

Bayerische Landesbank Retirement and Death Benefits Plan

("the Plan")

Statement of Investment Principles

1. Introduction

Purpose	This statement sets out the principles governing decisions about the investment of the assets of the Plan and is issued by the Trustees in compliance with Section 35 of the Pensions Act 1995 ("the Act").
Advice	The Trustees have obtained advice on the content of this statement from Smith & Williamson Financial Services Ltd which has confirmed that it has the appropriate knowledge and experience to give the advice required by the Act.
Consultation	The Trustees consulted the Principal Employer, Bayerische Landesbank, about the content of this statement, as required under the Act.
Investment Powers	The investment powers of the Trustees are set out in the Trust Deed governing the Plan and this statement is consistent with those powers. Neither this statement nor the Trust Deed governing the Plan restricts the Trustees' investment powers by requiring the consent of the Principal Employer.
Design	<p>The Plan has a Defined Benefit Section that was closed to new entrants from 1st April 2005 and a Defined Contribution Section that closed to new entrants from 1 September 2011.</p> <p>The latter section was for new entrants from 1 April 2005 and as such the levels of investments are currently relatively small.</p> <p>Under the Defined Benefit Section there is no further accrual of benefits and under the Defined Contribution Section no further contributions are being made.</p> <p>The two sections are covered separately in this Statement with regard to the Trustees' policies on the choice of investment and attitude to risk.</p>
Delegation to fund managers	<p>Under the Pensions Act, the Trustees are required to appoint one or more fund manager. The appointed managers and the respective funds adopted are set out in the attached appendix.</p> <p>The investment managers are regulated under the Financial Services and Markets Act 2000 by the Financial Services Authority (FSA) and provide investment services in accordance with a written agreement with the Trustees.</p>
Control of investments	The Trustees rely on the professional fund managers for the day-to-day management of by far the greater majority of the Plan's assets. The custody of the assets is delegated to professional custodians, held through a trustee investment plan, a unit linked life policy insured with Legal and General Assurance (Pensions Management) Limited, and Exchange Traded Funds, ETFs, managed by BlackRock Investment Limited. The ETFs are held through a nominee account administered by the Bank of New York Mellon. However, the Trustees do retain control over some Plan assets. In particular, they control the Plan's bank account.

2. Defined Benefit (DB) Section

a) Policy in relation to the choice on investments

AVCs A small proportion of the Plan's funds relates to members' AVCs. The Trustees' policy in respect of the relevant investments has and continues to be to leave the arrangements for these benefits unchanged, but to review these arrangements should it be felt necessary.

Except as otherwise stated this Statement of Investment Principles excludes any further consideration of members' entitlements under this heading.

Policy Having considered advice, the Trustees have set the investment policy with regard to the Plan's liabilities and prescribed a benchmark portfolio comprising a range of assets, including UK and overseas equities, and bonds.

For the assets managed by the Plan's fund managers the long-term investment policy has been set with reference to the appropriate indices.

The Trustees have chosen to invest all the assets, bonds and equities in 'index' or 'tracker' type funds in order to minimise the relative risk versus the benchmark indices so far as possible. The Trustees will hedge the overseas currencies back into Sterling to mitigate the currency risks in the case of the corporate bond and a proportion of the equity assets.

The funds adopted and the relative proportions are set out in the appendix. The allocation between the funds will be reviewed regularly and the investment consultant will make recommendations as and when necessary.

Performance objectives The Trustees have set the performance objective in relation to the appropriate composite FTSE index for the government bonds, Merrill Lynch index for corporate bonds and Morgan Stanley Capital International for the equity assets).

The objective is for all the funds to perform in line with the returns on the benchmark indices.

Expected return The Trustees expect the return on the investments held as passive funds to match quite closely the return on the appropriate benchmark index.

b) Policy in relation to diversification, risk controls and cash flow

Diverse Investments Investment risk is substantially reduced by diversification of investments both within particular asset classes and by economy. The chosen investment fund represents a suitably diverse investment policy.

Investment Management risk The chosen equity and the corporate and government bond funds passively track the relevant indices. There is no active stock selection and the risks associated with a bad choice of investment manager are therefore removed.

Liability mismatching risk The majority of the Plan's liabilities are linked to price inflation.

The policy is therefore to invest the majority of assets in investments which are considered to change in value in a broadly similar way to the Scheme's liability value as a result of changes in long-term expectations of price inflation. There is a minority of assets expected to provide a return ahead of price inflation.

Rebalancing The Trustees will monitor the asset allocation regularly, at least every quarter, and will decide if any changes are required, such as directing negative or positive cash flows or a switch of assets. The Trustees will seek advice from their investment adviser prior to making any decision.

Cash Flow The cash flow to meet the benefit payments will come from the Plan's assets. Trustees will sell the appropriate assets to ensure that the Plan's investments follow the strategic asset allocation. Where there are contributions to the Plan, again the money will be allocated to the funds in line with the strategy, after taking into account the imminent payment of benefits to the members.

3. Defined Contribution (DC) Section

a) Policy in relation to the choice of investments

Policy Having considered advice, the Trustees have set the investment policy such that it is suitable for providing members with pension and cash benefits at retirement.

The Trustees have selected four unitised investment options for members:

- Diversified Growth Fund
- Equity Fund
- Pre Retirement Fund
- Cash Fund.

The equity fund is an 'index' or 'tracker' type fund, which have been chosen in order to minimise relative risk so far as possible.

The active funds, the Cash, the Pre Retirement and Diversified Growth Funds were chosen to secure specific investment objectives. The prime goal is secure relative outperformance with the least risk.

Performance objectives The objective is for the passive fund to perform in line with the returns on the benchmark index. The overall performance of the Pre Retirement Fund is to broadly match the movement in pension annuity market investments for non-inflation linked policies.

There is no readily available passive cash fund. However, the chosen fund's objective is to match the median return of similar cash funds without incurring excessive risk.

The Diversified Growth Fund is structured to secure a return in line with a bespoke global equity index, with 2/3rds of the volatility over the full market cycle. In addition, the fund is looking to secure a return of 4.5% per annum over the Bank of England Base Rate, gross of costs, over the same period.

Expected return The Trustees expect the return on the investments to match quite closely the return on the appropriate index. Based on past performance the long-term equity and the Diversified Growth Fund return is expected to exceed inflation and salary growth.

Default Funds The Trustees have selected the L&G Global Equity Fixed weight 60:40 Index Fund as the main default fund until five years of the normal retirement age. Thereafter the member can select a lifestyling strategy where the Cash and the Pre Retirement funds are introduced as default funds.

The Diversified Growth Fund is not a default fund.

b) Policy in relation to diversification and risk controls

Liability mismatching risk	The Trustees have adopted a lifestyling arrangement that is designed to match a member's liability profile as they approach retirement. Members have been given the option of self-selecting a specific retirement date within the lifestyling framework or a specific investment allocation.
Investment risk	<p>The investment risk is ultimately borne by the member. However, the Trustees aim to select investments which minimise risks within each asset class.</p> <p>The equity funds passively track the relevant index. There is no active stock selection and the risks associated with a bad choice of investment manager are therefore removed.</p> <p>There is active stock selection involved in all the other funds. There is manager risk in each case, but the mandate for every fund is designed to mitigate the manager risk.</p>
Communication with members	The Trustees provide members with the information about risk, investment philosophy, past performance and charging structure for each fund through the Plan Guide and an Annual Report.

4. Compliance

Frequency of review	The Trustees will review this statement on a regular basis and, in particular, if there is a change in the policy on any of the areas covered by the statement. The Trustees will consult with the Principal Employer and take written advice when revising the statement.
Professional advice	The Trustees employ Smith & Williamson Financial Services Ltd to assist in monitoring the fund managers and to help review the investment strategy.
Information from fund manager	<p>The Trustees expect the fund managers to inform them immediately of any serious breach of internal operating procedures (insofar as they relate to the Plan), or any material change in the knowledge and experience of those involved in managing the Plan's investments.</p> <p>The Trustees also expect the fund managers to supply them with sufficient information each quarter to facilitate a review of their activities.</p>
Performance measurement	The Trustees monitor the performance of the fund managers by reference to performance statistics provided within the appropriate indices, general trends in annuity prices and returns on other cash funds.
Review of fund manager	The Trustees will on a regular basis consider whether the fund managers have been exercising their powers of investment with a view to giving effect to the principles contained in this statement, so far as is reasonably practicable. If the fund managers are not able to satisfy the Trustees in this respect, the Trustees will review the managers' appointment.
Employer related investment	Neither the Trustees nor the fund manager may directly hold any employer related investments as defined by the Act.

5. Financially Material Considerations

Financially material considerations

The Trustees have considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine the investment strategy over the length of time during which the benefits are provided by the Plan to the members. The Trustees believe that financially material considerations (including climate change) are allowed for in the asset liability modelling that is carried out when setting the investment strategy.

To invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. The Trustees acknowledge that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the fund managers and investment consultant are expected to take account of financially material considerations when carrying out their respective roles.

The Trustees accept that the Plan's assets are subject to the investment manager's own philosophy and processes to ESG issues. The Trustees will assess that this corresponds with its responsibilities to the beneficiaries of the Plan with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustees will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustees will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;
- Use ESG ratings information, to assess how the Plan's investment managers take account of ESG issues; and
- Request that all of the Plan's investment managers share information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustees determine that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

6. Non-Financially Material Considerations

The Trustees have not considered non-financially material matters in the selection, retention and realisation of all investments, except for the equity assets. The Trustees have not sought the members' views on the Non-Financial matters.

The Trustees have selected an ETF invested in equities with a comprehensive ESG policy, designed to avoid certain sectors as well as reduce the carbon dioxide released into the environment.

Stewardship	<p>The Trustees' policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustees' behalf, having regard to the best financial interests of the beneficiaries.</p> <p>The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustees believe this will be beneficial to the financial interests of members over the long term. The Trustees will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.</p> <p>The Trustees also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.</p> <p>If the policies or level of engagement are not appropriate, the Trustees will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustees will review the investments made with the investment manager.</p> <p>The Trustees has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.</p>
Investment managers arrangements	<p>Incentives to align investment managers' investment strategies and decisions with the Trustees' policies</p> <p>The Plan invests in pooled funds. The Trustees acknowledge the Plan's investment strategy and decisions cannot be tailored to the Trustees' policies. However, the Trustees set its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers' incentive.</p> <p>The Trustees use the fund objective/benchmark as a guide on whether the Plan's investment strategy is being followed and monitors this regularly.</p> <p>Incentives for the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term</p> <p>The Trustees select managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.</p> <p>The Trustees also consider the managers' voting and ESG policies and how it engages with the investee company as it believes that these can factors can improve the medium to long-term performance of the investee companies.</p> <p>The Trustees will monitor the fund managers' engagement and voting activity on an annual basis as it believes that this can improve long term performance. The Trustees expect its managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.</p>

The Trustees acknowledge that in the short term, these policies may not improve the performance it achieves, but do expect by investing in those companies with better financial and non-financial performance over the long term that this will lead to better risk adjusted outcomes for the Plan.

The Trustees believe the annual fee paid to the fund managers incentivises them to execute their investment policies consistently, as the longer the units are held the larger income to the investment manager.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the fund managers' performance and the remuneration for asset management services are in line with the Trustees' policies

The Trustees review the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustees assess the performance periods of the individual funds over at least a 3 to 5 year period or over a market cycle, if appropriate, when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Plan will depend upon the asset allocation. The charges are considered as part of the manager selection process. The charges are monitored regularly with the help of its investment consultant to ensure they are in line with the Trustees' policies for each fund. The Trustees believe that its and each fund manager's goals are aligned.

How the Trustees monitor portfolio turnover costs incurred by the fund managers, and how they define and monitor targeted portfolio turnover or turnover range

The Trustees monitor the portfolio turnover costs on an annual basis.

The Trustees define target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on an annual basis.

The Trustees have delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to its investment consultant.

The duration of the arrangement with the fund managers

The Trustees plan to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or changes in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

Signed _____

For & on behalf of the Trustees

Appendix

Defined Benefit (DB) Section

Appointed Investment Managers: Legal and General Assurance (Pensions Management) Limited and BlackRock Investment Management Limited

Fund Allocation

Fund	Central Benchmark %	Sector Benchmark Index
BlackRock iShares MSCI World SRI UCITs ETF GBP Unhedged	4.0	MSCI WORLD SRI Select Reduced Fossil Fuel Index
BlackRock iShares MSCI World SRI UCITs ETF GBP Hedged	4.0	MSCI WORLD SRI Select Reduced Fossil Fuel Index
Total Equities	8.0	
L&G Index Linked Gilts > 15 years Fund	50.0	FTSE Actuaries Over 15 year Index Linked Gilts
L&G Index Linked Gilts > 5 years Fund	20.0	FTSE Actuaries Over 5 year Index Linked Gilts
L&G FTSE Gilts All Stocks Index Fund	12.0	FTSE Actuaries UK Conventional Gilts All Stocks
L&G Investment Grade Corporate Bond > 15 years Index Fund	10.0	Markit iBoxx £ Non-Gilts Over 15 years Index
Total Bonds	92.0	
Total	100.0	

Defined Contribution (DC) Section

Appointed Investment Managers: Legal & General Investment Management Ltd

Fund Allocation

Option	Fund	Sector Benchmark Index
Equity	Global Equity Fixed weight 60:40 Index Fund	FTSE All Share Index FTSE North American Index FTSE Europe (ex UK) Index FTSE Japan Index FTSE World Asia Pacific (ex Japan) Index
Bond	Pre Retirement Fund	FTSE Actuaries Over 15 year Gilts iBoxx £ Non-Gilt (ex BBB) 15 year+ Index
Cash	Cash Fund	Return on similar cash funds
Diversified Growth Fund	Dynamic Diversified	Bank of England Base Rate +4.5% per annum, over a full market cycle.

Your contact

Bayerische Landesbank
London Branch
120 London Wall
London EC2Y 5ET

Christoph Weaver
Phone +44 20 7955 5110
christoph.weaver@bayernlb.co.uk