ZF UK Pension Plan

(Plan Registration Number 12009911)

Annual Report For The Year Ended
31 March 2022

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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 2022.

The Plan was established and governed by a Trust Deed dated 6 August 2014 and subsequent amendments. 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. All sections of the Plan were closed to any future accrual from 30 January 2019.

With effect from 30 September 2022 all of the assets and liabilities of the WABCO Automotive UK Limited Pension Scheme were transferred into the Plan.

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

Management of the Plan

The Plan has a corporate Trustee, ZF UK Pensions Trust Limited. The names of the Directors during the year, are as follows:

Name	Nominated/appointed by	Date of resignation
Mr S Batterbee (Chairman)	Employer	
Mr P Birkett	Members	
Ms J Braithwaite	Employer	30 October 2021
Mr G Henman	Employer	
Mr R Hines	Members	
Mr P Lakie	Employer	14 October 2022
Mrs N Loomes	Employer	
Mr J Simmons	Members	
Ross Russell Ltd	Employer	6 October 2022

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 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's Report (Cont)

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 three directors, one of whom must be a member nominated 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

A Deed of Amendment was signed in June 2021 to allow certain members to have the option of taking retirement benefits while being employed.

The Principal Employer

The Principal Employer is ZF Pension Sponsor UK 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, 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
Advising Actuaries	Hymans Robertson LLP
Administrator of the Plan benefits	Barnett Waddingham
Legal Advisers	Travers Smith LLP
Independent Auditor	KPMG LLP (to 1 November 2021) Crowe U.K. LLP (appointed 9 November 2021)
Investment Managers	Arcmont Asset Management Barings Global Investment Funds Plc CBRE Global Investors Legal & General Investment Management M&G Investments Schroder Investment Management
Investment Adviser	Hymans Robertson LLP
Custodian of the Plan assets	Bank of New York Mellon
Investment Performance Measurement	Mellon Analytics
Bankers	Lloyds Bank Plc
Medical Adviser	Health Management Limited
Secretary to the Trustee	Mr A Saker

Changes in and other matters relating to Plan advisers

KPMG LLP resigned as Plan auditor with effect from 1 November 2021. KPMG LLP confirmed there were no circumstances connected to their resignation which significantly affects the interest of members, prospective members, or beneficiaries of the Plan. The Trustee appointed Crowe U.K. LLP as auditor to the Plan with effect from 9 November 2021.

There have been no changes to Plan advisers and other matters during the Plan year under review.

Financial development of the Plan

During the year the value of the net assets decreased by £58,242,000 to £1,615,924,000 as at 31 March 2022. The decrease comprised net withdrawals from dealings with members of £66,581,000 together with a net increase from the return on investments of £8,339,000.

The Trustee's Report (Cont)

Plan Audit

The financial statements on pages 22 to 36 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	8,143		
Late notifications		(10)	
Transferred out		(146)	
Retired		(338)	
Retired (small pensions paid as a lump sum)		(4)	
Died		(24)	
			7,621
Pensioners and dependants	4,019		
Late notifications		4	
New pensioners		338	
Small pensions paid as a lump sum		(3)	
Dependant ceased		(15)	
New dependant		42	
Died		(212)	
			4,173
	12,162		**11,794**

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.

The Trustee's Report (Cont)

Pension increases

The increases to pensions from 1 April 2022 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	5.5% (1)
	Temporary and Early Retirement Allowance	3.1% (2)
Steering Systems and UK (leavers pre 1 January 1986)	All pension	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	5.0% (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	5.0% (3)
	Pension accrued post 5 April 2009	5.0% (4)
ZF Lemforder	Pension accrued pre 6 April 2009	3.1% (5)
	Pension accrued post 5 April 2009	3.1% (6)
ZF Great Britain	Pension accrued pre 6 April 2009	3.1% (5)
	Pension accrued post 5 April 2009	3.1% (6)

Notes:

(1) Annual CPI increase (January 2022) up to a maximum of 7%
(2) Annual CPI increase (September 2021)
(3) Annual CPI increase (January 2022) up to a maximum of 5%
(4) Annual CPI increase (January 2022) up to a maximum of 2.5%
(5) The Occupational Pensions (Revaluation) Order – Higher revaluation percentage
(6) The Occupational Pensions (Revaluation) Order – Lower 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	5.5% (1)
	Temporary pensions	3.1% (2)
SRBS A, C, A (57.5), and C (57.5)	All pension	5.5% (1)
	Temporary pensions	3.1% (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	5.0% (4)
UK	Pension in excess of GMPs	5.0% (4)
100ths (2004), and SRBS A (2004)	Pension accrued pre 6 April 2005	5.0% (5)
	Pension accrued post 5 April 2005	2.5% (6)
	Temporary pensions	3.1% (2)
100ths (2006)	All pension	2.5% (6)
	Temporary pensions	3.1% (2)
ZF Lemforder (increases applied with effect from 1 April 2022)	Pension in excess of GMP accrued pre 6 April 2006	5.0% (7)
	Pension in excess of GMP accrued post 5 April 2006	2.5% (8)
ZF Great Britain (increases applied with effect from 1 January 2021)	Pension in excess of GMP accrued pre 1 July 2001 and pension accrued from 1 April 2005 to 5 April 2006	5.0% (9)
	Pension accrued from 1 July 2001 to 31 March 2005	5.0% (10)
	Pension accrued post 6 April 2006	3.0% (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		3.0% (13)

Notes:

(1) Annual increase in CPI (January 2022) up to a maximum of 7%
(2) Annual increase in CPI (September 2021)
(3) Fixed 2.5% a year
(4) Annual increase in RPI (January 2022) up to a maximum of 5%
(5) Annual increase in CPI (January 2022) up to a maximum of 5%
(6) Annual increase in CPI (January 2022) up to a maximum of 2.5%
(7) Annual increase in RPI (October 2021) up to a maximum of 5%
(8) Annual increase in RPI (October 2021) up to a maximum of 2.5%
(9) Fixed 5% a year
(10) Annual increase in RPI (September 2021) up to a maximum of 7% and a minimum of 5%
(11) Annual increase in RPI (September 2021) up to a maximum of 3%
(12) All increases are provided by the State
(13) Annual increase in CPI (September 2021) 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 ended 31 March 2022 for the plan is 0.3% (2021: 0.5%).

For those who retire, die or transfer their AVCs in the year ended 31 March 2022, 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 2021 was 10.3%.

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

Under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 regulations,. pension scheme trustee are 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 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:

https://www.thepensionsregulator.gov.uk/en/trustees/contributions-data-and-transfers/record-keeping

The Trustee's Report (Cont)

GMP equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment 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 judgment 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.

On 20 November 2020, the High Court handed down a further judgment on the GMP equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that defined benefit schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Plan has experienced historical transfers out which will be subject to adjustment as a result of this second ruling. The Trustee will be considering this at a future meeting and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the financial statements in future years.

At the date of signing these financial statements, it is not possible to estimate the value of any such adjustments at this time. The Trustee does not consider the adjustments will be material to the financial statements.

Further details are disclosed in Note 22 of the financial statements.

Covid-19 and other matters

Since March 2020, Covid-19 and other, more recent, geopolitical and economic issues, have had a profound effect on domestic and global economies, with disruption and volatility in the financial markets.

On 23 September 2022, announcements made in the Government's "mini-budget" led to uncertainty in the long-dated UK government bond ("gilt") market amid a huge demand for cash to support derivative structures like the Liability Driven Investment (LDI) structure adopted by the Trustee. The Bank of England eventually intervened in the market in order to "restore orderly market conditions", but in the interim the Trustee was required to take some action to restructure the Plan's investments in order to maintain appropriate collateral levels to support the LDI structure. The Trustee, in conjunction with its advisors, continues to monitor the situation closely and will determine any further actions that are considered to be necessary. The extent of the impact on the Plan's investment portfolio going forward is uncertain and cannot be predicted.

Since the year end, the value of the Plan's investment assets and investment liabilities have been impacted. Whilst the Trustee monitors the overall position, it has not, at this time, quantified the change in market value of investment assets and investment liabilities as the situation is fluid and unpredictable and therefore such an estimate cannot be made.

The Trustee's Report (Cont)

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

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
The Hub
Central Boulevard
Blythe Valley Park
Shirley
Solihull
B90 8BG

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 2021 and completed on 31 August 2022. A Schedule of Contributions for the Plan was signed on 31 August 2022, which took effect from 31 August 2022.

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

Statement of Trustee's responsibilities for the financial statements

The audited financial statements, which are required to be 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*, is the responsibility of the Trustee. Pension scheme regulations requires the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

(i) 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Plan, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which they should ensure is fair and impartial.

The Trustee is responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have 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.

The Trustee is responsible for the maintenance and integrity of the Plan and financial information included on the Plan's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 procuring that contributions are made to the Plan in accordance with the schedule.

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 2021. This showed that on that date:

The value of the Technical Provisions was:	£1,492 million
The value of the assets was:	£1,674 million

The next full actuarial valuation will be at 31 March 2024.

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 0.85% p.a. above the market implied gilt yield curve.
Discount rate after retirement:	Dependent on term and assumed to be 0.85% 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 up to 2030 and 0.0% p.a. lower thereafter.
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:	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. Future improvements in longevity will be assumed to be in line with the CMI 2020 model, with a long term rate of improvement of 1.5% for males and females.

The financial statements on pages 22 to 36 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)

Investment managers

As at 31 March 2022 the following investment managers were appointed by the Trustee:

- Arcmont Asset Management
- 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 2021 to 31 March 2022
Legal & General Investment Management	Investment Manager	1 January 2021 to 31 December 2021
CBRE Global Investors	Investment Manager	1 January 2021 to 31 December 2021
M&G Investments	Investment Manager	1 January 2021 to 31 December 2021
Barings Global Investment Funds Plc	Investment Manager	1 October 2020 to 30 September 2021
Schroder Investment Management	Investment Manager	1 January 2021 to 31 December 2021

The Trustee's 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

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 (£m	% of total net assets
UK Treasury	Fixed 4.250%	07/12/40	184.01	11.4
UK Treasury	Fixed 4.250%	07/12/49	179.43	11.1
UK Treasury	Indexed Linked 0.375%	22/03/62	101.40	6.3
UK Treasury	Indexed Linked 0.625%	22/11/42	85.89	5.3
UK Treasury	Indexed Linked 0.125%	22/03/46	85.73	5.3
UK Treasury	Indexed Linked 0.625%	22/03/40	81.02	5.0
UK Treasury	Indexed Linked 1.250%	22/11/55	74.08	4.6
UK Treasury	Indexed Linked 0.250%	22/03/52	71.77	4.4
UK Treasury	Fixed 1.750%	22/07/52	64.04	4.0
UK Treasury	Indexed Linked 0.125%	22/03/68	63.70	4.0
UK Treasury	Indexed Linked 0.500%	22/03/50	59.60	3.7
UK Treasury	Indexed Linked 0.750%	22/03/34	46.54	2.9
UK Treasury	Indexed Linked 0.125%	22/11/56	36.83	2.3
UK Treasury	Indexed Linked 0.125%	10/08/48	36.36	2.3
UK Treasury	Fixed 1.625%	22/10/71	29.71	1.8
UK Treasury	Fixed 2.000%	26/01/35	27.19	1.7
UK Treasury	Fixed 0.125%	22/03/58	24.66	1.5
UK Treasury	Fixed 0.875%	31/01/46	23.47	1.5
UK Treasury	Fixed 1.625%	22/10/54	21.94	1.6
UK Treasury	Indexed Linked 1.250%	22/03/51	21.25	1.3
			1,318.62	**82.0**

The Trustee's 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
- Target return on investments
- Mandates to the investment managers
- Investment management fees
- Realisation of investments
- Statutory funding objective
- Responsible investment
- Stewardship and engagement
- Custodian

The current statement, implemented from 7 October 2021, is included on pages 43 to 50. 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 2022, 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 ended 31 March 2022 is shown on the next page.

The Trustee's Report (Cont)

Asset performance	Liabilities measured on a Technical provisions basis	Liabilities measured on an Economic basis[1]
0.4%	0.5%	-1.1%

As a consequence of the Plan's asset and liability outperformance, the Plan's estimated funding position as at 31 March 2022 is:

Date	Funding position on a Technical Provisions basis	Funding position measured on an Economic basis
31 March 2022	112%	94%

[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 2021	Annual Return
Last Year	1.03%
Last 3 years	9.32%
Last 5 years	6.34%

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 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.

The Trustee’s Report (Cont)

Approval of Trustee's Report

This report was approved by the Trustee on

Date: 27 October 2022

Signed on behalf of the Trustee:

N Loomes	*J Simmons*
Director	Director

Summary of contributions payable in the year

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

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

Date: 27 October 2022

Signed on behalf of the Trustee:

N Loomes
Director

J Simmons
Director

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

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions to the ZF UK Pension Plan for the Plan year ended 31 March 2022, which is set out on page 17.

In our opinion contributions for the Plan year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 23 May 2019.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached 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.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Plan by or on behalf of the Employer and the active members of the Plan. 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.

Auditor's responsibilities for the statement about contributions

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

Use of our statement

This statement is made solely to the Plan's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. 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 opinion we have formed.

Crowe U.K. LLP
Statutory Auditor
Oldbury

Date: 27 October 2022

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 2022 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 2022, 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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, 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Plan's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 10, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for 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 the Trustee either intends to wind up the Plan or have no realistic alternative but to do so

Auditors' responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias
- Misappropriation of investment assets owned by the Plan. This is addressed by obtaining direct confirmation from the investment fund managers of investments held at the Statement of Net Assets date.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Use of our report

This report is made solely to the Plan's Trustee, as a body, in accordance with 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. Our audit work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to them 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 Plan's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP
Statutory Auditor
Oldbury

Date: 27 October 2022

The Financial Statements

Fund Account

for the year ended 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
Contributions and benefits			
Employer contributions	4	-	-
Total contributions		-	-
Other income	5	9	6
		9	6
Benefits paid or payable	6	(27,323)	(25,868)
Payments to and on account of leavers	7	(38,741)	(63,615)
Administrative expenses	8	(526)	(1,949)
		(66,590)	(91,432)
Net withdrawals from dealings with members		(66,581)	(91,426)
Returns on investments			
Investment income	9	34,978	33,206
Change in market value of investments	10	(23,866)	(3,085)
Investment management expenses	11	(2,773)	(2,369)
Net return on investments		8,339	27,752
Net decrease in the fund during the year		(58,242)	(63,674)
Net assets of the Plan			
At 1 April		1,674,166	1,737,840
At 31 March		1,615,924	1,674,166

The notes on pages 24 to 36 form part of these financial statements.

The Financial Statements (Cont)

Statement of Net Assets

available for benefits as at 31 March 2022

	Note	31 March 2022 £'000	*Restated 31 March 2021 £'000
Investment assets:			
Bonds	10	1,694,236	2,128,193
Pooled investment vehicles	13	592,564	499,966
Derivatives	14	13,251	12,292
Additional voluntary contributions	17	449	590
Reverse repurchase agreements	15	219,172	113,690
Cash	10	35,296	15,344
Other investment balances	16	5,750	26,091
		2,560,718	2,796,166
Investment liabilities:			
Derivatives	14	(27,863)	(10,934)
Repurchase agreements	15	(859,550)	(1,016,211)
Other investment balances	16	(66,116)	(101,220)
		(953,529)	(1,128,365)
Total net investments	10	1,607,189	1,667,801
Current assets	21	10,545	9,924
Current liabilities	22	(1,810)	(3,559)
Net assets of the Plan at 31 March available for benefits		1,615,924	1,674,166

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 24 to 36 form part of these financial statements.

*The comparative figures have been restated to reflect £68.3m of amounts due to counterparties that have been reclassified from bonds into other investment balances.

These financial statements were approved by the Trustee on

Date: 27 October 2022

Signed on behalf of the Trustee:

N Loomes	**J Simmons**
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).

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 Principal 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 the M&G European Loan Fund is accounted for when declared by the fund manager.
- Investment income arising from the underlying investments of the remaining 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".
- 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 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 2022, 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.
- 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

	2022	2021
	£'000	£'000
Employer contributions	-	-

The current Schedule of Contributions states that no contributions are due to the Plan.

5. Other income

	2022	2021
	£'000	£'000
Other	9	6

6. Benefits paid or payable

	2022	2021
	£'000	£'0000
Pensions	17,826	16,691
Commutation of pensions and lump sum retirement benefits	9,150	8,670
Lump sum death benefits	347	507
	27,323	25,868

7. Payments to and on account of leavers

	2022	2021
	£'000	£'000
Individual transfers to other schemes	38,741	63,615

8. Administrative expenses

	2022	2021
	£'000	£'000
Administration and processing	650	619
Actuarial fees	330	247
Audit fee	39	66
Website	7	4
Investment adviser fees	391	381
Consultancy fees	29	10
Legal and other professional fees	138	138
Medical fees	6	5
Financial advice	28	20
Trustee and Secretarial expenses	465	376
PPF Levy	72	64
Longevity analysis	10	10
Covenant review	64	9
Historical liability write off	(1,703)	-
	526	1,949

The Trustees have authorised a write-off of an historical liability amounting to £1,702,816 as it is no longer considered valid.

Notes to the Financial Statements (Cont)

9. Investment income

	2022 £'000	2021 £'000
Income from bonds	26,307	29,482
Income from pooled investment vehicles	9,503	6,375
Income from swaps	1,307	1,298
Annuity income	42	48
Interest on cash deposits	2	26
Net interest on repurchase agreements	(2,183)	(4,023)
	34,978	33,206

10. Reconciliation of investments

	*Restated: Value at 31 March 2021 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 31 March 2022 £'000
Bonds	2,128,193	554,660	(974,616)	(14,001)	1,694,236
Pooled investment vehicles	499,966	380,885	(290,106)	1,819	592,564
Derivatives	1,358	15,563	(19,947)	(11,586)	(14,612)
AVC investments	590	-	(171)	30	449
	2,630,107	951,108	(1,284,840)	(23,738)	2,272,637
Cash deposits	15,344			(128)	35,296
Repurchase agreements	(902,521)				(640,378)
Other investment balances	(75,129)				(60,366)
	1,667,801			(23,866)	1,607,189

*The comparative figures have been restated to reflect £68.3m of amounts due to counterparties that have been reclassified from bonds into other investment balances.

Cash deposits includes £1m (2021: £1m) of cash funds that have not been classified as pooled investment vehicles in line with historical treatment.

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	2022 Total £'000
Other	-	3		3

	Fees £'000	Commission £'000	Taxes £'000	2021 Total £'000
Other	-	5	-	5

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.

Notes to the Financial Statements (Cont)

11. Investment management expenses

	2022 £'000	2021 £'000
Non-Property Management Expenses		
Legal & General Investment Management	852	804
M&G Investments	1,016	878
Bank of New York Mellon	95	90
Schroders	138	103
Barings	665	463
Other	-	(144)
	2,766	2,194
Property Management Expenses		
CB Richard Ellis – UK Properties	7	175
	2,773	2,369

12. 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.

13. Pooled investment vehicles

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

	2022 £'000	2021 £'000
Loans Fund	143,799	145,329
Liquidity Fund	64,052	4,245
Multi-Credit Strategy Fund	223,401	219,139
Global Bond Fund	65,126	68,030
Senior Loan Fund	38,247	13,771
Property Unit Trusts	28	31
Private Lending Fund	57,911	49,421
	592,564	499,966

14. 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.

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

Notes to the Financial Statements (Cont)

14. Derivatives (Cont)

At the year end the Plan had the following derivatives:

	2022		2021	
	Asset £'000	Liability £'000	Asset £'000	Liability £'000
OTC Swaps	13,201	(26,065)	10,070	(10,795)
Forward FX contracts	50	(1,798)	2,222	(139)
	13,251	(27,863)	12,292	(10,934)

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	197,655	1 year +	-	(328)
Inflation swaps	177,615	1 year +	9,757	(600)
Zero coupon swaps	1,504,365	1 year +	3,444	(25,137)
Total 2022	1,879,635		13,201	(26,065)
Total 2021	455,622		10,070	(10,795)

At the Plan year end the counterparties had deposited £Nil (2021: £300,000) of cash collateral and the Scheme posted cash collateral amounting to £17,322,885 (2021: £3,422,963).

(2) Forward FX

Type	Notional amounts £'000	Duration	Asset value £'000	Liability value £'000
AUD/GBP	2,244	2 months	-	(163)
EUR/GBP	128,111	2-3 months	-	(1,371)
GBP/EUR	4,804	2 months	50	-
USD/GBP	8,480	2 months	-	(264)
Total 2022	143,639		50	(1,798)
Total 2021	147,176		2,222	(139)

15. Repurchase agreements

The Plan has entered into repurchase agreements using its UK government index linked securities as the underlying security. The Plan retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date.

The securities are included in the financial statements as assets of the Plan at their market value. At 31 March 2022 the market value of securities sold under repurchase agreements was £650,021k (2021: £899,108k).

Cash received from counterparties in respect of the securities that have been sold has been used by the Plan to increase its matching assets portfolio. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Plan's financial statements under investment liabilities. At 31 March 2022 this amounted to £859,550k (2021: £1,016,211k) excluding £1,479k (2021: £919k) of accrued interest.

Notes to the Financial Statements (Cont)

15. Repurchase agreements (Cont)

In addition, at 31 March 2022 there was collateral in the form of bonds pledged of £55,186k (2021: £73,747k) against the difference in valuation between the underlying securities and the repurchase agreements. The Plan also holds collateral in the form of bonds from counterparties. As at 31 March 2022, the value of such collateral was £2,012k (2021: £684k).

During the year the Scheme also entered into reverse repurchase agreements. At the year end amounts receivable under reverse repurchase agreements amounted to £219,172k (2021: £113,690k). Bonds with value of £59,172k (2021: £68,522k) are held as collateral under reverse repurchase agreements. These bonds are not recognised in the Plan's financial statements.

16. Other investment balances

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

	2022	2021
Investment assets	**£'000**	**£'000**
Interest receivable – bonds	5,511	7,290
Dividends receivable	5	2
Accrued interest on reverse repurchase agreements	234	-
Pending sales	-	18,799
	5,750	26,091

	2022	*Restated: 2021
Investment liabilities	**£'000**	**£'000**
Pending purchases	(4,055)	(31,964)
Accrued interest on repurchase agreements	(1,479)	(919)
Amounts due to counterparties	(60,582)	(68,337)
	(66,116)	(101,220)
Net other investment balances	(60,366)	(75,129)

*The comparative figures have been restated to reflect £68.3m of amounts due to counterparties that have been reclassified from bonds into other investment balances.

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:

	2022	2021
	£'000	**£'000**
Clerical Medical (unitised)	113	148
Royal London (with-profits)	153	210
Standard Life (unitised)	70	84
Phoenix (with-profits)	13	13
Prudential (with-profits)	100	135
	449	590

Notes to the Financial Statements (Cont)

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 2022			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	1,694,236	-	1,694,236
Pooled investment vehicles		496,378	96,186	592,564
Derivatives	-	(14,612)	-	(14,612)
AVC investments	-	183	266	449
Cash	35,296	-	-	35,296
Repurchase agreements	-	(640,378)	-	(640,378)
Other investment balances	4,271	(64,637)	-	(60,366)
	39,567	1,471,170	96,452	1,607,189

	*Restated: As at 31 March 2021			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	2,128,193	-	2,128,193
Pooled investment vehicles	-	436,743	63,223	499,966
Derivatives	-	1,358	-	1,358
AVC investments	-	232	358	590
Cash	15,344	-	-	15,344
Repurchase agreements	-	(902,521)	-	(902,521)
Other investment balances	6,373	(81,502)	-	(75,129)
	21,717	1,582,503	63,581	1,667,801

*The comparative figures have been restated to reflect £68.3m of amounts due to counterparties that have been reclassified from bonds into other investment balances. Additionally, the comparatives have also been restated to reflect unitised AVCs totalling £232k, repurchase agreements totalling (£902,521k) and net pending trades totalling £13,165k being reclassified to level 2 from level 1.

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.

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

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, repurchase agreements, 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:

Analysis of direct credit risk

As at 31 March 2022	Investment Grade £'000	Non-Investment Grade £'000	Unrated £'000	Total £'000
Bonds & asset backed securities	1,694,236	-	-	1,694,236
OTC Derivatives (assets)	13,251	-	-	13,251
Repurchase agreements	(640,378)	-	-	(640,378)
Cash	35,296	-	-	35,296
Pooled investment vehicles	-	-	592,564	592,564
	1,102,405	-	592,564	1,694,969

As at 31 March 2021	Investment Grade £'000	Non-Investment Grade £'000	Unrated £'000	Total £'000
Bonds & asset backed securities	2,128,193	-	-	2,128,193
OTC Derivatives (assets)	12,292	-	-	12,292
Repurchase agreements	(902,521)	-	-	(902,521)
Cash	15,344	-	-	15,344
Pooled investment vehicles	-	-	499,966	499,966
	1,253,308	-	499,966	1,753,274

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

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. The table above shows the position at the year-end.

Credit risks on cash lent to counterparties under a reverse repurchase agreement is mitigated by bonds held by the Scheme under these agreements as set in note 15. Credit risk on repurchase agreements is mitigated through use of a range of collateral arrangements as disclosed in note 15.

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 14). 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:

	2022	2021
	£'000	£'000
Authorised unit trusts	28	30
Open ended investment companies	592,536	499,936
	592,564	499,966

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.

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 2022	Gross Exposure	Hedged Exposure	Net Unhedged Exposure
	£'000	£'000	£'000
Euro	274,542	275,525	(983)
US Dollar	298,972	301,152	(2,180)
Other	4,799	4,747	52
	578,313	581,424	3,111

31 March 2021	Gross Exposure	Hedged Exposure	Net Unhedged Exposure
	£'000	£'000	£'000
Euro	272,846	272,622	224
US Dollar	296,505	298,381	(1,876)
Other	5,978	5,862	116
	575,329	576,865	(1,536)

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

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:

	2022	2021
	£'000	£'000
Direct		
Bonds	1,410,417	1,832,609
Swaps	(12,864)	(725)
Indirect		
Cash PIV	64,052	4,245
	1,461,605	1,836,129

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:

	2022	2021
	£'000	£'000
Indirect		
European property PIV's	28	30

20. Concentration of investments

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

	2022		2021	
	£	%	£	%
Barings Global Multi-credit Strategy Fund	223,401	13.8	219,139	13.1
M&G Versatile European Loan Fund	143,799	8.9	145,329	8.7
Forward FX Contract EUR/GBP 24 May 2021	-	-	122,209	7.3
Forward FX Contract EUR/GBP 24 May 2021	-	-	(120,093)	(7.2)
Repurchase agreement 0.270% 23 Jun-2021	-	-	(123,657)	(7.4)
Repurchase agreement 0.150% 16-Feb-2022	-	-	(109,816)	(6.6)
Repurchase agreement 0.170% 22 Jun-2021	(136,670)	(8.5)	-	-

21. Current assets

	2022	2021
	£'000	£'000
Cash at Bank	10,395	9,803
Administration VAT receivable	150	104
Other debtors	-	17
	10,545	9,924

Notes to the Financial Statements (Cont)

22. Current liabilities

	2022	2021
	£'000	£'000
Unpaid benefits	(676)	(755)
Advisers' fees payable	(1,134)	(1,101)
Other creditors	-	(1,703)
	(1,810)	(3,559)

23. Contingent Liability – GMP Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment 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 judgment 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.

On 20 November 2020, the High Court handed down a further judgment on the GMP equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that defined benefit schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Plan has experienced historical transfers out which will be subject to adjustment as a result of this second ruling. The Trustee will be considering this at a future meeting and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the financial statements in future years. At the date of signing these financial statements, it is not possible to estimate the value of any such adjustments at this time.

24. Related party transactions

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

- During the year £42,032 (2021: £30,272) was paid to Ross Russell Limited in respect of fees for the Independent Trustee Director.
- £442,507 (2021: £367,503) 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.

25. 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.

26. Capital commitments

As at 31 March 2022 the Plan had outstanding capital commitments with Arcmont Asset Management of £37.2m (2021: £61.2m) and Barings Global Investment Funds Plc of £16.2m (2021: £8.4m).

Notes to the Financial Statements (Cont)

27. Subsequent events

On 23 September 2022, announcements made in the Government's "mini-budget" led to uncertainty in the long-dated UK government bond ("gilt") market amid a huge demand for cash to support derivative structures like the Liability Driven Investment (LDI) structure adopted by the Trustee. The Bank of England eventually intervened in the market in order to "restore orderly market conditions", but in the interim the Trustee was required to take some action to restructure the Plan's investments in order to maintain appropriate collateral levels to support the LDI structure. The Trustee, in conjunction with its advisors, continues to monitor the situation closely and will determine any further actions that are considered to be necessary. The extent of the impact on the Plan's investment portfolio going forward is uncertain and cannot be predicted.

Since the year end, the value of the Plan's investment assets and investment liabilities have been impacted. Whilst the Trustee monitors the overall position, it has not, at this time, quantified the change in market value of investment assets and investment liabilities as the situation is fluid and unpredictable and therefore such an estimate cannot be made.

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

ADEQUACY OF RATES OF CONTRIBUTIONS

1. In my opinion, the contributions shown in this schedule are such that the statutory funding objective on 31 March 2021 can be expected to continue to be met for the period for which this schedule is to be in force.

   The contributions shown in this schedule are not lower than I would have set had I had responsibility for setting the schedule of contributions, the statement of funding principles and any recovery plan.

ADHERENCE TO STATEMENT OF FUNDING PRINCIPLES

2. In my opinion, this schedule of contributions is consistent with the statement of funding principles dated 31 August 2022.

Please note that the adequacy of contributions statement in this certificate relates to the plan's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the plan's full liabilities with annuities if the plan were to wind up.

Date	31 August 2022
Name	Matthew Davis FIA CERA
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 31 August 2022 (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 ('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 23 May 2019.

This schedule has been prepared with the agreement of ZF Pension Sponsor UK Limited and after taking the advice of Matthew Davis (the 'Scheme Actuary'). ZF Pension Sponsor UK 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 ZF Pension Sponsor UK Limited, ZF Automotive UK Limited, ZF Lemforder UK Limited and ZF Services UK Ltd ('the employers').

This schedule will take effect from 31 August 2022 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 2021. 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: 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 Technical Provisions Basis, has been less than 99% for any three consecutive month ends[1];

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 Technical Provisions Basis, has exceeded 101% for three consecutive month ends.

Monthly contributions may commence and cease multiple times.

Under the rules of the Plan, ZF Pension Sponsor UK 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

All expenses, levies (including the Pension Protection Fund levy[2]) and fees in connection with the Plan are met by the Plan.

1 assessed at the end of each month based on the monthly funding updates provided to the Trustee by the Scheme Actuary.
2 in the Plan accounts for the year ending 31 March 2021 there were annual levies of £64,000.

Prepared by the Trustee of the Plan

Print name	Russell Hines on behalf of ZF UK Pensions Trust Limited
Position	Director
Date	31 August 2022

Agreed by the employer

Print name	Steve Batterbee on behalf of ZF UK Pensions Limited for the employers
Position	Director
Date	31 August 2022

Implementation Statement

Statement of Compliance with the ZF UK Pension Plan's Stewardship Policy for the year ending 31 March 2022

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 2021 to 31 March 2022.

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 engages with its 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 October 2021, with no updates made to the Stewardship and Engagement Policy during the year ending 31 March 2022.

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

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Plan's investment managers. The Trustee believes it is important that its 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 its dialogue with investment managers which is undertaken in conjunction with its investment adviser. 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 its investment adviser.

The Trustee monitors the level of fees paid to investment managers and transaction costs incurred in the mandates through annual reporting from a third party cost transparency provider.

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.

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 2022, the ISC met with four of its five managers.

Although the ISC met with LGIM, the Plan's LDI manager, 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 at this stage.

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

Date	Fund manager	Subject discussed	Outcome
13/05/2021	Barings	ESG integration in investment process	Barings discussed the integration of ESG in the investment process, noting that at a high level this was a three step approach, encompassing: integration of ESG into fundamental credit analysis; integration into the investment process through pass/fail tests for ESG issues and quantification of risks; and ongoing portfolio monitoring. Barings noted that they were increasing their engagements with companies and recording this through their proprietary ESGenius system, and that analysts had a target to perform 3 engagements per year.
15/09/2021	Schroders	ESG integration in investment process	Schroders provided an overview of how ESG issues are integrated into their investment process, noting that Schroders use proprietary tools which grade potential investments and that similar approaches are used for Investment Grade and High Yield credit, with availability of data being the key differentiator. In the High Yield space, Schroders continue to engage with the issuers to obtain data. Schroders look at a range of data sources, for example Glassdoor data which can be reflective of the quality of the management.
18/11/2021	Barings	ESG reporting	Barings gave an overview of their current and proposed ESG reporting, explaining that ESG reports were available for the pooled Global High Yield Credit Strategies and Global Loan funds, and that they aimed to start producing client-specific ESG reporting from January 2022. Barings noted that carbon metric data was improving, with the metrics presented currently focused on Scope 1 and 2 emissions.

28/02/2022	M&G	ESG reporting and Sustainable Finance Disclosure Regulation ("SFDR")	M&G noted that they were adapting and evolving their approach to carbon emissions modelling, and working with the wider investment community to improve the quality and Scope 1, 2 and 3 data. M&G explained that segregated ABS fund held by the Plan did not have an SFDR classification but M&G could work towards being compliant with a particular Article classification if requested by the Plan.

Review of policies

The ISC reviews the managers' RI policies on an annual basis. This review considers managers' broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year and their compliance with industry governance standards. The last review was completed in September 2021.

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 7th October 2021. 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:

    - Property
    - Asset backed securities
    - Secured loans
    - Global high yield credit and other fixed income
    - 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:

  - Counterparties are limited to financial institutions on Legal & General Investment Management's approved panel.
  - All derivatives are marked to market, with collateral posted on a daily basis.
  - 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.
  - 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:

  - Stock Lending is only permitted in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.
  - Constraints are placed on the use of derivatives, which may not be used for speculative purposes.
  - 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 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	SONIA	2.5%
Secured loans	SONIA	4%
Barings		
Global high yield credit	SONIA	5%
Private Lending*	SONIA	4%
Schroders		
Fixed income*	SONIA	3.5%
Arcmont		
Private Lending*	SONIA	4%

**target return for mandate set by Trustee*

The target returns are goals and the investment managers do not guarantee they will be achieved.

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.zfukpensions.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.