



MAHLE Powertrain Pension Scheme Implementation Report

January 2025

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Statement of Investment Principles (SIP)

The SIP can be found online at the web address below:

<https://www.mahle-powertrain.com/media/mahle-powertrain/imprint/mpt-pension-scheme/statement-of-investment-principles-sip-april-2024.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
- reporting on the engagement activity of the fund manager with the companies in the investment mandate.

Summary of key actions undertaken over the Plan reporting year

In December 2023, the Trustee purchased an insurance buy-in policy with the Pension Insurance Corporation ("PIC"), insuring all of the Scheme's liabilities. The Trustee also appointed Insight to manage the residual assets of the Scheme through the Insight Liquidity Fund (ILF).

The purpose of these changes was to guarantee all current and future pension payments for the Scheme's members, and to hold the Scheme's remaining assets in a stable, liquid fund from which ongoing expenses could be funded whilst offering a return comparable to short term Sterling interest rates.

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



Position

Chair of Trustees

Date

2nd February 2025

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
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 through the buy-in policy.	In December 2023 the Trustee purchased an insurance buy-in policy, which removed all of the interest rate and inflation risk for the liabilities covered by the policy.
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). This is achieved through the buy-in policy and investment of the residual assets in funds with a high degree of liquidity.	In December 2023 the Trustee purchased an insurance buy-in policy, which pays income to the Scheme which is expected to broadly match the Scheme's benefit outgo. The residual assets held in the cash fund with Insight are expected to be stable in value and trade on a daily basis.
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. This is predominately achieved through the buy-in policy	In December 2023 the Trustee purchased an insurance buy-in policy, which removed direct market-related risks.
Credit	Default on payments due as part of a financial security contract.	To appoint an investment managers who actively manages this risk by seeking to invest only in cash and debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	The insurer will manage credit risk within their portfolio as they see fit.
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 the insurer and investment manager the consideration of ESG factors in determining the appropriate holdings within their portfolios.	

Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The management of currency risk within their respective portfolios is delegated to the insurer and investment manager.
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

Following the purchase of an insurance buy-in policy, the Trustee made a number of changes to the SIP. The changes made in relation to the Trustee's policies relating to ESG and stewardship are set out below:

Date updated: April 2024

Environmental, Social and Governance policy

- To delegate to the insurer and investment manager the consideration of ESG factors in determining the appropriate holdings within their portfolios.

Implementing the 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 manager’s 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 manager is 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. The contractual nature of the buy-in policy with PIC means there is limited scope to affect change through engagement of PIC or the underlying assets.

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’s investment manager provides regular reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.	<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>

The investment process reflects the Trustee’s beliefs on responsible investing and Stewardship. The Trustee considers environmental, social and corporate governance factors when selecting, monitoring and engaging in the investments they make. Their ESG specific investment beliefs are set out in the ESG Policy Statement.

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	<p>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</p> <p>4. ESG factors are relevant to investment decisions in all asset classes.</p> <p>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</p>
Reporting & Monitoring	<p>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</p> <p>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</p> <p>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.</p>
Voting & Engagement	<p>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</p> <p>10. Engaging is more effective in seeking to initiate change than disinvesting.</p>
Collaboration	<p>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.</p> <p>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.</p>

Engagement

As the Scheme invests via a pooled fund, the manager provides details on their engagement actions including a summary of the engagements by category for the 12 months to 30 September 2024.

Fund name	Engagement summary	Commentary
Insight Liquidity Fund	<p>Total engagements: 4</p> <p>Environmental: 1</p> <p>Social: 1</p> <p>Governance: 0</p> <p>*One engagement covering multiple engagement themes</p>	<p>Insight engages with issues on such factors which include, but are not limited to strategy, capital allocation and competitive positioning. ESG factors can also drive engagement where their analysts believe them to have financial relevance.</p> <p>An example of a significant engagement is:</p> <p>The Bank of Nova Scotia: BNS links ESG performance to executive remuneration but has used mainly qualitative metrics to date. Insight engaged with BNS and as a result it is starting to transition from qualitative towards quantitative metrics with regards to executive remuneration to make the approach more robust and transparent.</p>

Voting (for equity/multi asset funds only)

The Scheme is not invested in any assets that have voting rights.

This report has been prepared for the sole benefit of the Trustee of the MAHLE Powertrain Pension Scheme and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited's services contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited accepts no responsibility or liability to that party in connection with the Services.