The BW Plan

Summary Funding Statement

based on 31 March 2022 Actuarial Report

Summary Funding Statement

As you may recall from Summary Funding Statements that you have received previously, the Trustee is required to provide you with regular updates on the financial position of the Plan.

Although the Defined Benefit section of the Plan is closed, it continues to provide benefits relating to your service in the Plan up to the date of closure or earlier leaving. The previous statement that you received included a summary of the results of the formal triennial valuation as at 31 March 2020 and an approximate update to 31 March 2021.

Formal valuations of the Plan are carried out every three years, and in the interim period the Trustee receives an annual update of the financial position of the Plan. This statement is based on the financial position as at 31 March 2020, (the most recent formal triennial valuation) and the results of approximate updates as at 31 March 2021 and 31 March 2022.

The next formal valuation will be carried out as at 31 March 2023 and the results of this will be provided in the next Summary Funding Statement.

How is my pension paid for?

The information contained in this Summary Funding Statement relates only to the Defined Benefit section of the Plan.

Your benefit entitlement under the Plan is calculated using a formula based on your earnings and length of active service up to your date of leaving employment, or when the Plan closed to active service accrual (31 March 2007 for the Margam Section or 31 October 2009 for the Bradford Section). From that date onwards, all active members stopped making contributions to the Plan and became deferred members.

If there are insufficient funds in the Plan to meet the benefits already built up within the Plan, then BorgWarner Limited (**the Company**) pays shortfall contributions in order to meet the pensions and other benefits as and when people retire.

Members who have defined benefits do not have individual accounts. Instead, all monies paid in respect of these benefits are held in a common fund that the Trustee manages on behalf of the members.

The latest formal Plan funding valuation

The Trustee obtains regular financial health checks, known as valuations, to determine the value of the total accrued benefits in the Defined Benefit section. Using this information, the Trustee comes to an agreement with the Company on the level of contributions that need to be paid in future in order to meet the benefit promises made.

The formal valuation at 31 March 2020 was the fifth valuation of the Plan to be carried out under current legislative requirements and was completed within the 15-month statutory timeframe. As part of the valuation process, the Trustee reviewed the assumptions used having taken account of the strength of the sponsoring Company, changes in the underlying market conditions and members' life expectancy.

The valuation of the Plan showed that on 31 March 2020, the deficit relating to the Defined Benefit section of the Plan was as follows:

Assets **£153.7m**
(Money held in the Plan)

Liabilities **£156.1m**
(Amount needed to provide benefits)

2020
£2.4m Deficit

Following the completion of the 2020 valuation, it was agreed that the Company would continue the annual payments of £1m a year, in order to remove the shortfall.

The Company also agreed to continue to pay £530,000 a year into the Plan to meet expenses. This fixed contribution is to meet all administrative, investment management and adviser costs associated with running the Plan. In addition, the Company shall continue to pay the Pension Protection Fund Levy for the Plan for the year. Further information on the Pension Protection Fund is detailed on **page 4**.

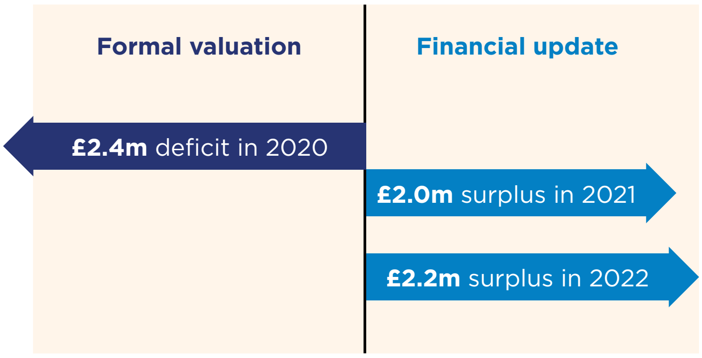
Last year's Summary Funding Statement set out the results of the 31 March 2020 formal valuation and the update to 31 March 2021. A subsequent update of the Plan's funding position was carried out at 31 March 2022 and the results are set out on the next page.

Pensions Act requirements

In accordance with the requirements of the Pensions Act 2004, we can again confirm that there have not been any payments to the Company out of the Plan since the last funding statement was issued. We can also confirm that the Plan has not been modified by The Pensions Regulator and that no directions or a schedule of contributions have been imposed on the Plan by the Regulator.

Funding position as at 31 March 2022

Updated position



Over the period since the 2020 formal valuation, the funding position has improved and the Plan had a surplus of £2.2m at 31 March 2022.

The Plan's liabilities in relation to all benefit entitlements reduced over the year, driven mainly by a rise in long term interest rates, albeit the increase in inflation partially offset some of the gains. The Plan's assets also decreased due to rising interest rates although this fall was partially offset by contributions paid by the Company. However, the overall reduction in liabilities was greater than the reduction in assets, leading to an increase in the surplus.

The Company is fully committed to financially support the Plan and although the shortfall has been removed, the Company will continue to pay contributions of £1m a year to improve the financial position of the Plan. The Company also contributes £530,000 a year to the Plan towards the cost of running and administering the Defined Benefit Section of the Plan.

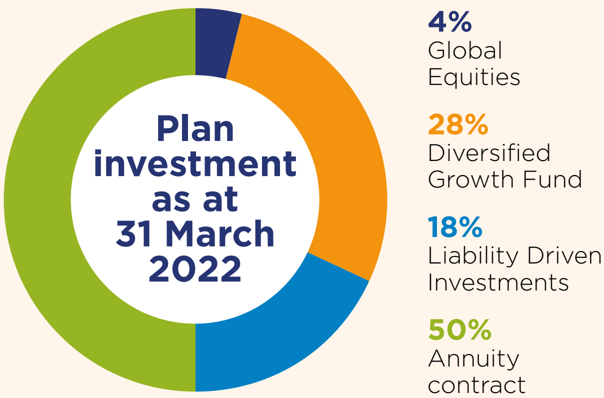
It is important to note that the value of pension liabilities can be volatile, and this has been particularly apparent in recent years. Therefore, the main focus should be on the long-term nature of the Plan, rather than short term fluctuations.

What is the Defined Benefit Plan invested in?

The Trustee's policy is to invest in a diversified range of assets.

In 2019 the Trustees purchased an annuity contract with an insurance company which is now held as an asset in the Plan. The annuity policy covers the cost of paying pensions to the majority of pensioners within the Plan. There are no changes to benefits or how they are paid, and the pensioners covered by the policy have the same level of benefit security as all other members. The key reason for securing the annuity policy was to reduce the interest rate and inflation risk within the Plan's investment portfolio. The policy makes up around 50% of the investment portfolio.

The remaining assets of the Defined Benefit section are invested as follows: 4% in Global Equities, 28% in a Diversified Growth Fund and 18% in Liability Driven Investments.



Journey plan – long term investment strategy

As described in last year's newsletter, the Plan also has a longer-term investment strategy known as a journey plan.

The agreed journey plan target is to be fully funded on a basis that a regulated insurance company would estimate as the cost of insuring the pension benefits of all members within the Plan. This is called a buy-out policy. The Trustee is still on track to achieve this target within the next five years, at which point the Trustee will look to insure the Plan's remaining liabilities with an insurance company. This will have the effect of removing ongoing risks relating to investment, increasing life expectancy, interest rate changes, inflation and future running expenses for the Plan.

This target will be re-visited from time-to-time as deemed appropriate by the Trustee.

The Trustee monitors changes in the Plan's funding position against this journey plan and has a set of pre-agreed 'de-risking triggers' to lock in the gains from favourable movements in the financial markets.

Further information

The importance of the Company's support

One of the Trustee's main objectives is to have sufficient money in the Defined Benefit section of the Plan to pay pensions both now and in the future. However, the success of the Plan relies on the support of the Company for a number of reasons:

- *The Company pays a fixed amount into the Plan to cover the future administration and adviser costs associated with running the Plan*
- *The funding level can fluctuate and at times when there is a shortfall of money, the Company will usually be required to pay more money into the Plan so that the Plan can pay pensions to members when they retire.*

What would happen if the Plan started to wind-up?

As noted on the previous page, the Trustee and the Company's intention is to fully secure the remaining liabilities with an insurer and thereafter the Plan will be wound up and cease to exist. Members' full benefits would then be secured by purchasing insurance policies with an insurance company.

At 31 March 2020 it was estimated that the cost of doing this would have been in the region of £176m, i.e. around £22m more than the total assets in the Plan at that time. This had decreased to around £164m as at 31 March 2022 which is a shortfall of around £14m.

This cost reflects the fact that insurers are required to take a very cautious view of the future. In addition, the insurance premium also includes an allowance for their running costs, as well as a small profit margin.

There is also a safety net that provides some level of compensation in the form of an annual pension. This compensation is for members who are in the unfortunate position of being in a pension scheme that is being wound up with insufficient assets, where the sponsoring employer has become insolvent. Very broadly, the safety net, which is known as the Pension Protection Fund (**PPF**), provides 90% of benefits for members who have not yet retired and 100% for anyone who is over normal retirement age. Future pension increases in the PPF are also at a lower level than in the Plan.

The Plan's assets are expected to have been sufficient to cover the Section 179 (PPF) liabilities as at 31 March 2020 but were less than the estimated cost of securing benefits with an insurer. Therefore, the Plan is unlikely to have qualified for entry to the PPF as at 31 March 2020 and instead members would have received more than the PPF compensation and their benefits would have been secured with an insurer.

Further information and guidance is available on the Pension Protection Fund's website at www.ppf.co.uk or you can email the Pension Protection Fund at information@ppf.co.uk

Please note that we have included this information because we are required to do so by law and there is no indication that the Company would cease trading in the foreseeable future.

What documents am I entitled to?

Members of an occupational pension scheme are entitled to the following documents related to the funding and management of their scheme, free of charge:

- *Statement of Funding Principles* – This sets out the Plan's funding plan.
- *Actuarial valuation report* – This is the Actuary's check of the Plan's financial situation as at 31 March 2020.
- *Recovery Plan* – This explains how the funding shortfall is being made up.
- S*chedule of Contributions* – This shows how much money is being paid into the Plan.
- *Statement of Investment Principles* – This explains how the Trustee invests the money paid into the Plan. This document can be found on the following web page: www.yourBWpension.co.uk

Please contact XPS, the Plan administrator, to request more information on any of the topics above.

On behalf of the Trustee of the BW Plan

March 2023

Where can I get more information?

If you have any other questions, or would like any more information, then please contact XPS, the Plan's administrator, using the contact details below.

The BorgWarner Plan

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