

# THE MAHLE POWERTRAIN PENSION SCHEME

## STATEMENT OF INVESTMENT PRINCIPLES (“SIP”)

### Purpose of this Statement

This SIP has been prepared by the Trustee of the MAHLE Powertrain Pension Scheme (the “Scheme”). This statement sets out the principles governing the Trustee’s decisions to invest the assets of the Scheme.

The Scheme’s investment strategy is derived from the Trustee’s investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

### Governance

The Trustee of the Scheme makes all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee’s investment advisers, Isio Group Limited, are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience. The investment advisers’ remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

### Investment objectives

The Trustee invests the assets of the Scheme with the aim of ensuring that all members’ current and future benefits can be paid. The Scheme’s funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme’s circumstances. The Scheme’s funding target is specified in the Statement of Funding Principles.

The Scheme’s present investment objective is to achieve a return of around 0.5%\* per annum above the return on UK Government bonds.

### Investment strategy

The investment strategy is to broadly invest the Scheme’s assets according to the following allocation over the long term:

Asset Class	Target Allocation
<b>Matching</b>	<b>100%</b>
• LDI	65%
• Buy & Maintain bonds	35%
<b>Total</b>	<b>100%</b>

\*based on asset allocation of the target strategy and Isio’s asset class assumptions as at 31 December 2022. This may change over time due to changes in market conditions.

The Trustee will review the Scheme's asset allocation against the targets specified above as needed to determine if any rebalancing is required.

The LDI and Buy & Maintain allocations may drift from their targets over time as the mandates are intended to move in line with changes in the Scheme's liabilities.

The Trustee takes a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by allocating all of the Scheme's assets to investments which are expected to perform in a manner similar to that of the Scheme's liabilities, and also by investing in a suitably diversified portfolio of underlying assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist of investments which are mostly traded on regulated markets.

The Trustee may realise investments from the Scheme assets in order to make payments of benefits and costs under the Scheme. The selection of investments to be so realised is at the discretion of the investment managers.

### **Investment Management Arrangements**

The Trustee has appointed a single investment manager to manage the assets of the Scheme as listed in the SIP. The investment manager is regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

Members' additional voluntary contributions are invested, at their choice, in an appropriate contract, separate from other assets, with Clerical Medical and Equitable Life.

## Investment Mandates

The Trustee has appointed the following managers to manage the assets of the Scheme.

Manager	Fund	Description and fees
Insight Investment Management (Global) Limited	<p>The Scheme is able to invest across the following Insight funds, the exact mix will depend on the liability matching requirements as assessed periodically:</p> <ul style="list-style-type: none"><li>• LDI Funded Gilts Funds;</li><li>• LDI Partially Funded Gilts Funds;</li><li>• LDI Inflation Focus Funds;</li><li>• Liquidity Fund;</li><li>• Liquidity Fund Plus;</li><li>• Maturing Buy &amp; Maintain Bond Funds</li></ul>	<p>The LDI and Maturing Buy &amp; Maintain Bond Funds aim to provide returns that move broadly in line with changes in the value of the liabilities.</p> <p>The annual management charge for the funds are:</p> <ul style="list-style-type: none"><li>• LDI Funded Gilts Funds: 0.04% on the exposure value;</li><li>• LDI Partially Funded Gilts Funds: 0.05% on the exposure value;</li><li>• LDI Inflation Focus Funds: 0.07% on the exposure value;</li><li>• Liquidity Fund: 0.08% on the total net asset value;</li><li>• Liquidity Fund Plus: 0.10% on the total net asset value.</li><li>• Maturing Buy &amp; Maintain Bond Funds: 0.11% on the total net asset value.</li></ul>

## Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<p>The Trustee receives a bi-annual performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.</p> <p>The Scheme's investment managers are invited from time to time, to present to the Trustee on their performance, strategy and risk exposures.</p>	<p>There are significant changes made to the investment strategy.</p> <p>The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.</p> <p>Underperformance vs the performance objective over the period that this objective applies.</p>
Environmental, Social, Corporate Governance factors and the exercising of rights	<p>The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.</p> <p>The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</p> <p>The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.</p>	<p>The manager has not acted in accordance with their policies and frameworks.</p> <p>The manager's policies are not in line with the Trustee's policies in this area.</p>

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.



## **Employer-related investments**

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments.

## **Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

## **Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed:   
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**For and behalf of the Trustee of the MAHLE Powertrain Pension Scheme**

Date: 27 / 4 / 2023  
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## **Appendix A – Investment Beliefs**

### **1. Investment strategy is the most important decision and should be based on clear objectives**

Our long-term goal is to generate returns required to fund our members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are our central considerations.

Our strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

### **2 There is more to robust portfolio construction than diversification alone**

Excessive diversification can introduce inefficiency, cost, and fail to protect our portfolio in a downturn.

**Pay-off profile of assets:** We tailor the expected pay-off profile of the Scheme's investments around our required objectives.

**Excess liquidity of our Scheme:** We may utilise excess liquidity in order to access any illiquidity premium (when illiquidity is rewarded), taking into consideration known cash flow requirements and the need for flexibility.

**True diversification:** We optimise true diversification of underlying risk drivers.

### **3 We aim to select the most appropriate opportunities in the market**

A strategy that buys the right asset, at a fair price, will serve us better than buying the wrong asset at a cheap price.

We consider the most appropriate potential market opportunities in order to help us achieve our long-term objectives.

### **4 A long-term mind-set can be used to enhance returns**

As a long-term investor we pursue incremental growth that rewards adherence to our strategic plan, rather than pursuing short term opportunities rewarding speculation.

We will mitigate or manage risks that we are not rewarded for.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

### **5 Excessive costs will erode performance**

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

### **6 Good governance improves our decision making**

We continuously strive to enhance our knowledge of the investment opportunities and risks facing the Scheme.

We monitor the performance of our strategy and investment managers to improve our decision making.

### **7 Our investment process reflects our beliefs on responsible investing and Stewardship**

We consider environmental, social and corporate governance factors when selecting, monitoring and engaging in the investments we make. Our ESG specific investment beliefs are set out in the ESG Policy Statement.

## Appendix B – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.  Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation.  The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge these risks.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.

Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.</p>
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To delegate to investment managers the consideration of ESG factors in determining the appropriate holdings within their portfolios.</p> <p>Unless there is a good reason to do otherwise, the Trustee will appoint managers who have a Responsible Investment ('RI') Policy / Framework which is Implemented via the Investment Process.</p> <p>The Trustee monitors the managers on an ongoing basis</p>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income where possible.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

## Appendix C

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

<b>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.</b>	As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.
<b>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</b>	<p>The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.</p> <p>The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.</p> <p>The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.</p>
<b>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.</b>	<p>The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</p> <p>The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</p> <p>Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.</p>
<b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</b>	The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
<b>The duration of the Scheme's arrangements with the investment managers</b>	<p>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.</p> <p>For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.</p>
<b>Voting Policy - How the Trustees expect investment managers to vote on their behalf</b>	The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
<b>Engagement Policy - How the Trustees will engage with investment managers, direct</b>	The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.

<p><b>assets and others about 'relevant matters'</b></p>	<p>The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.</p> <p>Example stewardship activities that the Trustee has considered are listed below.</p> <ul style="list-style-type: none"> <li>• Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities</li> <li>• Asset manager engagement and monitoring – on an annual basis, the Trustee assesses the voting and engagement activity of their asset managers. The results of this analysis may feed into the Trustee's investment decision making</li> </ul>
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