BW Plan

Statement of Investment Principles

March 2025

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Section 1: Introduction

Pensions Acts

1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This Statement describes the investment principles pursued by the Trustee of the BW Plan ("the Plan") and fulfils that requirement.

1.2 The Trustee has consulted BorgWarner Limited ("the Employer") on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Plan's investment consultants (currently Towers Watson Limited). The Trustee will review this document regularly, at least once every three years, and without delay following a significant change in investment policy.

Financial Services and Markets Act 2000

1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

Plan details

1.5 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members").

Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee may delegate some of these responsibilities.

Trustees

2.2 The Trustee's responsibilities include:

- Reviewing the content of this Statement regularly, in conjunction with the investment consultants and the Scheme Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or investment strategy review.
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of the investment results and other information, such as meetings with the Investment Manager(s) and written reports.
- Appointing (and dismissing) investment manager(s).
- Consulting with the Employer when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

2.3 The Trustee no longer has a Finance & Investment Sub-Committee (FISC). In the Trustee's meeting on 5 June 2018, it was agreed that the FISC would be dissolved and instead all investment and funding decisions will be made by the Trustee board as a whole.

Investment Managers

2.4 In December 2024, a full Plan buy-in was executed with Just Retirement Limited (Just), whereby the Plan's assets were fully liquidated to fund an additional buy-in policy (having already held one buy-in policy with Just to cover a proportion of the Plan's liabilities). Combined, the two policies cover all member liabilities. The buy-in, which is an insurance policy to pay members benefits provided by Just, remains an asset of the Plan until a point at which a full buy-out is executed and legal responsibility would be transferred from the Trustee to Just.

2.5 As a result of the buy-in, the Plan has liquidated its investments held by its investment managers, with some small residual holding (mainly held in cash) remaining. However, until the point at which a full buy-out was executed, it is good practice to retain policies for investment managers responsibilities, hence the below section 2.6 - 2.7 remains appropriate for now.

2.6 Each investment manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.

- Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.

- Informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Plan as soon as practicable.

- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Plan.

2.7 The investment managers also appoint a custodian, whose responsibilities include:

- the safekeeping of all the assets of the Plan;

- undertaking all appropriate administration relating to the Plan's assets;

- processing tax reclaims in a timely manner.

Professional Advisors

2.8 The Trustee agrees with the Myners best practice of paying particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). The Trustee believes that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Plan. The Trustee will continue with the current arrangement until this ceases to be appropriate.

2.9 The Trustee has a dedicated Investment Consultant for the Plan, who works closely with the Scheme Actuary to align the funding and investment advice.

Investment Consultant

2.10 The investment consultant's responsibilities include:

- Participating with the Trustee in reviews of this statement.

- Advising the Trustee, as requested:

  - considering (working closely with the Scheme Actuary) how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested;

  - on how any changes at the investment manager(s) could affect the interests of the Plan;

  - on how any changes in the investment environment could either present opportunities or problems for the Plan.

- Undertaking project work as requested, including:

  - reviews of asset allocation policy;

  - reviews of the investment managers.

- Advising on the selection of new managers and/or custodians.

Scheme Actuary

2.11 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future.
- Assessing the funding position of the Plan against all statutory funding requirements and advising on the appropriate response to any shortfall.

Section 3: Objectives and long term policy for the Defined Benefit section

Investment Strategy (post full buy-in, executed in December 2024)

Objectives

3.1 The Trustee has the following investment objectives:

a The acquisition of suitable assets of appropriate liquidity which will generate income to meet, together with funding contributions from the Employer, the cost of accrued benefits which the Plan provides.

b To limit the risk of the assets failing to meet the liabilities.

Investment policies

3.2 The Trustee has sought to achieve the objectives laid out in 3.1 through the acquisition of buy in policies which provide regular payments that are used to pay member benefits as they fall due.

3.3 In 2019, the Trustee purchased a pensioner bulk annuity policy (buy-in) with Just Retirement Limited. This policy covered all pensions in payment as at 10 October 2018. A further buy-in was completed in December 2024 which insured the Plan's remaining liabilities. In doing so, the Trustee has mitigated the majority of investment and funding related risks including interest rate risk, inflation risk, pricing risk and longevity risk in respect of its members.

3.4 Following the completion of the buy-in in December 2024, the Plan's remaining assets are limited to cash at the bank and a small residual investment balance with Henderson which is in the process of being liquidated.

3.5 The Trustee has appointed investment managers who are authorised under Financial Services and Markets Act 2000 to undertake investment business.

3.6 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

3.7 No direct investment is permitted in securities issued by the Company or any associated companies.

3.8 No direct investment is permitted in property leased to the Company.

3.9 The Trustee recognises that the Myners Code recommends that Investment Managers should not be restricted in their use of financial instruments, without clear justification in the light of the specific circumstances of the Plan. The Trustee has decided to retain the existing restrictions, but will review on an annual basis.

3.10 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

3.11 The Trustee periodically review reports from investment managers to ensure that the policies are being met.

3.12 The Plan's administrator (currently XPS Administration) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.

3.13 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy. The buy-in policies with Just have been designed to provide the required income to pay member benefits as they fall due.

3.14 The insurer is monitored by both the Financial Conduct Authority and the Prudential Regulation Authority who require the insurer to hold sufficient capital reserves to cover certain shock scenarios. In the event of an insurer becoming insolvent, the Plan would be covered by the Financial Services Compensation Scheme.

Additional Voluntary Contributions ("AVCs")

In September 2020, the Trustee undertook a bulk transfer of all remaining assets in the Plan's AVC arrangements with Aviva and Utmost to the Aegon Master Trust. There are no DC assets remaining in the Plan.

Investment Manager arrangements

Just Retirement Limited

3.15 The majority of the Plan's Defined Benefit assets are invested with Just Retirement Limited (Just) in the form of buy-in policies.

3.16 The aim of the buy-in policies is to wholly cover the benefits due to members and member dependants of the Plan.

3.17 There are no ongoing fees in respect of the buy-in policies.

3.18 Soft commission is not relevant for a buy-in policy.

Henderson Global Investors

3.19 A small amount of the Plan's Defined Benefit assets remain invested with Henderson Global Investors (Henderson) in the Henderson Indirect Property Fund (Europe), a European fund of property funds. The Henderson fund is in the process of being liquidated and the proceeds paid out to all investors. The Trustee has already received the majority of the Plan's original investment, with the remaining proceeds due to be paid out soon. At the time of reporting, the Fund's administrators, PwC, were looking to finalise a tax rebate ahead of fully liquidating the Fund. No definitive timeline has been provided for this activity, but indications suggest the residual assets will be paid out during 2025.

The Myners Principles

3.20 The Trustee has reviewed their compliance with the Myners Principles (as stated in Appendix A).

3.21 In light of the Myners Code, the Trustee has considered the issue of remuneration for serving Trustee members. The Trustee has decided that it is inappropriate to be remunerated for the additional responsibilities as Trustee of the Plan. Given that the time spent dealing with investment issues for the Plan is generally within the hours of normal employment, the Trustee feels that it is inappropriate to be further compensated for this time.

3.22 The Myners Code suggests that trustees should formulate and publish an annual business plan. The Trustee does not consider it appropriate to publish a formal business plan, although the Trustee does manage an informal business plan that includes investment items which it reviews on a regular basis.

Engagement with investment managers, including policies on alignment, incentivisation and monitoring

3.23 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

3.24 The Trustee recognises that following the completion of the second buy-in policy, the majority of assets are now held with the insurer who is not in a position to be replaced. That said, should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment.

3.25 The Trustee reviews the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. These costs are expected to be minimal following the completion of the December 2024 full buy-in.

Environmental Social and Governance Considerations

3.26 The Trustee will generally take account of financially material considerations including (but not necessarily limited to) Environmental, Social and Governance (ESG) considerations, such as climate change, in the selection, retention and realisation of the Plan's investments.

3.27 The Trustee considers these issues having regard to the length of time that is needed for the funding of benefits by the investments of the Plan.

3.28 In practice, as the Plan assets consist predominantly of buy in policies, ESG considerations are only expected to directly impact a minority of the portfolio.

3.29 Members' Views and Non-Financial Factors

- The Trustee does not take into account the views of members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors") in setting and implementing the Plan's investment strategy.

Section 4: Defined Contribution section

Background

4.1 The DC section was closed to future contributions with effect from 1 February 2018.

4.2 In March 2018, the Trustee undertook a bulk transfer of all DC section assets to the Aegon (BlackRock) Master Trust, excluding assets in the Plan’s AVC arrangement with Aviva (Friends Life) (policy number F49099).

4.3 In September 2020, the Trustee undertook a bulk transfer of all remaining assets in the Plan’s AVC arrangements with Aviva and Utmost to the Aegon Master Trust. Members do currently have the option to transfer their DC benefits back into the Plan on retirement, which has been noted via member communications. There are no DC assets remaining in the Plan.

Section 5: Risk management

5.1 The Trustee recognises a number of risks involved in the investment of the assets of the Plan. The majority of these risks are mitigated through the use of buy in policies.

- Solvency risk and mismatching risk
  - are measured through regular assessments of the expected development of the assets relative to the liabilities under current and alternative investment policies;
  - is managed through the use of buy in policies.
- Liquidity risk
  - is measured by the level of cashflow required by the Plan over a specified period;
  - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Custodial risk
  - is measured by assessing the credit-worthiness of the custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody;
  - is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- Political risk
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention;
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Sponsor risk
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit;
  - is managed by assessing the interaction between the Plan and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.
  - the Trustee has also assessed the covenant strength of Just Retirement Limited and will continue to do so at regular intervals in future.

5.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

5.3 The Trustee continues to monitor these risks and maintain a register of risks that the Plan faces, which is reviewed regularly.

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Plan

Appendix A: IGG (or Myners) principles

In 2000, the Government commissioned Paul Myners to investigate the factors which were distorting the investment decision-making of UK institutions. As a result of this review, it was recommended that UK defined-benefit pension funds adopt investment principles (now called the IGG Principles) as best practice. These investment principles have since been amended and are detailed as follows:

Principle	Best practice guidance
The high level principles represent best practice throughout the industry in investment decision-making and governance. It is expected that trust boards will report against these on a voluntary 'comply or explain' basis.	Best practice guidance is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.
Principle 1: Effective decision-making ■ Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. ■ Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	■ The board has appropriate skills for, and is run in a way that facilitates, effective decision-making. ■ There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions. ■ It is good practice to have an investment subcommittee, to provide the appropriate focus and skills on investment decision-making. ■ There is an investment business plan and progress is regularly evaluated. ■ Consider remuneration of trustees. ■ Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).
Principle 2: Clear objectives ■ Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.	■ Benchmarks and objectives are in place for the funding and investment of the scheme. ■ Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation. ■ Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates. ■ Consider the strength of the sponsor covenant.

Principle 3: Risk and liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Principle 4: Performance assessment

- Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairperson addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

Principle 5: Responsible ownership

- Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

Principle	Rationale
Principle 6: Transparency and reporting ■ Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. ■ Trustees should provide regular communication to members in the form they consider most appropriate.	Reporting ensures that: ■ the scheme operates transparently and enhances accountability to scheme members; and ■ best practice provides a basis for the continuing improvement of governance standards.