	Liability value £'000
AUD/GBP	4,372	2020	165	-
EUR/GBP	110,544	2020	198	(6,530)
GBP/EUR	15,653	2020	-	(441)
GBP/USD	4,289	2020	46	(133)
USD/GBP	17,920	2020	-	(950)
Total 2020	152,778		409	(8,054)
Total 2019	128,741		1,112	(65)

(4) Options

Nature	Notional amounts £'000	Duration	Asset value £'000	Liability value £'000
Total 2020	-	-	-	-
Total 2019	1,371,600		677,985	(551,465)

Notes to the Financial Statements (Cont)

15. Derivatives (Cont)

Counterparties to derivatives

The following table shows the Plan's derivative positions as at 31 March 2020, split by counterparty and type of derivative. The values quoted are based on mid prices. All derivative positions are fully collateralised on a daily basis.

Counterparty	Repurchase agreements £'000	Credit default swaps £'000	Interest rate swaps £'000	Inflation swaps £'000	Total £'000
Central Clearing - HSBC	-	-	0.2	1.6	1.8
Lloyds	(2.5)	-	-	-	(2.5)
Merrill Lynch	6.8	(4.8)	-	-	2.0
HSBC	(11.1)	-	-	-	(11.1)
	(6.8)	(4.8)	0.2	1.6	(9.8)

In addition, for the repurchase agreements, the Plan has received collateral in the form of bonds from counterparties. This collateral is not recognised as an asset of the Plan as it does not have the economic benefits of the collateral. As at 31 March 2020, the value of such collateral was £11,851,178 (2019: £44,566,000).

16. Other investment balances

The other investment balances held by the Plan at the year-end are as follows:

Investment assets	2020 £'000	2019 £'000
Interest receivable – bonds	7,114	7,179
Dividends receivable	8	35
Pending sales	3,600	-
Reverse repurchase agreements	62,301	279,144
	73,023	286,358

Investment liabilities	2020 £'000	2019 £'000
Repurchase agreements	(799,276)	(1,110,238)
Pending purchases	(5,626)	-
Other investment balances	(1,258)	(820)
	(806,160)	(1,111,058)
Net other investment balances	(733,137)	(824,700)

Notes to the Financial Statements (Cont)

17. AVC investments

The Trustee holds assets invested separately from the main Plan investments to secure additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement made up to the Plan year-end confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2020	2019
	£'000	£'000
Clerical Medical (unitised)	191	207
Royal London (with-profits)	263	252
Standard Life (unitised)	105	106
Phoenix (with-profits)	13	13
Prudential (with-profits)	141	137
	713	715

18. Fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Plan's investment assets and liabilities fall within the above hierarchy levels as follows:

		As at 31 March 2020		
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Bonds	-	2,114,923	-	2,114,923
Pooled investment vehicles	-	312,916	21,325	334,241
Derivatives	-	(9,957)	-	(9,957)
AVC investments	-	-	713	713
Cash	25,437	-	-	25,437
Other investment balances	(733,137)	-	-	(733,137)
	(707,700)	2,417,882	22,038	1,732,220

		As at 31 March 2019		
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Bonds	-	2,007,868	-	2,007,868
Pooled investment vehicles	-	369,155	12,338	381,493
Derivatives	-	(1,701)	127,567	125,866
AVC investments	-	-	715	715
Cash	18,600	-	419	19,079
Other investment balances	(824,700)	-	-	(824,700)
	(806,040)	2,375,322	141,039	1,710,321

Notes to the Financial Statements (Cont)

19. Investment risk disclosures

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in foreign exchange rates
- Interest rate risk: this is the risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market interest rates
- Other price risk: this is the risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines their investment strategy after taking advice from a professional investment adviser. The Plan has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Plan.

Investment strategy

The investment objective of the Trustee is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Plan payable under the Trust Deed and Rules as they fall due.

The Trustee sets the investment strategy for the Plan taking into account considerations such as the strength of the employer covenant, the long-term liabilities of the Plan and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

The current strategy is to hold:

- 50% in investments that move in line with the long term liabilities of the Plan. This is referred to as Liability Driven Investment LDI and comprises UK government bonds, interest rate swaps and inflation swaps, the purpose of which is to hedge against the impact of interest rate and inflation movement on long term liabilities.
- 50% in return seeking investments comprising exposure to equity and credit markets through a combination of physical assets and derivatives and direct investment in property, asset backed securities, global high yield credit and secured loans.

Credit risk

The Plan is subject to credit risk as it invests in bonds, OTC derivatives, asset backed securities and has cash balances. The Plan also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

A summary of exposure to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

Analysis of direct credit risk

As at 31 March 2020	Investment Grade £'000	Non-Investment Grade £'000	Unrated £'000	Total £'000
Bonds	1,889,156	-	-	1,889,156
OTC Derivatives (assets)	11,114	-	-	11,114
Asset backed securities	225,767	-	-	225,767
Cash	25,437	-	-	25,437
Pooled investment vehicles	-	-	334,241	334,241
	2,151,474	-	334,241	2,485,715

As at 31 March 2019	Investment Grade £'000	Non-Investment Grade £'000	Unrated £'000	Total £'000
Bonds	1,772,792	-	-	1,772,792
OTC Derivatives (assets)	685,851	-	-	685,851
Asset backed securities	235,076	-	-	235,076
Cash	19,079	-	-	19,079
Pooled investment vehicles	-	-	381,493	381,493
	2,712,798	-	381,493	3,094,291

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. This is the position at the year-end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Plan is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 15). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade.

Cash is held within financial institutions which are at least investment grade credit rated.

The Plan's holdings in pooled investment vehicles are primarily investment grade and non-investment grade with the exception of the Plan's European Property investments which are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2020 £'000	2019 £'000
Authorised unit trusts	40	4,112
Open ended investment companies	334,201	377,381
	334,241	381,493

Indirect credit risk arises in relation to the underlying investments of pooled investment vehicles. This risk is mitigated by ensuring the investment manager diversifies the portfolio to minimise the impact of default by any one issuer.

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

1. Currency Risks

The Plan is subject to currency risk because some of the Plan's investments are held in overseas markets, either as segregated investments or through pooled investment vehicles. The Plan limits overseas currency exposure through a currency hedging policy using forward foreign currency contracts.

31 March 2020	Gross Exposure £'000	Hedged Exposure £'000	Net Unhedged Exposure £'000
Euro	217,986	212,079	5,907
US Dollar	193,350	190,121	3,229
Other	6,907	7,336	(429)
	418,243	409,536	8,707

31 March 2019	Gross Exposure £'000	Hedged Exposure £'000	Net Unhedged Exposure £'000
Euro	266,750	250,458	16,292
US Dollar	190,098	190,661	(563)
Other	11,735	11,591	129
	468,583	452,710	15,858

2. Interest rate risk

The Plan is subject to interest rate risk because some of the Plan's investments are held in bonds, interest rate swaps and cash. Under the Plan's LDI strategy, if interest rates fall, the value of the LDI investments will rise to help match the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year-end the LDI portfolio comprised:

	2020 £'000	2019 £'000
Direct		
Bonds	1,889,156	1,772,792
Swaps	(2,428)	(1,702)
Indirect		
Cash PIV	8,720	16,229
	1,895,448	1,787,319

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

3. Other price risk

Other price risk arises principally in relation to the Plan's return seeking portfolio which includes exposure to equities (through the use of derivatives) and investment properties.

The Plan manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets. Equity risk is managed through the use of derivative collars to limit the volatility associated with equity investments.

At the year-end, the Plan's exposure to investments subject to other price risk was:

	2020	2019
	£'000	£'000
Direct		
Equity derivative contracts	-	113,137
Indirect		
European property PIV's	40	220
	40	113,357

20. Concentration of investments

The following investments each account for more than 5% of the Plan's net assets at the year-end:

	2020		2019	
	£	%	£	%
Babson Global Multi-credit Strategy Fund	157,317	9.1	184,068	10.8
M&G Versatile European Loan Fund	124,193	7.1	141,307	8.3
Equity Options	-	-	113,137	6.6
Repurchase agreement 0.980% 18 Mar-2020	-	-	(101,830)	(6.0)
Repurchase agreement 1.010% 19-Feb-2020	-	-	(132,474)	(7.8)
Repurchase agreement 0.800% 17 Feb-2021	(116,264)	(6.7)	-	-
Repurchase agreement 0.515% 17 Jun-2020	(101,160)	(5.8)	-	-
Repurchase agreement 0.810% 19 Aug-2020	(98,536)	(5.7)	-	-

21. Current assets

	2020	2019
	£'000	£'000
Cash at Bank	11,305	3,954
Administration VAT receivable	125	40
Contributions due	-	92
Other debtors	4	-
	11,434	4,086

22. Current liabilities

	2020	2019
	£'000	£'000
Unpaid benefits	(2,626)	(218)
Advisers' fees payable	(1,485)	(2,607)
Other creditors	(1,703)	(1,703)
	(5,814)	(4,528)

Notes to the Financial Statements (Cont)

23. Covid-19

The scale and spread of Covid-19 (Coronavirus) virus worldwide, and the actions taken by governments in response, have caused and will likely continue to cause disruption to almost all sectors and financial markets. As a result, there has been a dramatic downturn in many global markets accompanied by volatile, but generally falling, government bond yields. However, the Plan is significantly hedged against interest rate and inflation movements and has only indirect equity exposures, and the Trustee directors are pleased to note that the funding level in the Plan has been relatively stable. The Trustee continues to monitor the situation and will respond as appropriate to emerging issues. The Trustee regards the impact of Covid-19 as a non-adjusting subsequent event. No adjustments have been necessary and none have been made to the financial statements as at 31 March 2020.

24. Contingent Liability – GMP Equalisation

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The Trustee of the Plan is aware that the issue will affect the Plan and will be considering this at a future meeting and decisions will be made as to the next steps. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

25. Related party transactions

Transactions with related parties of the Plan have been disclosed in the annual report as follows:

- During the year £1,200 (2019: £12,786) was paid to JMRC Pensions Limited in respect of fees for the Independent Trustee Director.
- During the year £36,792 (2019: £21,248) was paid to Ross Russell Limited in respect of fees for the Independent Trustee Director.
- £405,764 (2019: £287,411) was reimbursed to ZF Automotive UK Limited in respect of costs incurred directly in relation to the internal Pensions Administration Department.
- One of the Trustee Directors is in receipt of a pension from the Plan.
- The spouse of one of the Trustee Directors is a member of the Plan.

All of the above transactions were made in accordance with the Plan Rules.

26. Employer-related investments

There were no direct employer-related investments at the year-end. Any potential indirect employer-related investment through pooled investment vehicles is unintentional and would represent a trivial amount of Plan net assets.

Certificate of Adequacy of Contributions

ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS AS REQUIRED BY REGULATION 10(6) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005

Name of scheme: ZF UK Pension Plan (formerly known as the TRW Pension Plan)

ADEQUACY OF RATES OF CONTRIBUTIONS

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

ADHERENCE TO STATEMENT OF FUNDING PRINCIPLES

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 23 May 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the plan's liabilities by the purchase of annuities, if the plan were to be wound up.

Signature	
Date	23 May 2019
Name	Richard Shackleton
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	One London Wall, London, EC2Y 5EA

Schedule of Contributions

ZF UK Pension Plan

Schedule of Contributions

Period of Schedule: 5 years from 23 May 2019 (or until such time as a revised Schedule of Contributions is agreed)

Under Section 227 of the Pensions Act 2004, the Trustee of the ZF UK Pension Plan (formerly known as the TRW Pension Plan) ('the Plan') must put in place a Schedule of Contributions which is certified by the Scheme Actuary. This is the required Schedule of Contributions. The Scheme Actuary's certification is included in the appendix.

This schedule replaces the previous schedule which came into effect on 1 January 2019.

This schedule has been prepared with the agreement of TRW Limited and after taking the advice of Richard Shackleton (the 'Scheme Actuary'). TRW Limited has been nominated as the employer representative to act on behalf of all participating employers in the Plan for scheme funding purposes. The participating employers are TRW Limited, ZF Services UK Limited and ZF Lemforder UK Limited ('the employers').

This schedule will take effect from 23 May 2019 and will be in force for a period of five years or until such time as a revised Schedule of Contributions is agreed.

The Plan is closed to future accrual and so there are no members' contributions or employer contributions to cover the accrual of new benefits.

The Plan was over 100% funded on its Technical Provisions basis as at 31 March 2018. Consequently no employer contributions are required in respect of the Technical Provisions position.

Employee contributions

No employee contributions are required under the Rules of the Plan.

Employer contributions: ordinary

No ordinary employer contributions are required.

Employer Contributions: ZF Services contributions stemming from merger

Up until 30 June 2019, ZF Services UK Limited will continue to pay contributions of £91,667 per month.

These contributions shall fall due to be paid not later than 19 days after the end of the calendar month to which they relate.

Employer Contributions: Additional

In addition, the employers will:

1. Commence (or recommence) paying monthly contributions of £2.5 million per month to the Plan in the month immediately following the event that the funding level of the Plan, calculated on the Conservative Basis[1], has been less than 99% for any three consecutive month ends[2];

2. Once contributions have commenced under 1. above, cease paying monthly contributions of £2.5 million per month to the Plan with effect from the month immediately following the event that the funding level of the Plan, calculated on the Conservative Basis, has exceeded 101% for three consecutive month ends.

Monthly contributions may commence and cease multiple times.

Under the rules of the Plan, TRW Lucasvarity Limited as principal employer of the Plan shall at its sole discretion determine how the liability to pay such contributions shall be allocated between the employers having regard to the need to enable the Trustee to provide the benefits under the Plan and to preserve the solvency of the Plan (provided that the principal employer must allocate the full amount of such contributions and where there is no principal employer or the principal employer is unable to allocate the liability to pay such contributions, the power to do so shall be exercisable by the Trustee alone).

If monthly employer contributions are due to commence or cease the Scheme Actuary will inform the Secretary to the Trustee who will inform the employers. The Scheme Actuary will provide such confirmation as soon as practical following the month end at which contributions are due to commence or cease.

All employer contributions shall fall due to be paid not later than 19 days after the end of the calendar month to which they relate or, if later, no later than 19 days after the end of the calendar month in which the Secretary to the Trustee informs the employers that contributions are due to commence.

The employers shall also pay to the Plan any additional employer contributions required from time-to-time on the advice of the Scheme Actuary in respect of augmentations or discretionary benefits, as required from time to time under the Plan's trust deed and rules.

Expenses, Levies and Fees

The employers' contributions include all expenses, levies (including the Pension Protection Fund[3] and fees in connection with the Plan.

1 the Technical Provisions basis adjusted to incorporate a discount rate equal to the market implied gilt curve plus 0.85% pa.
2 assessed at the end of each month based on the monthly funding updates provided to the Trustee by the Scheme Actuary.
3 The most recent PPF levy was less than £30,000.

Prepared by the Trustee of the Plan

Print name	Stephen Batterbee on behalf of TRW Pensions Trust Limited
Position	Chairman
Date	23 May 2019

Agreed by the employer

Print name	Julia Braithwaite on behalf of TRW Limited for the employers
Position	Director
Date	23 May 2019

Statement of Investment Principles

Introduction

This statement sets out the principles, which the Trustee of the ZF UK Pension Plan will follow in determining its investment policy for the purposes of the Plan. It has been prepared in accordance with the requirements of Section 35 of the Pensions Act 1995 as amended and the Occupational Pension Schemes (Investment) Regulations 2005 as amended. The statement is subject to periodic review by the Trustee, at least every three years and as soon as practicable following any significant changes in investment policy.

This revised statement was approved at a meeting of the Trustee Board held on 8 October 2020. The Principal Employer has been consulted. The investment principles set out in this statement will be reviewed periodically and revised as necessary. Prior to the preparation of this statement the Trustee has obtained and considered written advice from its appointed Investment Adviser, Hymans Robertson LLP, which is qualified to provide such advice.

Fund Managers

The Trustee does not take day to day investment decisions; the Board considers investment management to be a specialist activity that is most appropriately undertaken by professional managers. It has delegated responsibility for the selection and management of the Plan's assets to the following professional investment managers:

Liability Driven Investment Manager

- Legal & General Investment Management - equity and credit derivatives, interest rate and inflation hedging instruments and repurchase agreements, and cash instruments.

Credit Investment Managers

- M&G Investment Management – asset backed securities and secured loans.
- Barings – global high yield credit and private lending.
- Schroders – fixed income.
- Arcmont – private lending.

Property Managers

- CBRE Global Investors – indirect European property

Additional Voluntary Contribution (AVC) Managers

- Phoenix Life – Insured Additional Voluntary Contributions
- Clerical Medical – Insured Additional Voluntary Contributions
- Royal London – Insured Additional Voluntary Contributions
- Standard Life – Insured Additional Voluntary Contributions
- Prudential – Insured Additional Voluntary Contributions

All the above organisations are regulated by either or both of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). They are all authorised under the Financial Services and Markets Act 2000 (as amended) to undertake investment business. The appointments are reviewed periodically.

The appointed investment managers are responsible for the day to day investment of their mandates (including the treatment of income) and are responsible for investing additional funds allocated to them or for disinvesting assets as required. In addition, they are responsible for maintaining suitably diversified portfolios.

The AVC managers are responsible for the investment of external AVC's. These were the appointed managers of legacy pension arrangements.

Investment Adviser

The Trustee has appointed an Investment Adviser, Hymans Robertson LLP, to assist it in determining and reviewing its ongoing investment policy. The Investment Adviser provides routine advice on the suitability of the Trustee's investments relative to its liabilities, and also assists the Trustee in reviewing the performance of its investment managers. This is a separate appointment to that of Hymans Robertson LLP as actuaries to the Plan.

The Board has appointed an Investment Sub-Committee (ISC), which is chaired by the Independent Trustee. The ISC comprises representatives from:

- The Trustee Board
- The Company
- The Plan Secretary

In addition the Investment Adviser and the Company's investment advisers will be invited to attend meetings of the ISC.

The role of the ISC is to conduct in-depth research on investment strategies and to advise the Trustee on both its investment objectives and the strategies to achieve them. In addition, the ISC may exercise discretion over investment decisions that have been delegated to it by the Trustee.

The Trustee has appointed Hymans Robertson LLP to provide quantitative analysis of the Plan's assets and liabilities. The analysis is used by the ISC to monitor the performance of the Trustee's investment strategy, model the effect of proposed investment strategies and highlight risks.

Investment objectives

The Trustee's investment objectives are:

- To retain sufficient long-term, risk controlled exposure to investment markets to help restore over time the Plan to a funding level of self-sufficiency.

- To achieve a rate of return from the assets of the Plan that is in excess of the movement in the Plan's liabilities by a combination of exposure to assets that may include:

    - Equity risk
    - Credit risk
    - Interest rate and inflation risk
    - Alternative asset classes (e.g. property, infrastructure) risk
    - Illiquidity and other market risks

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of the Plan's benefits as set out in the Plan's Trust Deed and Rules.

- To reduce the level of investment risk over time in order to lock in improvements in the Plan's funding position and to limit the risk of the assets failing to meet the liabilities over the long term.

The kind and balance of investments

The Trustee recognizes the long-term nature of its liability profile and appoints its collective managers to invest in a manner commensurate with generating long-term sustainable returns. The Trustee carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the asset class in which they invest and the Plan's objectives.

The Trustee, acting on the advice of its ISC, its Investment Adviser and the Plan's actuaries have put in place an investment structure whereby the Plan's liabilities determine the type of assets held by the Plan. This approach to investments is called 'liability driven investment' (LDI).

The central features of this strategy are as follows:

- To control the interest rate and inflation risk inherent in the Plan's liabilities by the implementation of swap contracts and repurchase agreements.

- To retain, as required, any exposure to credit markets through a combination of physical assets and derivatives.

- The controlled use of derivatives to increase the yield on the Plan's physical assets by taking credit risk.

- On an ongoing basis, approximately 50% of the Plan's physical assets are designed to support the LDI strategy, including:

    - Gilts
    - Index-linked Gilts
    - Repurchase agreements
    - Cash
- The remainder of the Plan's physical assets are a combination of:

- o Property
- o Asset backed securities
- o Secured loans
- o Global high yield credit and other fixed income
- o Private lending

In addition, the Trustee holds some cash in a liquidity fund to meet ongoing benefit and expenditure payments from the Plan. This cash will be topped up from time to time, as required. The Trustee considers the investments to be suitable to the Plan's stated objectives.

The asset allocation is monitored on a quarterly basis relative to an agreed target allocation. The Trustees have an informal threshold deviation of +/- 5% at asset class level with the exception of mandates currently being funded (such as private lending), with consideration of any rebalancing on a discretionary basis.

Risk

The Board recognises that the funding position of the Plan will be improved by a combination of investment returns and support from the Company. It, therefore, continues to take investment risk, in order to target long term outperformance relative to its liabilities.

An outline of the Board’s attitude to risk is as follows:

- It considers interest and inflation risks to be so significant it has introduced an LDI strategy to limit its exposure in these areas. The investment manager responsible for implementing the LDI strategy is Legal & General Investment Management.

- The LDI investment manager is required to ensure suitable liquidity of assets for funding benefit payments and that there are sufficient assets, both in terms of liquidity and eligibility, to act as collateral for the Plan’s derivatives obligations.

- The LDI assets have been so structured to manage counterparty risk to provide a level of protection against failure of any derivative counterparty. There are four main components to this counterparty risk protection:

  - o Counterparties are limited to financial institutions on Legal & General Investment Management’s approved panel.
  - o All derivatives are marked to market, with collateral posted on a daily basis.
  - o In order to manage the risk of any counterparty concentration, the underlying assets are structured to provide a measure of protection in the event of counterparty failure.
  - o The ISC regularly reviews reports by Legal & General Investment Management on the risks associated with posting collateral to counterparties with a view to limiting exposures to counterparties whose credit quality may be deteriorating.

- The Board will take account of Environmental, Social and Governance issues, including climate change, when considering the appropriate investment strategy for the Plan.

- In order to further control risk the Trustee has imposed the following restrictions:

  - o Stock Lending is only permitted in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.
  - o Constraints are placed on the use of derivatives, which may not be used for speculative purposes.

- o Certain types of investment are not permitted. These include commodities, works of art and precious metals.

Target Return on Investments

In the long term the LDI investment strategy is expected to deliver a return which either matches or exceeds the real rate of return assumed by the Plan's actuaries in assessing the funding of the Plan.

The Trustee will monitor the returns of each fund manager and asset class against an appropriate benchmark. Where appropriate, the individual benchmarks will be constructed using data provided by external index providers and will be independently verified by a recognised pension fund performance measurement company on behalf of the Trustee.

Monitoring is carried out on a quarterly basis and the Trustee considers performance over different time periods including a long-term time horizon. The Trustee seeks to understand the reason for any significant deviations away from benchmark or target.

The managers' target returns and index benchmarks are as follows:

Manager/Asset class	Index	Target return over the index (p.a.)
Legal & General Investment Management		
LDI assets	Liability benchmark and credit benchmark	0.25%
CBRE Investors		
Property	Retail Prices Index	5%
M&G Investment Management		
Asset backed securities	LIBOR (3 month)	2.5%
Secured loans	LIBOR (3 month)	4%
Barings		
Global high yield credit	LIBOR (3 month)	5%
Private Lending	LIBOR (3 month)	4%
Schroders		
Fixed income	LIBOR (3 month)	3.5%
Arcmont		
Private Lending	LIBOR (3 month)	4%

The target returns are goals and the investment managers do not guarantee they will be achieved. The target returns are not necessarily reflective of the Trustees' expected return from each asset class which is reviewed by on current market conditions on at least a quarterly basis.

Mandates to the Investment Managers

The Trustee has appointed each of its investment managers to deliver a specific benchmark or performance target, which overall will align to deliver the broader Plan investment strategy and long-term investment objectives. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters. The Trustee will consider terminating the mandate if the manager fails to conform to the mandate set by the Trustee or to deliver performance in line with its objectives over the relevant time horizon.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Plan. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure they are appropriate for the needs of the Plan.

The Board has explicit written mandates with its investment managers. The managers are to invest the assets in accordance with the asset allocation benchmark and the Board's guidelines on risk control.

The duration of each mandate is determined by the Trustee at inception of the mandate. For segregated and open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the minimum period over which the Trustee considers performance of the mandate can be properly evaluated, although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For closed-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee has expectations of the level of turnover within each mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report at least annually on the underlying assets held within the portfolio and details of any transactions over the period.
The Trustee will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. The Trustee will request turnover costs incurred by the asset manager over the Plan reporting year.

Investment Management Fees

The basis of fees agreed with Legal & General Investment Management in respect of the majority of the Plan assets is a fee defined as a percentage of the notional exposure plus a capped performance fee which, if applicable, varies based on excess performance and the level of assets.

The fee structure for the two private lending mandates is in two parts; a base management fee based on invested capital and a performance fee over a pre-specified hurdle.

The basis of fees agreed with the other investment managers is a percentage of the value of the portfolio controlled by the manager. This fee structure was chosen in order to compensate the manager appropriately in relation to the work undertaken on behalf of the Trustee.

The charging structures of the managers responsible for external AVC's are built into the historical group policy terms for each arrangement, and are reflected in the value of individual members' AVC accounts.

Realisation of Investments

The majority of the Plan's assets are directly or indirectly invested in securities traded on major recognised investment exchanges. These investments can therefore 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 the majority of foreseeable circumstances without realising the assets that cover derivatives. The Trustee's advisers monitor cash flow requirements explicitly using liquidity projections.

Statutory Funding Objective

In arriving at its investment principles account has been taken by the Trustee of the liabilities of the Plan in respect of pensioners and deferred pensioners together with the Plan's funding position. This has been done in relationship to the Plan's Statutory Funding Objective, which is that the Plan must have 'sufficient and appropriate' assets to cover the expected cost of providing members' past service benefits.

Details of the Plan's Statutory Funding Objective and its policy for securing that the objective will be met along with the Plan's funding method and actuarial assumptions are contained in the Plan's Statement of Funding Principles. The Plan's latest Statement of Funding Principles was agreed as part of its triennial actuarial valuation on 31 March 2018 and is available from the Trustee Secretary or via the Plan's website www.trwpensions.co.uk.

Responsible Investment

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

The Trustee considers strategies that provide a greater probability of delivering sustainable and predictable returns as likely to be most suitable, and this is reflected in the Trustee's approach to Responsible Investment.

The strategic asset allocation has been determined using appropriate economic and financial assumptions for different asset classes. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors. The Trustee recognises that climate change could pose systemic risks which could in turn affect the returns achieved from the investment strategy.

The Trustee has not at this stage made explicit allowance for climate change in framing its strategic asset allocation, although this will be reviewed periodically. Instead, the Trustee does expect the active managers to take into account all financially material factors, including climate change, in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

In appointing new active managers, the Trustee will explicitly consider the managers' ability to integrate the consideration of ESG factors within their investment process. The Trustee will also periodically review their investment managers and seek evidence that managers are meeting the Trustee's expectations.

In passive mandates, including derivative based mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the market and believes this approach is in line with the basis on which their current strategy has been set. The Trustee will review periodically the index benchmarks employed.

The Trustee has not imposed any constraints on the investment arrangements or managers employed relating to non-financial factors.

Stewardship & Engagement

The Trustee believes good management of companies should lead to more sustainable and predictable returns. The Plan no longer has any significant investments in company shares. In any event, 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 investment managers provide reports on any votes cast to the Trustee on a quarterly basis. When appointing new managers, the Trustee will consider the managers' approach to voting and engagement.

The Trustee does not engage directly but believes it is appropriate for its investment managers to engage with key stakeholders, which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

As previously stated, responsibility for the day-to-day investment decisions and their execution has been delegated to investment managers, which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and will ensure that each manager has an appropriate conflicts of interest policy in place.

Custodian

The segregated assets of the Plan are held by the Trustee's appointed custodian, Bank of New York Mellon, and are under the control of the Trustee. The appointment is reviewed periodically.