

Knorr Bremse (UK) Pension Scheme (the "Scheme")

Statement of Investment Principles – November 2025

1. Introduction

The Trustees of the Knorr-Bremse (UK) Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustees' investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

This Statement replaces the previous statement dated July 2023.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Knorr-Bremse Systems for Commercial Vehicles Limited (the "Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustees' objectives.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer's Cashflow Driven Investment ("CDI") Solution, to implement the Trustees' strategy, which seeks to deliver a long term, low risk, sustainable investment, and funding strategy. Under the CDI strategy, the Trustees' assets are invested predominantly in income generating assets in such a way that the expected cashflows (or income) generated by the assets broadly match a proportion of the Scheme's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required and associated risks). In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to sub-investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Policy and Risk

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from its investment consultant, and is driven by its investment objectives as set out below. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment managers and described in the Statement of Investment Arrangements (“SIA”). The format of this Statement is designed to provide a logical statement rather than an ordered response to the Act. The Trustees believe, however, that it incorporates a response to all the requirements of the Act.

4. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme’s current and ongoing solvency funding positions. The Trustees recognise that non-hedge management asset investment will bring increased volatility to the funding level, but in the expectation of improvements in the Scheme’s funding level through asset outperformance of the liabilities over the long term.

The Trustees’ primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met. In meeting this objective, the Trustees’ further objectives are to:

- To closely align the sensitivity of the Scheme’s assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Scheme’s funded liabilities on the agreed basis for funding level and liability hedging monitoring purposes.
- By means of an agreed combination of investment returns and funding budget from the Sponsor, aim for a position of being fully funded on a CDI funding basis as benefit payments fall due.
- To aim to match a large proportion of the projected member benefits by investing in income generating assets, whilst ensuring that sufficient liquid assets are available to meet benefit payments as they fall due.
- Reach a position such that the Scheme’s assets would be sufficient to meet the costs associated with achieving a “buy-in” transaction with an insurance company.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determines to be financially material considerations. Non-financial considerations are discussed in section 10.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees’ policy on risk management over the Scheme’s anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme’s assets and its liabilities and the Sponsor’s ability to support this mismatch risk.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme’s accruing liabilities as well as producing more volatility in the Scheme’s funding position.

- To control the risk outlined above, the Trustees, having taken advice, set the split between the Scheme's Hedge Management and Non-Hedge Management Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 4.
- The Trustees recognise that even if the Scheme's assets are invested in the hedge management assets there may still be a small mismatch between the interest rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities. The Scheme's investment strategy targets an interest rate and inflation hedge ratio of 100% of the funded liabilities but the Trustees recognise that the actual ratio may drift slightly from that target from time to time. The Trustees also recognise that while the strategy is designed to approximately match expected cashflow requirements, changes in demographic assumptions, membership profile or other factors could lead to a mismatch between the investment strategy and required cashflow.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Hedge Management and Non-Hedge Management Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.
- The Trustees invest in leveraged Liability Driven Investment ("LDI") funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the hedge management portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.
- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management.
- To help diversify manager specific risk, within the context of each of the Hedge Management and Non-Hedge Management Portfolios, the Trustees expect that the Scheme assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Trustees Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Hedge Management and Non-Hedge Management Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.
- Should there be a material change in the Scheme's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current CDI strategy remains appropriate.

6. Investment Strategy

The Trustees, with advice from the Scheme's investment consultant and Scheme Actuary, reviewed the Scheme's investment strategy in 2019. This review considered the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented.

Following the review, the key decision was to seek a long term solution to 'cashflow match' the Scheme's assets relative to its liabilities over time using a CDI strategy. The strategy relates the asset allocation to the Scheme's funding level. At inception of the CDI strategy, it was agreed that the liability discount rate would be gilts + 0.45% p.a., however this is linked to changes in the credit spread of an index deemed appropriate by the Manager and therefore changes over time. After the latest review in 2025, for purposes of funding level monitoring and/or liability hedging purposes, the agreed target funding basis for the Scheme is expected to be gilts plus 0.19% p.a. plus 30% of a credit spread movement, according to a suitable index chosen by the Manager. The investment strategy is reviewed on an approximately annual basis to ensure that it remains appropriate.

The CDI strategy aims to:

- Match a reasonable proportion of the Scheme's expected liability cashflows by investing in predominantly income-generating asset classes such that expected asset cash-flows should broadly match the Scheme's expected liability cash-flow profile; and
- Closely align the sensitivity of the Scheme's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Scheme's Funded Liabilities on the agreed basis for funding level and liability hedging monitoring purposes.

Details of the holdings within the Scheme's portfolios can be found in the SIA.

7. Realisation of Investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying sub-investment managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

8. Cash flow and cash flow management

In the event of cashflows into, or out of, the Scheme, Mercer will invest or disinvest these as soon as reasonably practicable from the underlying funds at Mercer's discretion. Further detail on this process is set out in the SIA.

9. Rebalancing

There is no pre-defined or automatic rebalancing between the Hedge Management Portfolio and Non-Hedge Management Portfolio, nor between the funds within the Hedge Management Portfolio and Non-Hedge Management Portfolio, other than where required for liability hedge management purposes. More detail is provided in the SIA.

10. ESG, Stewardship, and Climate Change

The Trustees and Mercer believe in integrating financially material sustainability transition and socio-economic risks into investment decision-making, which can potentially enhance portfolio resilience.

The Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Mercer's Investment Philosophy uses a holistic approach, considering market-wide and systemic risks and incorporating sustainability considerations objectives, governance, rewarded risk and value maximization considerations. Mercer's full investment philosophy is also available here: [Investment philosophy](#). Mercer's [Sustainability Policy](#), which sets out the key principles and guidelines used by Mercer to consider and respond to sustainability risks and opportunities in investment process decision-making. Sub-investment managers appointed to manage the Mercer Funds are expected to assess and reflect sustainability risks and opportunities in security or asset selection and portfolio construction including climate transition considerations, and this forms part of the selection process.

Mercer's [Stewardship Policy](#) outlines the key principles and Mercer's approach to embedding effective stewardship in the investment process, including in manager selection, monitoring and reporting. Mercer's approach to managing climate transition risks and opportunities is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Mercer's [Climate-Related Financial Disclosures Report](#) highlights Mercer's approach in more detail. Disclosure consistent with the TCFD recommendations is also encouraged for appointed managers. In order for the Trustees to oversee, assess and manage climate-related risks and opportunities for the Scheme, Mercer provides reporting to the Trustees at least annually, on integration of sustainability considerations, stewardship monitoring results, relevant and available climate-related metrics and climate transition analysis.

Mercer screens and monitors listed portfolios for high-severity incidents as flagged according to the UN Global Compact ("UNGC") Principles that relate to human rights, labour, environment, and corruption issues, as identified by our appointed external research provider and will prioritise engagement with the managers owning those companies based on an internally developed framework.

Mercer may also elect to participate, as appropriate, in collaborative industry engagement initiatives related to engagement priorities, or other topics that are considered aligned with the best interests of the Scheme.

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

Mercer has given its appointed investment managers restrictions in relation to particular products or activities for all fixed income portfolios. The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

11. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 6, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 6. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying sub-investment managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying sub-investment manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 6. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the CDI strategy, and investment management of the assets. In addition, the underlying sub-investment managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to sub-investment managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the sub-investment managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

12. Additional Assets

Assets in respect of members' Additional Voluntary Contributions ("AVCs") are invested separately from the Scheme's assets with Scottish Friendly and Prudential.

Under the terms of the trust deed the Trustees are responsible for the investment of any Additional Voluntary Contributions paid by members. The Trustees review the investment performance of the chosen providers as appropriate and take advice as to the providers' continued suitability.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

For and on behalf of the Trustees from time to time of the Knorr-Bremse (UK) Pension Scheme

Signed (Trustee): _____

Name: _____

Date: _____

Signed (Trustee): _____

Name: _____

Date: _____