MAHLE Powertrain Pension Scheme Implementation Report

April 2022

Document classification: Public

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ("ESG") factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles ("SIP") and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- Policies for managing financially material considerations including ESG factors and climate change; and
- Policies on the stewardship of the investments.

The SIP can be found online at the web address at https://www.mahle-powertrain.com/media/mahle-powertrain/imprint/mpt-pension-scheme/mahle-powertrain-pension-scheme-sip-2020.pdf.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- Actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP;
- The current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- The extent to which the Trustee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest; and
- Voting behaviour covering the reporting year up to 30 September 2021 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

There were no changes to the SIP over the year.

Implementation Statement

This report demonstrates that MAHLE Powertrain Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed DABeecroft

Position CHAIR OF TRUSTEES

Date 26/4/2022

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions taken in the year ending September 2021
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.	The Scheme hedges 100% of its funding level and reviews this periodically to protect against interest rate and inflation risk. This is reflected in a separate Investment Management Agreement with Insight.
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.	The Scheme has a 10% target allocation in the Insight ABS Fund as collateral for LDI. Insight has some discretion to manage collateral requirements automatically, which is reflected in the Investment Management Agreement. The Scheme also has an allocation to a daily dealt diversified growth fund (“DGF”), which can be used to meet other cashflow requirements. The target allocations are reflected in the SIP as at September 2021.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where practicable.	The Scheme’s growth mandate remains within a diversified growth fund which invests across a variety of underlying asset classes. The target allocation to DGF is reflected in the SIP as at September 2021.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available	The Scheme’s credit mandate is managed across a diversified credit fund (“DCF”) as well as an investment grade Buy & Maintain corporate bond fund across different geographies and sectors. The target allocations to DCF, Buy & Maintain corporate

		sufficiently compensates the Scheme for the risk of default.	bonds, and asset-backed securities are reflected in the SIP as at September 2021.
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.	To delegate to investment managers the consideration of ESG factors in determining the appropriate holdings within their portfolios. Unless there is a good reason to do otherwise, the Trustee will appoint managers who have a Responsible Investment ("RI") policy or framework which is implemented via the investment process. The Trustee monitors the managers on an ongoing basis.	The Trustee agreed a separate ESG policy in September 2020 which is referred to in the SIP. The Trustee aims to review the managers' ESG policies annually. The most recent Impact Assessment was undertaken post year-end in Q2 2022, and a list of proposed actions for improvement were communicated to the respective managers. The Trustee agreed to have annual ESG training to equip themselves to make informed decisions on ESG. The most recent of these training sessions was undertaken by Isio with the Trustee in December 2021.
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.	The Scheme is invested in GBP share classes and does not have material currency risk. The Scheme's managers may take currency risk as part of their investment strategy.
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.	

Changes to the SIP

There have been no changes to the SIP over the accounting year.

Current ESG policy and approach

ESG as a financially material risk

This page details how the Scheme's ESG policy is implemented, while the following page outlines the Scheme's ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustee periodically receives information from their investment advisors on the investment managers' approaches to engagement.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustee's policies in this area.

Areas of assessment and ESG beliefs

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme. 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.
Approach / Framework	3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge. 8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

ESG summary and actions with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
Insight – LDI	Overall rating: above satisfactory Insight has demonstrated a comprehensive selection and monitoring process for assessing ESG risks in counterparties and their engagement record with a wider range of market participants is particularly impressive. Insight continue to develop their ESG framework and regularly seek feedback in order to improve.	Insight should consider developing internal diversity targets, focussed not just on gender but also race. Insight should consider greater emphasis on diversity and inclusion issues in assessing companies / counterparties. Insight now include ESG ratings for counterparties in regular reporting for clients following a request by Isio on behalf of the Trustee to do this.	Isio engaged with Insight over the reporting period and post year-end on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio will report back to the Trustee with updates on the Insight engagements.
Insight – Maturing Buy and Maintain ("MBAM") Fund	Overall rating: above satisfactory At a firm level, Insight understands the importance of ESG integration in investment decision making. At a fund level, ESG forms a clear part of credit risk assessment. Data availability is strong in the investment grade issuer space, and Insight utilise this to provide detailed regular ESG reporting. However, the Fund does not have any specific ESG objectives and there are key developments for Insight to progress relating to engagement reporting.	Insight should consider setting specific ESG objectives for the Fund. Insight should develop a means to model how various climate scenarios may affect the Fund's value. Insight should continue to improve the amount of data on ESG metrics collected from issuers. Insight should implement a system to assess the effectiveness of engagements. Insight should consider centralising engagement activity within a central ESG/stewardship team Insight should include more information on engagement activity in regular reporting	

		Insight should continue to work with issuers and originators to develop the availability of ESG data and demonstrate how this has been achieved.	
Insight – High Grade ABS	Overall rating: satisfies requirement We believe that Insight have shown a strong level of engagement on ESG and have adequate risk management controls in place. However, integrating ESG considerations within ABS is more challenging than other fixed income strategies, with data collection a common issue across the ABS market. While ABS data quality issues are outside of Insight's control, we would like to see Insight seek solutions, such as using proxy data where required.	Insight should continue to increase ESG metrics collected from originators, looking to use proxy data where data is unavailable. Insight should develop Fund-specific quantifiable ESG objectives. Insight should develop their stewardship policy and make this public. Insight should set KPIs for their engagements. Insight should introduce ESG reporting in the regular Funds' reports. Insight should develop a framework for reporting on ESG issues and include this in regular client reporting.	
M&G – Alpha Opportunities Fund	Overall rating: above satisfactory M&G have evidenced their ability to consider the significance of ESG factors in this fund. M&G should consider measurable ESG objectives for the Fund as well as a framework to reach Net Zero by 2050. M&G are actively developing tools to improve ESG modelling and reporting and should continue to increase the number of ESG metrics available for reporting purposes.	M&G should continue the development climate scenario modelling and temperature pathways. M&G should continue the development of climate scenario modelling capabilities and a temperature alignment pathway. M&G have developed an ESG scorecard which is used for all potential issuers. However M&G should provide specific ESG objectives and policy for the Fund. M&G have expanded the scope of their reporting of ESG metrics, and now provide quarterly reporting on their engagements. M&G should continue to improve reporting metrics such as TCFD requirements, and aim to be able to provide specific ESG ratings for each asset in the Fund.	Isio engaged with M&G over the reporting period and post year-end on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio will report back to the Trustee with updates on the M&G engagements.
BlackRock – Dynamic Diversified Growth Fund	Overall rating: above satisfactory The Fund benefits from BlackRock's scale to drive improvements in its ESG capabilities. The	BlackRock should consider adopting specific targets for the Fund. BlackRock should consider producing regular diversity reports which clearly show	Isio engaged with BlackRock over the reporting period and post year-end on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio will report

	integration of ESG factors is clearly evident in the identification of risks and opportunities which ultimately translate into investment decisions.	BlackRock's and the Fund's diversity metrics and the progress made towards any targets, which should align with the firm-wide diversity policies. BlackRock to consider running climate change scenario analysis on the portfolio. This can be via an external provider or through Aladdin Climate once available. BlackRock should include the Fund's ESG metrics as well as significant voting and engagement data in their quarterly client reporting.	back to the Trustee with updates on the BlackRock engagements.

Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 30 September 2021.

Fund name	Engagement summary	Commentary
Insight – LDI	Total engagements: 22 Environmental: 0 Social: 1 Governance: 21	When identifying material ESG risks, Insight engage with companies and other issuers to understand the issues and exert influence on behalf of clients to encourage change. Some issues are too big to tackle alone, in which case they may collaborate with other stakeholders such as regulators. Examples of significant engagements include: Derivative counterparty banks – Given that the counterparties are predominantly financial institutions, governance is typically the focus of ESG discussions in LDI. Governance forms part of the underlying fundamental assessment of a counterparty through Insight's proprietary risk score. This risk score is formally reviewed on a monthly basis with particular focus on counterparties previously rated as inadequate. Engagements can lead to a pause in trading with a bank or a decision to not add any further exposure if its governance position has not improved. Participant of UK Working Group on Risk-Free Reference Rates and SONIA Oversight Committee, Financial Conduct Authority, Bank of England– Insight is playing an active role in the interest-rate benchmark reform process. In addition, Insight has participated in the RFR Tough Legacy Taskforce to examine regulatory dependencies associated with LIBOR transition, the ISDA Working Group on LIBOR, and the SONIA Oversight Committee set up to focus on fallback rates in derivative contracts. Insight has taken part in various consultations, including the ISDA Benchmark Fallback Consultation in which Insight recommended the 'compounded setting in arrears rate' for the adjusted risk-free rate and the 'historical mean/median approach' for spread adjustment. Both of these choices were chosen by the majority of respondents.
Insight – Maturing Buy and Maintain ("MBAM") Fund	Total entities engaged with: 42	Insight have demonstrated evidence of engagement on ESG issuers with a variety of issuers. They measure the effectiveness of engagements by issuer response rate but do not set engagement KPIs with portfolio companies on engagement priority areas. Examples of significant engagements include:

		Transport for London - Insight engaged to discuss TFL's overall carbon transition plans and their overall ESG strategy. Insight's influence contributed to TFL bringing forward their target for a fully electric bus fleet to 2037 and helped to improve the efficiency of heating solutions on tube networks. Overall, the engagement confirmed that TFL are making convincing strides to transition to a lower carbon footprint. Wells Fargo - Insight engaged with the bank's management after rating the business poorly on the "Social" element of their ESG scoring metrics, due to controversies related to unlawful sales practices and unfair compensation of employees. Insight requested information on what changes they were looking to make to their governance structure. The bank ultimately made significant changes to senior management by appointing a new CEO, CFO, COO, risk management chief. Wells Fargo have also created a new Chief Customer Office focused on consumer product appropriateness and have put in place a new risk management regime.
Insight – High Grade ABS	Total entities engaged with: 209	Insight engage with issuers when underwriting deals. These engagement activities are consistent with the firm's stewardship and ESG policies. Examples of significant engagements include: Pepper (Australian non-bank lender) -. Insight engaged with Pepper on how they deal with environmental risks as their disclosure was limited. Pepper are in the process of improving how they gather and track environmental metrics such as the carbon impact of the loans or environmental stress tests. Insight will follow up with engagement conversations looking for progress on Pepper's environmental disclosure. Together Financial Services (UK company providing mortgages) –Insight had a one-to-one meeting with senior management at Together to discuss responses to the ESG template, particularly around environmental concerns. Together do not incorporate any climate risks on their loans beyond standard business practice, as with most originators carbon data and environmental metrics are limited or absent. Insight have proposed some improvements but, overall, have assessed Together as a well-managed business from an ESG perspective.
M&G – Alpha Opportunities Fund	Total Engagements: 16 Environmental: 5 Social: 1 Governance: 10	M&G's engagement activities remain consistent with firm-wide ESG policies, utilising a systematic approach to engagement, whereby specific objectives are outlined in advance and measured based on the outcomes from the engagements. M&G monitor the success of engagements by assessing whether they have met their objective and log this on a central system. Examples of significant engagements include: British Petroleum (global oil & gas company) - M&G sought enhanced carbon data and emissions disclosure to support its effort towards a Net Zero portfolio by 2050. BP agreed to use the Customer Data Platform to disclose carbon exposure and planned to respond to the CDP Climate Change Questionnaire.

		Experian (consumer credit reporting company) - M&G engaged to address concerns over data breach allegations in South Africa and Brazil. Meeting with the head of investor relations, Experian provided a comprehensive repost to the allegations regarding Brazil. Taking responsibility for the South African breach, the company also provided reassurance that it was improving its onboarding process to avoid future such data breaches.
BlackRock – Dynamic Diversified Growth Fund	Total Engagements: 754 Environmental: 511 Social: 285 Governance: 622	BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. These engagements largely relate to the Fund's equity positions only, which comprised c.32% of the overall portfolio as at 30 September 2021. Examples of significant engagements include: Chevron Corporation - BlackRock has a long and constructive history of engagement with Chevron. BlackRock has discussed a range of topics, including corporate governance, climate reporting, greenhouse gas (GHG) and methane emissions reductions, human capital management, and risk oversight processes, among other topics. While Chevron has not made the commitments of some of its European peers towards emissions reductions or business model shifts towards lower carbon alternatives, the company has been consistently open to evolving its reporting processes in response to feedback from investors. Chevron now provides reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). Woodside Petroleum Ltd. – BlackRock regularly monitors Woodside's governance practices and risk profile as part of its responsibility to shareholders. In recent engagements with the company's board, BlackRock had extensive discussions on a range of material issues including the company's approach to the Task Force on Climate-related Financial Disclosures (TCFD), board composition and diversity, broad refreshment and supply chain-related issues.

Voting

As the Scheme invests via fund managers, the managers provided details on their voting actions (where applicable) including a summary of the activity covering the reporting year up to 30 September 2021. The managers also provided examples of any significant votes.

This section only relates to the BlackRock DGF Fund as the other mandates do not include any equity shareholdings.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock – Dynamic Diversified Growth Fund	Meetings voted: 991 Resolutions voted: 12,302 of a possible 12,303 Votes cast: 959 Votes 'for' management: 763 Votes 'against' management: 124	AT&T Inc. – BlackRock voted against the election of Scott T. Ford as Director as the pay was not properly aligned with performance and/or peers. BlackRock's view is that such an outcome would not align with shareholder interests, particularly regarding the generation of sustainable long-term value. Chevron Corporation – BlackRock voted for a proposal to reduce Scope 3 Emissions in a trajectory consistent with what is expected of large companies like Chevron and its peers. BlackRock was also motivated by the belief that it is in the best interests of shareholders to have access to greater disclosure on this issue.	BlackRock use Institutional Shareholder Services' electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holdings directors accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.

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