



# MAHLE Powertrain Pension Scheme Implementation Report

January 2024

# 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.

## Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address <https://www.mahle-powertrain.com/en/imprint/#mptpensionscheme> changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Scheme 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 Scheme 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 in the investment mandate.
- voting behaviour covering the reporting year up to 30 September 2023 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

Over the year the Trustee de-risked the investment strategy following a significant improvement in the Scheme's funding level. This involved liquidating the M&G Opportunities Fund and BlackRock Diversified Growth Fund investments to hold as cash collateral within the Scheme's liability hedging portfolio.

## 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

13<sup>th</sup> February 2024

# Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions taken in the year ending September 2023
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's target liability hedge was updated over the year to be equivalent to a 95% of a proxy buyout basis.  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.	Insight has some discretion to manage collateral requirements automatically, which is reflected in the Investment Management Agreement.  During 2023, the scheme's ABS mandate, AOF mandate and the diversified growth fund were sold and the proceeds were held in the Insight Liquidity Fund.  The target allocation to AOF was updated to 0% in the SIP as at April 2023.
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 (DGF) was fully disinvested from in April 2023.  The target allocation to DGF was updated to 0% in the SIP as at April 2023.
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 sufficiently compensates the Scheme for the risk of default.	The Scheme's ABS allocation and the diversified credit fund ("DCF") were sold over the year. The investment grade Buy & Maintain corporate bond fund is managed across different geographies and sectors.  The target allocation to Buy & Maintain corporate bonds is reflected in the SIP as at April 2023, with a 0% allocation to ABS.

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 or framework which is implemented via the investment process.</p> <p>The Trustee monitors the managers on an ongoing basis.</p>	<p>The Trustee agreed a separate ESG policy in September 2020 which is referred to in the SIP.</p> <p>The Trustee aims to review the managers' ESG policies annually. The most recent Impact Assessment was undertaken in Q2 2022, and a list of proposed actions for improvement were communicated to the respective managers.</p> <p>Impact Assessment and ESG processes were not updated over the year 2023 due to a greater focus on managing risk during the gilts crisis toward the end of 2022, as well as progressing towards the buy-in strategy for the Scheme.</p> <p>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.</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.	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

Over the period to 30 September 2023, the Trustee made changes to the target asset allocations and expected return target, as well as some changes to the SIP to reflect more recent regulatory requirements.

## Policies added to the SIP

Date updated: April 2023

Environmental, Social, Corporate Governance factors and the exercising of rights

- The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.
- The Trustees will engage, via their investment adviser, with investment managers and other relevant persons about relevant matters at least annually.

Voting Policy - How the Trustees expect investment managers to vote on their behalf

- The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

- The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
- Example stewardship activities that the Trustee has considered are listed below.
  - Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities
  - Asset manager engagement and monitoring – on an annual basis the Trustee assess the voting and engagement activity of their asset managers. The results of this analysis may feed into the Trustee's investment decision making
- Collaborative investor initiatives – the Trustee will consider joining/supporting collaborative investor initiatives

# 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	<ul style="list-style-type: none"> <li>The Trustee receives information from their investment advisers on the investment managers’ approaches to engagement.</li> <li>The Trustee’s investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.</li> </ul>	<ul style="list-style-type: none"> <li>The manager has not acted in accordance with their policies and frameworks.</li> <li>The manager’s policies are not in line with the Trustee’s policies in this area.</li> </ul>

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	<ol style="list-style-type: none"> <li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme.</li> <li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.</li> </ol>
Approach / Framework	<ol style="list-style-type: none"> <li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li> <li>4. ESG factors are relevant to investment decisions in all asset classes.</li> <li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li> </ol>
Reporting & Monitoring	<ol style="list-style-type: none"> <li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li> <li>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</li> <li>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.</li> </ol>
Voting & Engagement	<ol style="list-style-type: none"> <li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li> <li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li> </ol>
Collaboration	<ol style="list-style-type: none"> <li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li> <li>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.</li> </ol>

# ESG summary and actions with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
Insight – LDI	<p>Overall rating: above satisfactory</p> <p>Insight have a robust ESG scoring system for the counterparties they deal with.</p> <p>Insight have made improvements to their counterparty engagement process with the aim of achieving a greater level of impact in their engagements with counterparties.</p>	<p>Insight should consider developing internal diversity targets, focussed not just on gender but also race.</p> <p>Insight should consider greater emphasis on diversity and inclusion issues in assessing companies / counterparties.</p> <p>Insight should consider the inclusion of an engagement summary in regular reporting.</p> <p>Insight should consider key KPIs and milestones for engagement.</p>	
Insight – Maturing Buy and Maintain (“MBAM”) Fund	<p>Overall rating: above satisfactory</p> <p>We believe that Insight has a strong approach to ESG risk management as they have a dedicated Responsible Investment team overseeing ESG integration across all investment teams. In the last year Insight has also introduced the ‘ESG Academy’ providing firm-wide compulsory training on ESG matters.</p> <p>Engagement activity could be improved by being co-ordinated by a central team rather than overseen by analysts. Similarly, reporting should include details of the engagement activity.</p>	<p>Insight should consider setting specific ESG objectives for the Fund.</p> <p>Insight should centralise engagement activity to use ‘one voice’ when communicating with issuers</p> <p>Insight should include detail on engagement activity and engagement outcomes in the quarterly reports.</p> <p>Insight should continue to improve coverage of total GHG emissions.</p>	<p>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.</p> <p>The Scheme’s allocation to the Insight High Grade ABS Fund was sold over the year.</p>



<p>Insight – High Grade ABS</p>	<p>Overall rating: satisfies requirement</p> <p>Insight has shown a good level of engagement and data collection from the originators, however there is still a clear lack of data collection quality, which is common in the ABS market.</p> <p>Insight has improved their risk management with the introduction of the ‘ESG Academy’ that provides firm-wide compulsory training on ESG matters on an ongoing basis.</p>	<p>Insight should continue to engage with originators to improve the quality of ESG data collection.</p> <p>Insight should develop a quantitative scorecard for originators.</p> <p>Insight should develop their stewardship policy and make this public.</p> <p>Insight should include engagement metrics in their ESG reporting.</p>	
<p>M&amp;G – Alpha Opportunities Fund</p>	<p>Overall rating: above satisfactory</p> <p>M&amp;G have a strong firm-wide ESG approach and have evidenced their ability to manage ESG risks in this Fund. However, we note reporting is a slightly weaker area due to data reporting issues in certain areas of the portfolio, which M&amp;G are working to address.</p> <p>While the Fund scores well on ESG integration, M&amp;G are developing a ‘sustainable’ version of the Fund with a greater focus on impact investments for clients with stronger ESG goals.</p>	<p>M&amp;G should introduce KPIs to track to the Fund’s alignment with the firm-wide ESG policy.</p> <p>M&amp;G should continue to develop temperature scenario modelling.</p> <p>M&amp;G should increase the number of portfolio issuers they are actively engaging with on ESG specific issues.</p> <p>M&amp;G should continue to improve data coverage and reporting metrics, with a particular focus on social and engagement reporting.</p>	<p>Isio engaged with M&amp;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&amp;G engagements. The Scheme’s allocation to the Alpha Opportunities Fund was sold over the year.</p>
<p>BlackRock – Dynamic Diversified Growth Fund</p>	<p>Overall rating: above satisfactory</p> <p>There remains no dedicated ESG policy in place for this fund and the fund lacks any quantifiable objective or a specific journey to net zero. However, the fund has demonstrated no investment decisions based on sustainability grounds and actively seek ESG investment opportunities. They have a publicly available Global Stewardship Policy and a</p>	<p>BlackRock should implement a specific ESG policy for fund.</p> <p>BlackRock should consider producing fund manager reporting on alignment with temperature pathway and impact of climate change scenarios</p> <p>BlackRock should create fund level stewardship priorities.</p> <p>BlackRock should Introduce GHG metrics for reporting.</p>	<p>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 back to the Trustee with updates on the BlackRock engagements. The Scheme’s allocation to DGF was sold over the year.</p>

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central stewardship team .  
ESG metrics are available  
on request and are updated  
monthly. BlackRock has a  
PRI rating of A+ for  
strategy, governance and  
integration of responsible  
investment related issues  
whilst being a signatory of  
United Nations Principles of  
Responsible of Investment,  
Taskforce for Climate  
Related Financial  
Disclosures, Net Zero Asset  
Managers Initiative.

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# 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 2023.

Fund name	Engagement summary	Commentary
Insight – LDI	Total entities engaged with: 115	<p>Isio are engaging with Insight on reporting for fund level metrics, however only firm level metrics are available at the moment. When identifying material ESG risks, Insight engages 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.</p> <p>An example of a significant engagement is:</p> <p>Heathrow Airport – Insight engaged Heathrow Airport on their climate action plan. In Q1 2023, Heathrow received approval from the Science Based Targets Initiative (SBTi) for their 2030 carbon reduction targets, confirming they are consistent with a 1.5 degree trajectory. Heathrow is the first airport to achieve this status with SBTi's updated 1.5 degree standard.</p>
Insight – Maturing Buy and Maintain (“MBAM”) Funds	Total entities engaged with: 36 (MBAM 2031-2035) 33 (MBAM 2036-2040)	<p>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.</p> <p>An example of a significant engagement is:</p> <p>Citigroup - Citi is expected to report facilitated emissions therefore Insight has recommended that Citi improve its fossil fuel financing policy to be comparable with their European peers given they are still one of the largest financiers of fossil fuels and continue to get pressure from the German government to finance RWE despite coal expansion. They are cognisant of the challenges in navigating the political agenda around ESG but are using the opportunity to clarify their focus and navigate different client preferences under global policies by highlighting different elements of the policy in different regions, which has raised concerns around possible greenwashing. This engagement is aligned to the following Sustainable</p>

		<p>Development goals: SDG 5 - Gender Equality, SDG 8 - Decent Work and Economic Growth, SDG - 10 Reduced Inequalities and SDG – 13 Climate Action. Insight continues to monitor progress on the areas discussed.</p>
<p>Insight Liquidity Fund</p>	<p>Total Engagements: 5</p>	<p>Isio are engaging with Insight on reporting for fund level metrics, however only firm level metrics are available at the moment.</p> <p>An example of a significant engagement is:</p> <p>The Bank of Nova Scotia (BNS) - Insight engage with BNS as part of their counterparty engagement programme to understand its ESG capabilities; to provide high level feedback on a recently completed questionnaire and to discuss the areas of underperformance in more detail. They challenged the bank on the areas of underperformance in the questionnaire relative to its peers. BNS was receptive to their comments. BNS now have set targets using 2019 as a baseline across 4 sectors: Oil &amp; Gas, Power &amp; Utilities, Residential Mortgages and Agriculture. The decarbonisation strategies for the latter two are in an earlier stage due to challenges with data availability. Insight will provide feedback and monitor the progress of our feedback over time.</p>
<p>M&amp;G – Alpha Opportunities Fund</p>	<p>Total Engagements: 8</p> <p>Environmental: 4</p> <p>Social: 3</p> <p>Governance: 1</p>	<p>M&amp;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&amp;G monitor the success of engagements by assessing whether they have met their objective and log this on a central system.</p> <p>An example of a significant engagement is:</p> <p>Informa PLC – M&amp;G had a call with the incoming Remuneration Chair and followed up with the AGM vote given the significant dissent levels Informa have experienced over recent years. The Board has committed to change the Remuneration Chair. The proposed policy was far more sensible than previous policies, and hence M&amp;G supported the updated policy and the new Remco Chair in her re-election.</p>

<p>BlackRock – Dynamic Diversified Growth Fund</p>	<p>Total Engagements: 383</p> <p>Environmental: 176</p> <p>Social: 151</p> <p>Governance: 337</p>	<p>BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions.</p> <p>An example of a significant engagement is:</p> <p>Shell PLC - BlackRock has engaged regularly with Shell over the last several years to discuss a range of corporate governance and sustainable business matters. BlackRock Investment Stewardship (BIS) supported the proposal to Approve the Shell Energy Transition Progress Update in recognition of the company’s disclosed energy transition plan to manage climate-related risks and opportunities and the company’s progress against this strategy. BIS did not support the shareholder proposal to Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions because they believe that it is not additive to Shell’s Energy Transition Strategy and that the company’s ability to set absolute short-and medium-term scope 3 emissions reduction targets is impeded by the current uncertainty around the pace of declines in oil and gas demand as well as energy security considerations.</p>
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# 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 2023. The managers also provided examples of any significant votes.

The Trustee has adopted the managers definition of significant votes and has not set stewardship priorities. The managers have provided examples of votes they deem to be significant, and the Trustee has shown the votes relating to the greatest exposure within the Scheme’s investment. When requesting data annually, via their investment consultant, the Trustee informs their managers what they deem most significant.

This section only relates to the BlackRock DGF Fund as the other mandates do not include any equity shareholdings. The BlackRock DGF holding was sold over the year.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock – Dynamic Diversified Growth Fund	<p>Meetings voted: 846</p> <p>Resolutions voted: 10,488 of a possible 10,948</p> <p>Votes ‘for’ management: 9,957</p> <p>Votes ‘against’ management: 531</p> <p>‘Abstained’ from voting: 151</p>	<p>Amazon - BlackRock did not support the re-election of the Chair of the Leadership Development and Compensation Committee- Judith A. McGrath, because of their concerns about the Board’s response to various human capital management risks, which they believe may create adverse impacts that could expose the company to legal, regulatory, and operational risks and jeopardize their long-term success.</p> <p>Equinor ASA - BlackRock supported the shareholder proposal for Action Plan for Quality Assurance and Anti-Corruption because. In their view, these are material issues for the company, and they see potential areas for improvement.</p> <p>Siemens - BlackRock supported the shareholder proposal to Approve Virtual-Only Shareholder meetings until 2025, in order to benefit from cost and resource efficiency, as well as reducing corporate carbon emissions from director and executive travel.</p>	<p>The BlackRock team, and its voting and engagement work, continuously evolves in response to changing governance related developments and expectations. Their voting guidelines are market-specific to ensure they take into account a company’s unique circumstances by market, where relevant. Their engagement priorities are global in nature and are informed by their observations of governance related and market developments, as well as through dialogue with multiple stakeholders, including clients.</p>

This report has been prepared for the sole benefit of the Trustee of 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.