

# *Statement of Investment Principles*

**For the Volkswagen Group Pension Scheme**

**Effective from : 4 September 2025**



## 1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the Volkswagen Group Pension Scheme. It sets out the Trustee’s policies on various matters governing investment decisions for the Volkswagen Group Pension Scheme (“the Scheme”), which is a Defined Benefit Scheme. This SIP replaces the previous SIP dated May 2023.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme’s investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

## 2. Investment objectives

The primary short to medium term objective of the Employers is to reduce the volatility of the funding level of the Scheme on an accounting basis. The primary objectives of the Trustee are as follows:

- pay benefits as they fall due to members by targeting an expected return on assets of 1.0% pa in excess of gilts.
- reduce the risk that the Scheme’s ongoing funding level deteriorates significantly by using an investment strategy with an estimated investment risk of c.£8m (as at 30 June 2025). This means that it is estimated that there is a 1 in 10 chance of the funding level deteriorating by c.£8m or more in any one-year period due to adverse investment condition.
- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis), with a secondary objective of being fully funded on a gilts +0.3% pa basis.

The Scheme has undergone an actuarial valuation under the Occupational Pensions Scheme (Scheme Funding) Regulations 2005.

## 3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the Employers, last reviewed the investment strategy for the Scheme in late 2024 considering the objectives described in Section 2 above.

The result of the review was that the Trustee agreed that the investment strategy of the Scheme should be based on the allocation below.

Asset class	Strategic allocation
Multi-factor equities	10%
Asset backed securities	10%
Short duration credit	15%
Buy and maintain credit	30%
LDI portfolio (including money market funds)	35%
<b>Total</b>	<b>100%</b>
Target interest rate and inflation hedging (Technical Provisions basis)	c.100%

The Trustee has set a tolerance range of +/-2% for each of the individual asset allocations, and monitors this on a quarterly basis. If material deviations from the tolerance ranges occur the Trustee will consider with its advisers whether it is appropriate to rebalance the assets taking into account factors such as market conditions and anticipated future cash flows.

The Trustee has a leverage management plan in place which sets out the assets directly available to support the Scheme's LDI arrangements.

#### 4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers several risks, including, but not limited to, those set out in Part 2 of the SIP addendum. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

The primary ways that the Trustee manages investment risk is via diversification, ensuring that the Trustee receives professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Investment risk is measured using "Value at Risk".

Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy for the Scheme, the Trustee considered:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the

risk being taken;

- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

## 5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the separate SIP addendum.

The Trustee has signed agreements with the three investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee

would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## 6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

The Trustee's preference is for investments that are readily realisable, but it recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid. The Scheme's standalone allocation to cash is intended to ensure that there is enough cash available to pay benefits as needed and to reduce the risk of having to disinvest from another asset class at a potentially unfavourable time.

## 7. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee influences the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations).

The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee takes advice from its investment advisor in regard to the selection and monitoring of its investment managers on ESG related matters.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate. The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

## 8. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of members. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

As all of the Scheme's investments are held through managers or pooled funds, the Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

The Trustee monitors the investment managers' activities in relation to ESG factors, voting and engagement. The Trustee seeks to understand how the managers are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with the Trustee's expectations.

The Trustee has selected some priority themes to provide a focus for the monitoring of investment managers' voting and engagement activities. The Trustee

reviews the themes regularly and updates them if appropriate. The Trustee communicates these stewardship priorities to its managers and also confirms more general expectations in relation to ESG factors, voting and engagement as appropriate.

If the Trustee's monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.