XPS Investment

European Automotive Components Group Pension Scheme

Statement of Investment Principles

March 2024

Contents

01 **Introduction**

01.01 Scope of this document

This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 of the Pensions Act 1995 for the European Automotive Components Group Pension Scheme (the "Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK (the "Myners Principles"). This SIP also reflects the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

This SIP relates to the Defined Benefit (DB) Section of the Scheme; the Defined Contribution (DC) Section is covered in a separate SIP.

01.02 Defined benefits

Each member's pension is specified in the Trust Deed and Rules in the terms of a formula based on salary and service and therefore is not directly affected by the investment return achieved on the Scheme's assets.

All active members of the Scheme are required to make pension contributions, with all employee and employer contributions being paid to Individual Member Accounts.

The relevant employer within the European Automotive Components Group is responsible for meeting the balance of costs necessary to finance the defined benefits payable from the Scheme. The contributions paid by the relevant employer are determined from time to time based on the advice of the Scheme's actuary. The final salary section of the Scheme is now closed to future accrual.

All participating employers in the European Automotive Components Group therefore have a direct financial interest in the investment return achieved on the Scheme's assets while the Scheme members have an interest in the extent to which the Scheme's assets are sufficient to meet accrued benefits.

01.03 Responsibilities

It is the Trustees' policy to take advice from the relevant advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed. They have also consulted with Eurac Limited, as the Principal Employer, on behalf of all the participating employers.

With these items in mind, the Trustees of the Scheme decide upon the investment policy and objectives. The day-to-day investment decisions, such as stock selection and tactical asset allocation decisions rest with the Scheme's appointed investment managers as detailed in Section 6.

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the investment managers or the relevant advisers as appropriate.

The Trustees believe the Investment Adviser, XPS Investment Limited, to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The investment powers of the Trustees are set out in clause 10 of the Scheme's Trust Deed. The powers granted by this clause do not conflict with the contents of this document.

01.04 Preparation

The principles outlined in this document are effective from the date hereof and its contents will be reviewed at least annually, as well as alongside any significant changes in the Scheme's Investment Strategy. The Trustees confirm that they will consult with the Principal Employer and take advice from the Scheme Actuary and the Investment Adviser (collectively termed 'the Advisers') prior to this Statement being revised. At least every 12 months the Trustees will review the investment performance of the investment managers in line with section 6 of this statement.

01.05 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Investment Adviser, to ensure the assets of the Scheme are invested in accordance with these Principles.

02 **Scheme governance**

The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the investment managers of pooled funds. Appropriate advice is obtained before decisions are made about which pooled funds to invest in. The responsibilities of each of the parties involved in the Scheme's governance are set out below:

The Trustees of the Scheme are responsible for, amongst other things:

- i) Determining the investment objectives of the Scheme and reviewing these from time to time.
- ii) Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- iii) Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Investment Adviser.
- iv) Reviewing the suitability of the investment policy alongside each actuarial or investment review, in consultation with the Investment Adviser.
- v) Assessing the performance of the pooled funds and the processes they use by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Investment Adviser.
- vi) Selecting pooled funds which are consistent with the investment strategy after consultation with the Investment Adviser.
- vii) Assessing the ongoing effectiveness of the Investment Adviser.
- viii) Consulting with the Principal Employer when reviewing investment policy issues.
- ix) Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x) Informing the Investment Adviser of any changes to Scheme benefits or significant changes in membership.

The Investment Adviser will be responsible for, amongst other things:

- i) Participating with the Trustees in reviews of this SIP.
- ii) Advising the Trustees how any changes within the Scheme's benefits, membership and the funding position of the defined benefit section may affect the manner in which the assets should be invested.
- iii) Advising the Trustees of any changes in the Scheme's investment managers that could affect the interests of the Scheme.
- iv) Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.
- v) Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current investment managers, and providing advice on the selection of new managers/custodians/performance measurers, as appropriate.

The Scheme Actuary will be responsible for, amongst other things:

- i) Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.
- ii) Performing the triennial (or more frequently as required) valuations of the defined benefit section and advising on the appropriate contribution levels.

iii) Commenting on the appropriateness of the investment strategy relative to the defined benefit liabilities of the Scheme at the triennial valuations.
iv) Advising the Trustees and Investment Adviser of any changes to contribution levels and funding level of the defined benefit section.

Custody for the Scheme's assets is provided through the investment managers by the following custodians:

- Citibank
- HSBC
- Bank of New York Mellon

03 Risks

The Trustees' investment policy has been decided following consideration of the types of investment risk.

Risk from Inflation

The Trustees believe that the greatest risk to the funding of the members' anticipated benefits is the effect of inflation eroding the real value of investments. The Trustees believe it important to invest primarily in assets that can earn returns superior to price inflation.

Risk from Lack of Diversification

The Trustees, believe that an adequately diversified overall asset allocation should be adopted to reduce the short term volatility of returns from particular asset classes and the risk of default on any particular holding.

Risk from Unsuitable Investments and Inappropriate Investment Activity

The Trustees believe that restraints should be placed on the investment managers' ability to use derivatives and engage in stock lending and underwriting and these are set out in writing by their investment managers. The Trustees also undertake regular monitoring of the investment managers and the Investment Adviser.

Exchange Rate Risk and Political Risk

The Trustees recognise that the Scheme is a UK Scheme and that benefits will need to be taken in sterling. They therefore note the risk associated with overseas investments.

Risk Related to the Liabilities

The Trustees believe that they should consider the liability profile of the Scheme when choosing their asset classes.

Risk of holding assets that cannot be easily sold should the need arise

The Trustees acknowledge that they need to ensure that sufficient assets are able to be accessed in the event that urgent cashflows are required. The majority of the assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustees require (i.e. the underlying investments are traded regularly on a public exchange or invested via units in a pooled fund with frequent dealing dates).

Risk of underperforming assets

The Trustees invest in passively managed funds, a pooled diversified growth fund and a pooled multi-sector credit fund. They monitor closely the performance of each fund and taking necessary action when this is not satisfactory. The Trustees believe that the use of actively management in the diversified growth fund and the multi-sector credit fund can provide investment returns that outweigh the additional costs and risks that these funds introduce.

Risk of insolvency of other parties

The Trustees are aware that other parties, on the other side of investment agreements may go insolvent, and not meet their obligations. To limit this, the Trustees invest in pooled diversified funds, which helps to spread the credit risk across many different issuers.

Risk of insolvency of the Scheme sponsor

The Trustees believe that the risk of the Principal Employer ceasing to exist would mean that the Scheme could no longer rely on contributions to reduce any deficit. For reasons of prudence, the Trustees have taken this into account when setting the asset allocation strategy.

The Trustees will keep these risks under regular review.

04 **Investment objectives**

It is the policy of the Trustees that, in accordance with Section 36 of the Pensions Act 1995, before setting their investment policy they will consider written advice from their Advisers to ensure that the proposed policy is suitable for the Scheme, satisfies the need for diversification and complies with their requirements.

The investment objectives of the Trustees are to:

(a) ensure that the accumulated fund together with the contributions payable by Eurac Limited are invested in such a manner that the benefits for each member can be paid from the Scheme as they arise;

(b) maintain the solvency of the Scheme on the current scheme funding basis; and

(c) subject to the preceding objectives, maximise the rate of return earned on the assets over the long term.

These qualitative objectives have been used to help formulate the investment strategy and return expectations set out in the Appendix.

The Trustees are mindful of the requirement to comply with all relevant scheme funding legislation and recognise that demands may be placed on participating employers to make such additional contributions as are required by the scheme funding legislation if and when the Scheme's assets fall below the value of the technical provisions.

The Trustees consider the investment objectives and the resultant investment strategy alongside the actuarial valuation methodology and assumptions used by the Scheme Actuary for each formal actuarial valuation.

05 Responsible investment and corporate governance

05.01 Environmental, social and corporate governance

The Trustees believe that good stewardship can enhance investment performance, and is therefore in the best interests of the Scheme beneficiaries and aligned with fiduciary duty.

The Trustees believe that environmental, social and corporate governance ("ESG") issues can affect the performance as part of investment portfolios and should therefore be considered during the Scheme's DB Section investment selection and monitoring process.

When reviewing or selecting investment funds, strategies and managers, the Trustees have considered a range of financially material considerations and the impact they may have over the time horizon of the Scheme. Over this period, the Trustees acknowledge that environmental issues including climate change may have an impact on investment performance of the selected funds. As present, the policy is to delegate the considerations of the long-term financial impact of these considerations to the investment managers.

05.02 Voting rights

As the Scheme invests in pooled funds, the Trustees acknowledge that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the investment managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an investment manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that investment manager.

Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

05.03 Oversight of investment manager approach

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standard.

06 Investment strategy

The Trustees choose an appropriate allocation of asset classes which they believe best meets the Scheme's investment objectives as set out in Section 4. The Trustees have not restricted the allocation, they can invest in a wide range of asset classes, but only to the extent such asset classes are consistent with the Trustees' attitude to risk.

The asset allocation is determined following advice from the Investment Adviser, and the Principal Employer will be consulted in the event of any significant change.

The current benchmark and target allocation is set out in the Appendix and any significant changes will only be made after receiving written advice from the Investment Adviser that such allocation remains consistent with the investment objectives. The Trustees will consult with the Principal Employer in the event of a significant change in the asset allocation.

Due to the size of the Scheme, the Trustees have currently decided to largely use pooled index funds to invest the Scheme's assets.

The Trustees set the general investment policy but have delegated the day-to-day investment of the Scheme's assets to professional investment managers authorised under the Financial Services and Markets Act 2000.

The Trustees, in conjunction with the relevant Advisers, will monitor the actual asset allocation of the DB Section at each Trustees' meeting. If the allocation moves away from the strategic allocation, the Trustees will make a decision as to whether to amend the investment proportions or to switch assets back to the strategic allocation following consideration of advice.

06.01 Investment manager guidelines

The Trustees have appointed investment managers who have discretion in asset mix and stock selection, subject to this document and, more importantly, to their policy wording, to add value to the benchmark. In choosing investments an investment manager must have regard to:

(a) their benchmark;

(b) their performance objective; and

(c) diversification.

If an investment manager wishes to invest in asset classes which do not form part of the benchmark or in individual securities which are forbidden by their policy, they will need to obtain the written authorisation of the Trustees in advance of any such investment.

In deciding upon an investment manager for the various assets the Trustees give due regard to the investment policy detailed in Section 4. Each investment manager will be monitored closely to ensure that their appointment continues to be in line with the principles contained in this Statement.

The Trustees will have a signed agreement or policy with each investment manager setting out in detail the terms on which assets are managed. The agreement will set out the limits on individual investments.

The investment managers will be responsible for ensuring that any employer-related investments do not breach the requirements laid down in regulations.

The investment managers are responsible for the buying and selling of the underlying investments.

The Trustees expect the investment managers to act responsibly in matters of Corporate Governance in companies in which they invest on behalf of the Trustees.

06.02 Alignment of incentives

Based on the structure set out in the Appendix, the Trustees considers the arrangements with the investment managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each investment manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the investment managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as investment managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including its selection / deselection criteria.

The Trustees encourage investment managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help investment managers to mitigate risk and improve long term returns

As covered in more detail in this document, the Trustees also require the investment managers to take ESG factors and climate change risks into consideration within their decision- making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of investment managers, accordingly.

07 Monitoring

07.01 Portfolio turnover costs

The Trustees require the investment managers to report on actual portfolio turnover when appropriate, including details of the costs associated with turnover, how turnover compares with the range that the investment manager expects and the reasons for any divergence.

07.02 Investment manager duration

Appointments of investment managers are expected to be long-term, but the Trustees will review the appointment of the investment managers in accordance with their responsibilities.

07.03 Performance and remuneration reporting

The Trustees receive regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate.

These ratings help to determine an investment manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular investment manager. investment managers will also attend Trustees' meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each investment manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

08 **Charges**

08.01 Funds

The Trustees will ensure that the fees paid to the investment manager are consistent with levels typically available in the industry and the nature of services provided. The current fee basis for each of the funds is set out in the Appendix.

08.02 Advisers and Trustees

Fees paid to the relevant Advisers and the Independent Trustees are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

08.03 Custodian

There is no custodian appointed directly by the Trustees and therefore there are no explicit custody fees. Custody is provided through the investment managers.

09 **AVCs**

Members' Additional Voluntary Contributions ("AVCs") are invested in with profit insurance contracts with Legal and General Investment Management.

The performance of all AVC investments will be considered on an annual basis against their peer group and other suitable types of investment.

Contributions other than normal contributions or AVCs for any individual member will be dealt with as per the Scheme's DC benefits; please refer to the SIP for the DC Section for further information.

Appendix
Current asset strategy

Asset allocation

The Scheme is relatively mature, with an increasing proportion of liabilities relating to older deferred pensioners and pensioners. The Trustees have identified that it is key to manage the balance between targeting investment returns and protecting the Scheme against financial risks. The main financial risks to the Scheme are increases in liabilities due to changes in interest rates and inflation, and the volatility of the Scheme's return-seeking assets.

In recognition of this, and having taken advice, the Trustees have decided that the appropriate way to achieve the objectives set out in this Statement is to invest some assets in Liability Driven Investment ('LDI').This solution aims to mirror the sensitivity of the Scheme's liabilities to interest rate and inflation changes; any increase in liabilities due to these factors is designed to be matched by equivalent changes in the LDI. The LDI solution is a collection of pooled funds which comprises of the government bonds and derivative contracts. The Trustees' objective is to protect against 100% of the sensitivity of the Technical Provisions liabilities to interest rates and inflation expectations; at the date this portfolio was implemented, the Trustees needed to invest 37.5% of the Scheme's assets to meet their hedging target.

The Trustees have also decided to invest 40% of their return seeking assets in Legal and General Investment Management's Dynamic Diversified Fund, 40% in Alcentra's Global Multi-Credit Solution Fund and the remaining 20% in Legal and General Investment Management's World Equity Index Fund. The investment managers have discretion over asset allocation subject to guidelines set by the Trustees.

The Trustees' strategic asset allocation is as follows:

Asset Class	Benchmark allocation (% total assets)	Expected long-term rate of return (p.a.)*
Matching Assets		
Liability Driven Investment	37.5%	Gilts - 0.1%
Return-seeking Assets		
Equities	12.5%	Gilts + 4.0% - 5.0%
Diversified Growth	25.0%	Gilts + 2.5% - 3.5%
Multi-Sector Credit	25.0%	Gilts + 2.0% - 3.0%

**Based on XPS Investment's expectations as at the date of this Statement.*

Whilst the above benchmark allocation is the Trustees' target, they can expect that the actual weights will move, especially those linked to the liabilities, as a result of market movements. The Trustees will keep this under review with the help of the adviser, to ensure it remains broadly consistent with the investment strategy.

Cashflow policy

Payments out of the Defined Benefit ("DB") Section currently outweigh contributions into the Section, and the Scheme therefore has to disinvest money on a regular basis. Disinvestments are made quarterly to reduce the governance burden and transition costs associated with monthly disinvestment. This disinvestment notification will be performed by the XPS Administration team as part of cashflow monitoring and the disinvestment will be actioned following dual signing by one Trustee, and one member of the XPS Administration team.

The funds are disinvested firstly from the Scheme's Sterling Liquidity Fund and then from a balance of equity and multi asset funds to be best in line with the benchmark allocation. In addition to the cashflow requirement, the LDI portfolio may require additional funding to maintain the hedge. The Trustees have set this to be completed automatically by the investment manager to prevent a sudden reduction in portfolio hedging, and this is sourced using the below order of funds.

Current liquidity waterfall:

- LGIM Sterling Liquidity Fund.
- LGIM World Equity Index Fund.
- LGIM Dynamic Diversified Fund.

In the event that cash is distributed from the LDI portfolio, it will be automatically transferred into the Sterling Liquidity Fund.

In the case that there are significant cashflows required due to transfer values (i.e. extinguishing liability from the Scheme), the Trustees may decide to reduce the allocation to the LDI portfolio accordingly.

Overall, the Trustees believe that they have a suitable level of liquidity available to meet the Scheme's objectives and short-term needs, but will continue to review cashflow policy alongside liquidity risk, with the help of their advisers.

Fund performance targets

The Trustees will consider the quantitative performance of the investment managers at least annually in comparison to the benchmark performance.

The aim will be to track the relevant benchmark, except for the LGIM Dynamic Diversified Fund and the Alcentra Global Multi-Credit Solution Fund, which both aim to achieve returns of 4.5% above their respective benchmarks, and the LGIM LDI Portfolio which aims to move in line with the Scheme's liabilities. The DB funds and their respective fund benchmarks are as follows:

Fund	Benchmark index	Target return
LGIM Dynamic Diversified	Bank of England base rate	4.5% p.a. above benchmark over a full market cycle
LGIM LDI Portfolio	n/a	To move in line with the Scheme's liabilities

LGIM World Equity Index Fund	FTSE World Index	In line with benchmark
Alcentra Global Multi-Credit Solution Fund	3 Month SONIA	4.5% p.a. above benchmark over a full market cycle

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