Dresser-Rand Pension Plan ("the Plan")
Statement of Investment Principles ("the Statement")

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Plans (Investment) Regulations 2005).

The effective date of this Statement is 18 September 2020. The Trustees will review this Statement and the Plan's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

Consultations made

The Trustees have consulted with the sponsoring employer, Siemens Industrial Turbomachinery Limited ("the Employer"), prior to writing this Statement and will take the Employer's comments into account when they believe it is appropriate to do so. The ultimate power and responsibility for deciding the investment policy, however, lies solely with the Trustees.

The Trustees are responsible for the investment strategy of the Plan. They have obtained written advice on the investment strategy appropriate for the Plan and on the preparation of this Statement by Towers Watson Limited, who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Plan's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement will be provided to the investment managers appointed and is available to the members of the Plan.

Objectives and Policy for securing objectives

The Trustees' main objectives for setting the long-term investment strategy of the Plan are set out below:

a) to ensure that the Plan has sufficient assets available to pay members' benefits as and when they arise. Where an actuarial valuation reveals a funding deficit, a recovery plan will be put in place which seeks to remove the deficit over a reasonable period which takes into account expected future investment performance and the financial covenant of the Employer;

b) to limit the risk of the assets failing to meet the liabilities over the long-term; and

c) to minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to objective b).

The investment strategy chosen by the Trustees aims to maximise the likelihood of achieving these objectives, through investing in a suitable mixture of return-seeking and liability matching assets. The Trustees recognise that these objectives may conflict. For example, a greater allocation to more matching assets may limit risks, but may result in a higher level of long-term costs to the Plan which the Employer may find too difficult to support. The Trustees also recognise that in resolving this conflict, it is necessary to accept some risk.

Choosing investments

The investment strategy can make use of three key types of investments:

- using a range of instruments that provide a better match to changes in liability values, including insurance annuity contracts;
- a diversified range of return-seeking assets, including (but not limited to) equities and corporate bonds; and
- actively managed portfolios.

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Plan, its cashflow requirements, the funding level of the Plan and the Trustees' objectives. The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Plan's investment objective and is documented separately in their Investment Portfolio Document.

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid any undue concentration of risk a spread of assets is held. The diversification is both within, and across, the major asset classes. Day-to-day selection of stocks is delegated to investment managers, appointed by the Trustees. As regards the review and selection of their investment managers, the Trustees take expert advice.

Assets held to cover the Plan's liabilities are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan.

The Plan invests in a range of pooled vehicles, the assets of which are spread between a number of different investors. Prohibited investments within each pooled vehicle are as stated in the respective pooled vehicles' governing documents.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations. The Trustees recognise that certain derivative-focussed investments, such as LDI, require a specific level of knowledge and understanding. The Trustees have resolved to undertake appropriate training and education before investing in such assets.

Investment risk measurement and management

The Trustees have considered the variety of risks to which the Plan is exposed in determining an appropriate investment strategy and objectives, having regard to advice from the investment consultant and the Plan actuary.

- **Investment strategy**: The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. They therefore retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers. The Trustees review their investment strategy following each formal actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way) taking into account the Plan liabilities. The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Plan.

- **Investment manager**: The Trustees monitor the risks arising through the selection or appointment of fund managers on a quarterly basis for the non-insured assets via investment monitoring reports prepared by their investment managers, and on an annual basis for all assets as part of the funding update received from the Scheme Actuary. The Employer and related group entities also monitor the investment managers for non-insured assets on behalf of the Trustees and alerts them to any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

- **Employer**: Risks associated with changes in the Employer covenant are assessed by monitoring the Pension Protection Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy), and through regular financial reports from the Employer. The Trustees have also appointed Lincoln to monitor and advise on the strength of the covenant offered by the Employer.

- **Currency**: The risk is measured by the level of concentration of assets in a market denominated in a foreign currency, leading to the risk of an adverse influence on the Plan's investments arising from exchange rate movements. The risk of an adverse influence on investments from exchange rate movements is reduced by the diversification of foreign denominated assets across many currencies, and by using currency hedging where this is deemed appropriate.

- **Liquidity**: The risk is measured by the level of cashflow required by the Plan over a specified period. It is managed by the Plan's administrators who assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy. The majority of the non-insured assets held are realisable at short notice.

- **Longevity risk**: This risk is measured by the increase in the Plan's liabilities as a result of increasing the life expectancy of its members. This is partially mitigated through the use of insurance policies. As the Plan de-risks, longevity risk will become a larger proportion of the Plan's overall risk. As this happens, the Trustees may choose to increase insurance activity through further buy-ins and/or other longevity hedging instruments such as longevity swaps.

- **Political**: The risk is measured by the level of concentration in any one market leading to the risk of an adverse influence on investments arising from political intervention. It is managed by regular reviews of the actual investments through assessment of the levels of diversification within the existing policy. The risk of an adverse influence on investments from political intervention is reduced by the diversification of the assets across many countries.

- **Custodial**: Investment in pooled funds for the non-insured assets gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment of and monitoring the custodian of the pooled funds' assets. The custodians are independent of the Employer. The encashment of units can only occur in a manner complying with the Plan's Trust Deed. Assets can only be transferred on the written instructions of the Trustees. The Trustees' auditors produce an annual statement detailing any issues requiring further consideration.

The Trustees continue to manage and monitor these risks.

Expected returns on assets

Returns achieved by the fund managers for the non-insured assets are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers. The Trustees take advice on the expected returns of the overall portfolio from time to time in conjunction with their considerations of their investment strategy and in relation to their investment objective.

Borrowing

The Trustees do not intend to borrow or allow borrowing on behalf of the Plan except in exceptional circumstances.

Stock lending

The Trustees do not presently intend to engage in stock lending as a core driver of their investment portfolio. They are aware that the managers of some pooled funds may carry out a degree of stock lending as part of their management of the funds, and the Trustees will maintain assurance from those managers that the level of stock lending is appropriately collateralised and does not materially increase the level of risk in the portfolio.

Social, environmental or ethical considerations

The Trustees recognise that a company's long-term financial success is influenced by a range of factors including appropriate management of environmental, social, ethical and corporate governance issues. Consequently the Trustees seek to be an engaged long-term shareholder and via its selection and oversight of its investment managers, seek to encourage the companies in which the Plan invests to adopt sustainable business practices and high standards of corporate governance with the aim of protecting and enhancing long-term shareholder value. The Trustees' time horizon reflects the time horizon of the Employer's business and the Plan's maturing liability profile.

Whilst it is the Trustees' preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interest of the members of the Plan. Therefore, the Trustees' policy is that the extent to which environmental, social and corporate governance considerations issues (including but not limited to climate change) may have a financial impact on the portfolio will be taken into account by their investment manager(s) in the exercise of their delegated duties. The Trustees' focus is explicitly on financially material considerations. The Trustees' policy at this time is not to take into account non-financially material considerations.

Aside from the annuity insurance policy, the Trustees' current investment manager is LGIM, who have articulated to the Trustees their approach to ESG and sustainable investing in the funds in which the Plan currently invests. The Trustees are comfortable with the approach being taken by LGIM on delegated matters such as voting rights and engagement with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, and take comfort from LGIM's position in the UK institutional investment market.

The Trustees expect their manager(s) to sign up to their local stewardship code, in-keeping with good practice. The Trustees will monitor the activities of all of their managers on a regular basis but appreciate that its applicability may be limited for certain asset classes. These matters are kept under review by the Trustees, in consultation with their investment consultant and investment managers.

Activism, and the exercise of the rights attaching to investments

The Trustees' policy is to delegate responsibility for the exercise of the rights (including voting rights) attaching to investments to the investment managers.

These matters are kept under review and the Trustees are aware of the policy towards corporate governance adopted by their investment managers.

Additional Voluntary Contributions (AVC) arrangements

Historically, some members have obtained further benefits by paying AVCs to the Plan. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Engagement with investment managers

The Trustees have considered the use of both passive and active investment management when developing and reviewing the Plan's investment strategy. The Trustees ensure that, in aggregate, the portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with their policies, where relevant to the mandate in question.

For most of the Plan's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustees invest in certain strategies (e.g. the insurance policy) where such engagement may not be deemed appropriate, due to the nature of the strategy or asset. The appropriateness of the Plan's allocation to such mandates is determined in the context of the Plan's overall objectives.

The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

To maintain alignment, managers are provided with the most recent version of the Plan's Statement of Investment Principles on an annual basis and are requested to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

The Trustees use pooled vehicles and have little control over the structure of the fee. The fees were taken into consideration when appointing the investment managers and will be considered when reviewing the investment managers. The fees paid are considered competitive.

The Trustees review the costs incurred in managing the Plan's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Adopted by the Trustees of the Dresser Rand Pension Plan as at 18 September 2020