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.

The majority of the Scheme's assets are invested with Pension Insurance Corporation ("PIC") in a buy-in policy that secures the pensions payable for all members. The residual assets are invested with Insight Investment Management (Global) Limited ("Insight").

The Trustee expects PIC and Insight to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this Statement so far as is reasonably practicable.

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. This is expected to be achieved by investing the majority of the Scheme's assets in a buy-in policy with PIC.

Investment strategy

The majority of the Scheme's assets are invested with PIC in a buy-in policy, with the residual assets following the buy-in invested in a cash fund. The Trustee also operates a bank account for operational purposes, which maintains a minimal balance.

The Scheme's investment strategy was derived following careful consideration of 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 cost of insuring the liabilities, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The benefits of a buy-in policy have been deemed appropriate, having taken the Trustee's objectives into account.

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.

The Trustee and its advisers considered this risk when setting the investment strategy and agreed that the best way to mitigate these risks was to insure member benefits via the buy-in policy. Other risks identified are as follows:

- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cashflow risk"). The Trustee and its advisers considered this risk when setting the investment strategy and have acted to minimise its potential effect via the buy-in policy.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and their advisers considered this (and potential counterparty) risk when deciding on which insurer to use to transact the buy-in policy.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). The nature of the buy-in policy now largely mitigates against the impact of a change in the sponsoring company's covenant. Reliance on the sponsoring company's covenant will only be removed entirely when the Scheme transitions to buy out.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Investment Management Arrangements

Alongside PIC the Trustee has appointed Insight to manage the residual assets of the Scheme . Insight is regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the residual assets have been delegated to Insight. 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 Utmost Life & Pensions.

The Trustee has delegated all day-to-day decisions about the operations that fall within the buy-in policy to PIC through a written contract. When choosing investments, the Trustee, fund managers and insurers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). Fund managers and insurers' duties include voting and corporate governance in relation to the assets.

Investment Mandates

The Trustee has appointed Insight to manage the residual assets of the Scheme that aren't part of the buy-in policy with PIC. Details of how the residual assets are invested is given below:

Manager	Fund	Description and fees
Insight Investment Management (Global) Limited	The Scheme invests in the Insight Liquidity Fund.	The Liquidity Fund provides stability of capital, daily liquidity and income which is comparable to Sterling denominated short dated money market interest rates The annual management charge for the fund is: • Liquidity Fund: 0.08% on the total net asset value.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with Insight, PIC 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	The Trustee receives a quarterly factsheet from Insight which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.	There are significant changes made to the investment strategy. The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. Underperformance vs the performance objective over the period that this objective applies.
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.	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.

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

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.

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: ……………………………………

For and behalf of the Trustee of the MAHLE Powertrain Pension Scheme

Date: 5th April 2024

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:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	Following the buy-in of all Scheme liabilities (excluding a small portion set aside for Guaranteed Minimum Pension equalisation) the Scheme does not need to take any investment risk and all remaining assets are invested in a cash fund.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	Following the buy-in of all Scheme liabilities (excluding a small portion set aside for Guaranteed Minimum Pension equalisation) the Scheme's funding risk is negligible.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	Following the buy-in of all Scheme liabilities (excluding a small portion set aside for Guaranteed Minimum Pension equalisation) the requirement for the sponsor company to provide support to the Scheme is negligible.

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

Risk	Definition	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.
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.
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.
Credit	Default on payments due as part of a financial security contract.	To appoint an investment manager who actively manages this risk for the residual assets 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.

Appendix C

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

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	As the Scheme is invested in a pooled cash fund and a buy-in policy , there is not scope for these assets to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio that is aligned to the strategic objective.
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.	The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
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.	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. The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. Investment manager fees are reviewed annually (where applicable) to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	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.
The duration of the Scheme's arrangements with the investment managers	The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. 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.
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	The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.

assets and others about ‘relevant matters’	