The Infineon Technologies UK Ltd Final Salary Pension Scheme (the “Scheme”)

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 Schemes (Investment) Regulations 2005).

The effective date of this Statement is . The Trustees will review this Statement and the Scheme’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 employer, Infineon Technologies UK Ltd, prior to writing this Statement and will take the employer’s comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of The Infineon Technologies UK Ltd Final Salary Pension Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by the appointed professional investment advisers Aon Hewitt Ltd who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to Hewitt Risk Management Services Limited who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the appointed investment manager and is available to the members of the Scheme.

The Trustees have decided to invest the Scheme’s assets in Aon's Delegated Consulting Solution (“DCS”). Under DCS, the Trustees, following advice from Aon , set specific funding objectives for the Scheme. Hewitt Risk Management Services Limited manage the Scheme’s assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. The Manager conducts the necessary day to day management of the Scheme’s assets required to meet the Scheme’s objectives.

Objectives and policy for securing objectives

The Trustees’ objectives for setting the investment strategy of the Scheme have been set with regard to the Scheme’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

- “funding objective” - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;

- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy; and

- “security objective” – to ensure that the solvency position of the Scheme is expected to at least be maintained. The Trustees will take into account the strength of employer’s covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustees recognise that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security but may result in a level of contributions which the Employer may find too difficult to support. The Trustees also recognise that, in resolving this conflict, it may be necessary to accept some risk.

In order to meet these objectives, the Trustees have put in place a long term objective of achieving a funding level of 100% by 30 September 2027 on a 'self sufficiency' basis using a discount rate based on gilt yields plus 0.5% pa. The Trustees have also implemented a series of funding level triggers that aim to de-risk the investment strategy as the funding level improves.

Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees’ objectives.

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

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme’s technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

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 balance between different kinds of investments

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 asset allocation set out in the Appendix was set in March 2015 after considering a review of the Scheme's long term investment strategy objective and following the results of the actuarial valuation with an effective date of 30 September 2012. Following advice from their investment consultant, the Trustees decided to implement a series of funding level triggers to gradually reduce the allocation to growth assets and increase the allocation to liability matching assets as the funding level improves. These funding level triggers have been designed to increase the likelihood of the Trustees achieving their long term objective as outlined earlier.

A full range of available asset classes are considered. This includes consideration of so called "alternative" asset classes (namely property, private equity, and hedge funds). In order to provide exposure to alternative asset, classes the Scheme invests in a pooled fund of alternatives and this provides diversified exposure to a wide range of alternative asset classes.

Under DCS, the Trustees delegate responsibility for managing their asset allocation to the Hewitt Risk Management Services Limited. This allows the asset allocation of the Scheme to be adjusted quickly, where needed, in response to changes in funding level, to best meet the investment objectives of the Scheme.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustees also have an agreement with the employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employers. In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustees monitor the risks arising through the selection or appointment of investment managers on a quarterly basis via reports received from their investment manager and information from their professional advisors. The Trustees have appointed Aon Hewitt to alert them on any matters of material significance that might affect the ability of the investment manager to achieve its objectives.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive or negative) maybe an indication that the investment manager is taking a higher level of risk than indicated.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the underlying assets of the pooled funds.

The custodians are independent of the employer.

Expected returns on assets

Over the long-term the Trustees' expectations are:

- for the "growth" assets (UK and overseas equities as well as alternative asset classes), to achieve a return which at least keeps pace with the increase in national average earnings over the same period. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities;
- for the "matching" assets:

  for fixed (resp. real) pooled Liability Driven Investment ("LDI") funds, to achieve a rate of return and short term price behaviour which is broadly in line with changes in the cost of providing fixed (resp. real) annuities.

The Trustees' current expected nominal return assumptions for the main assets classes for the next 10 years, as taken from Aon Hewitt's 'Capital Market Assumptions' dated 31 March 2020, are as follows:

- UK inflation – Consumer Price Index ("CPI") 2.0% pa / Retail Price Index ("RPI") 2.8% pa
- 15 year UK fixed income gilts – 0.4% pa
- 10 year UK investment grade corporate bonds – 1.4% pa
- 15 year UK index-linked gilts – -0.2% pa

Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and investment managers

Realisation of investments/liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The Scheme's assets are realisable at short notice through the sale of units in pooled funds.

Social, environmental or ethical considerations

In setting the Scheme's investment strategy, the Trustees' primary concern is to act in the best financial interests of the beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change can negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when reviewing their investment return objective, when selecting the investment manager and when monitoring performance.

Stewardship – Voting and Engagement

As part of their delegated responsibilities, the Trustees expect their investment manager to**:**

- take into account social, environmental or ethical considerations in the selection, retention and realisation of investments; and
- exercise the Trustees' voting rights in relation to the Scheme's assets.

The Trustees regularly review the continuing suitability of the appointed manager and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed manager.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors" in the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018).

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.

The Trustees believe that, given the size of the Scheme, a formal separate investment subcommittee would not be appropriate at the current time. However, the Trustees acknowledge that an investment subcommittee could be beneficial in the future, for example, to oversee a specific investment related project. As such, an investment subcommittee will be set up in the future as required.

Arrangements with asset managers

The Trustees have appointed HRMSL as their fiduciary manager, who they consider to be their asset manager. References in this policy to 'underlying asset managers' refers to those asset managers which HRMSL in turn appoints to manage investment on behalf of the Trustees.

The Trustees recognise that the arrangements with their fiduciary manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustees seek to ensure that the fiduciary manager is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustees receive regular reports and verbal updates from the fiduciary manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assess the fiduciary manager over three-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their fiduciary manager, which supports the Trustees in determining the extent to which their engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the Scheme's fiduciary manager and request that they review and confirm whether their approach is in alignment with the Trustees' policies.

The Trustees delegate the ongoing monitoring of underlying asset managers to the fiduciary manager. The fiduciary manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointment of a new fiduciary manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at trustee meetings) so that there is more alignment.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the fiduciary manager, and regular monitoring of the fiduciary manager's performance and investment strategy, is sufficient to incentivise the fiduciary manager to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where the fiduciary manager is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the fiduciary manager but could ultimately replace the fiduciary manager where this is deemed necessary.

There is typically no set duration for arrangements with the fiduciary manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place. If relevant, the duration of certain underlying closed ended vehicles may be defined by the nature of the underlying investments.

Cost monitoring and evaluation

Cost Monitoring:

The Trustees are aware of the importance of monitoring their fiduciary manager's total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustees receive annual cost transparency reports from their Asset Manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- the total amount of investment costs incurred by the Scheme;
- the fees paid to the fiduciary manager;
- the fees paid to the asset managers appointed by the fiduciary manager;
- the amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager;
- the Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- any charges incurred through the use of pooled funds (custody, admin, audit fees etc);
- the impact of costs on the investment return achieved by the Scheme.

The Trustees acknowledge that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the underlying asset managers appointed on behalf of the Trustees.

The Trustees benefit from the economies of scale provided by the fiduciary manager in two key cost areas:

- the ability of the fiduciary manager to negotiate reduced annual management charges with the appointed underlying asset managers;

- the ability of the Fiduciary Manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the underlying asset managers and achieve efficiencies where possible.

Evaluation of performance and remuneration:

The Trustees assess the (net of all costs) performance of their fiduciary manager on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective.

The remuneration paid to the fiduciary manager and fees incurred by third parties appointed by the fiduciary manager are provided annually by the asset manager to the Trustees. This cost information is set out alongside the performance of the fiduciary manager to provide context. The Trustees monitor these costs and performance trends over time.

Stewardship policy

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustees annually review the stewardship activity of the fiduciary manager to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by their fiduciary manager, these reports include detailed voting and engagement information from underlying asset managers.

The Trustees consider investment risk to include Environmental, Social and Governance (ESG) factors and climate change. These risks could negatively impact the Scheme’s investments. The Trustees consider these risks and opportunities by taking advice from its investment adviser.

As part of the fiduciary manager’s management of the Scheme's assets, the Trustees expect the fiduciary manager to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying asset managers;

- Use its influence to engage with underlying asset managers to ensure the Scheme's assets are not exposed to undue risk; and

- Report to the Trustee on its ESG activities as required.

As part of the fiduciary manager's management of the Scheme’s assets, the Trustees expect the fiduciary manager to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustees’ voting rights in relation to the Scheme’s assets; and

- Report to the trustee on stewardship activity by underlying asset managers as required.

The Trustees will engage with their fiduciary manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of either the Trustees or the asset manager.

Where voting is concerned we would expect our underlying asset managers, to recall stock lending procedures, as necessary, in order to carry out reflective voting actions.

The Trustees may engage with their fiduciary manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

Additional Voluntary Contributions ("AVCs") arrangements

Some members obtain further benefits by paying AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of AVC providers and fund options are included in the Appendix to this Statement.

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

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The Infineon Technologies UK Ltd Final Salary Pension Scheme
Appendix to Statement of Investment Principles

This Appendix sets out the Trustees' current investment strategy and is supplementary to the Trustees' Statement of Investment Principles (the "attached Statement").

The Trustees' investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:

1 Asset allocation strategy

The Trustees have put in place a long term objective of achieving a funding level of 100% by 30 September 2027 on a 'self sufficiency' basis using a discount rate based on gilt yields plus 0.5% pa. This requires the assets to generate a return in excess of the liabilities which is based upon the allocation to growth assets. The Trustees have also implemented a series of funding level triggers that aim to de-risk the investment strategy as the funding level improves. These funding level triggers have been designed to increase the likelihood of the Trustees achieving their long term objective.

The allocation of the Scheme's assets between the Growth Portfolio (consisting of investment in return seeking assets including equities and alternative asset classes) and the Matching Portfolio (consisting of investments in pooled LDI funds) depends on the funding position of the Scheme. At the date of this statement the allocation is 80% to the Growth Portfolio and 20% to the Matching Portfolio.

A series of funding level triggers has been established for the Scheme on the basis that a set proportion of total assets are switched at each trigger point and that, following each switch, the remaining growth assets, together with the agreed contributions, continue to be expected to reach the long term objective by the target date.

As successive funding level triggers are met, assets will be sold from the Growth Portfolio and invested in a series of pooled LDI funds, structured so as to match a proportion of the interest rate and inflation risks within the Scheme's liabilities.

The trigger points in this flightplan mechanism will develop over time as the recovery plan progresses and as the Scheme's assets and liabilities develop (e.g. through cashflow variations). A sample of the triggers at different funding positions and dates are shown overleaf. The Investment Objective is for the total assets to return a given margin above the value of the Scheme liabilities on the self sufficiency basis.

2018

Investment Objectives in excess of the Liability Benchmark (% pa)	Target Hedge Ratio expressed as a percentage of the Portfolio (%)	Funding Trigger Level based on Gilts + 0.5% p.a. measure of the liabilities (%)		
		Q2 2018	Q3 2018	Q4 2018
2.8%	100%	82.3%	82.8%	83.3%
2.4%	100%	85.2%	85.6%	86.0%
2.0%	100%	88.1%	88.5%	88.8%
1.6%	100%	91.2%	91.4%	91.6%
1.2%	100%	94.4%	94.5%	94.6%
0.8%	100%	97.7%	97.7%	97.7%

2019

Investment Objectives in excess of the Liability Benchmark (% pa)	Target Hedge Ratio expressed as a percentage of the Portfolio (%)	Funding Trigger Level based on Gilts + 0.5% p.a. measure of the liabilities (%)			
		Q1 2019	Q2 2019	Q3 2019	Q4 2019
2.8%	100%	84.0%	84.7%	85.3%	86.0%
2.4%	100%	86.6%	87.2%	87.8%	88.4%
2.0%	100%	89.3%	89.9%	90.4%	90.9%
1.6%	100%	92.1%	92.5%	93.0%	93.4%
1.2%	100%	95.0%	95.3%	95.7%	96.0%
0.8%	100%	98.0%	98.2%	98.5%	98.7%

2020

Investment Objectives in excess of the Liability Benchmark (% pa)	Target Hedge Ratio expressed as a percentage of the Portfolio (%)	Funding Trigger Level based on Gilts + 0.5% p.a. measure of the liabilities (%)			
		Q1 2020	Q2 2020	Q3 2020	Q4 2020
2.8%	100%	86.7%	87.5%	88.2%	88.9%
2.4%	100%	89.1%	89.7%	90.4%	91.0%
2.0%	100%	91.5%	92.1%	92.6%	93.2%
1.6%	100%	93.9%	94.5%	95.0%	95.5%
1.2%	100%	96.5%	96.9%	97.4%	97.8%
0.8%	100%	99.1%	99.4%	99.8%	100.1%

2021

Investment Objectives in excess of the Liability Benchmark (% pa)	Target Hedge Ratio expressed as a percentage of the Portfolio (%)	Funding Trigger Level based on Gilts + 0.5% p.a. measure of the liabilities (%)			
		Q1 2021	Q2 2021	Q3 2021	Q4 2021
2.8%	100%	89.6%	90.4%	91.1%	91.8%
2.4%	100%	91.7%	92.3%	93.0%	93.6%
2.0%	100%	93.8%	94.4%	94.9%	95.5%
1.6%	100%	96.0%	96.5%	96.9%	97.4%
1.2%	100%	98.2%	98.6%	99.0%	99.4%
0.8%	100%	100.4%	100.8%	101.1%	101.4%

2 Investment management arrangements

The Trustees have appointed Hewitt Risk Management Services Limited (HRMSL). Assets are invested in pooled funds at HRMSL. HRMSL has been appointed to update and monitor the Scheme's funding level against the agreed trigger levels on a daily basis and implement any switches from the Growth Portfolio to the Matching Portfolio as and when triggers are met.

2.1 Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance and this is carefully monitored by the Scheme's administrator.

2.2 Re-balancing arrangements

In order to ensure the assets are re-balanced in line with the Asset Allocation Strategy, the Trustees review the balance of the assets on a regular basis, following which appropriate corrective action is taken.

2.3 Derivatives

The Trustees do not directly hold any investments in derivatives.

However, all of the Scheme's managers have the ability use derivatives in their pooled funds but this is only 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 Scheme's pooled LDI fund managers will make extensive use of derivatives in their pooled funds in order to provide leveraged exposure to interest rates and inflation. However and as noted above, these are only used in so far as they contribute to the reduction of investment risks and are managed so as to avoid excessive risk exposure to a single counterparty of other derivative operations.

3 Fee structure for advisers and managers

3.1 Advisers

The Trustees' investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustees will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment managers

The investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice.

4 Additional Voluntary Contributions

The Trustees have made available the following range of investment options:

- Index tracking funds managed by Legal & General Investment Management; and
- Equitable Life Assurance Society.

The Trustees review the Scheme Additional Voluntary Contribution arrangements on an annual basis in order to comply with the Pensions Regulator's guidelines on DC Governance.