

# Annual statement regarding governance of the Defined Contribution Section of the Avon Rubber Retirement and Death Benefits Plan ('the Plan')

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee Directors to prepare an annual statement regarding governance and include this in the annual Trustee's report and accounts. The governance requirements apply to all defined contribution ("DC") pension arrangements and aim to help members achieve a good outcome from their pension savings.

## Introduction

As the Trustee Chair, I am pleased to provide you with our annual statement which explains what steps have been taken by the Trustee Directors ("the Trustee"), with the help of our professional advisers, to meet the governance standards that apply to the defined contribution section of the Plan.

The Trustee is committed to meeting the governance standards and we have a Defined Contribution Sub-Committee of three Trustee Directors who meet regularly to monitor the controls and processes put in place in connection with the Plan's investments and administration, and report to the full Trustee Board.

I welcome this opportunity to explain what the Trustee is doing to ensure the Plan is run as effectively as it can be and in accordance with the relevant governance standards.

This statement issued by the Trustee covers the period from 1 April 2021 to 31 March 2022 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

1. The Default Arrangement
2. Net investment returns
3. Member borne charges and transaction costs
  - i. Default arrangement
  - ii. Self-select funds
  - iii. Illustrations of the cumulative effect of these costs and charges
4. Value for Members assessment
5. Processing of core financial transactions
6. Trustee knowledge and understanding

## **1. The Default Arrangement**

**The Trustee is required to design the default arrangement in members' interests and keep it under review. The Trustee need to set out the aims and objectives of the default arrangement and take account of the level of costs and the risk profile that are appropriate for the Plan's membership.**

The Plan is used as a Qualifying Scheme for auto-enrolment purposes.

The Trustee is responsible for the Plan's investment governance, which includes setting and monitoring the investment strategy for the Plan's default arrangement, the Standard Life Passive Plus IV Universal Strategic Lifestyle Profile Fund ('the Passive Plus IV strategy').

The Passive Plus IV strategy is primarily provided for members who join the Plan and do not choose an investment option for their contributions and is designed to be appropriate regardless of how members take their benefits at retirement.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Plan's SIP is attached however the aims are set out here for ease of reference:

- Aim for significant long term real growth while members are further away from retirement.
- Manage down volatility in fund values as members near retirement.
- Target an end point portfolio that is appropriate with how members may take their benefits when they retire.

### **Investment strategy review**

The default arrangement was not formally reviewed during the period covered by this statement.

The last review was completed on the 23 July 2020. The review considered suitability of the default arrangement and other fund options with reference to the membership demographics and how members access their benefits, as well as industry data and wider trends. This assessment was made by considering the Plan's membership profile and investment performance and supported by analysis from Aon.

The Trustee will continue to monitor the Plan's investments. The next formal review is due to take place by 23 July 2023.

### **Performance Monitoring**

The Trustee also review the performance of the default arrangement against its aims and objectives as part of the investment strategy review and on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance of the funds is reviewed in absolute terms and relative comparable DC investment strategies.

The Trustee is satisfied that the default arrangement and investment strategy more broadly have performed in line with their aims and objectives as shown in the SIP.

## 2. Net investment returns

The Trustee is required to report on net investment returns for each default arrangement and for each non-default fund which members were invested in during the Plan year. Net investment returns refers to the returns on funds minus all member-borne transaction costs and charges.

The net investment returns have been prepared having regard to statutory guidance.

It is important to note that past performance is not a guarantee of future performance.

Performance has been shown at ages 25, 45 and 55 for members in the default arrangement and additional lifestyle arrangements in line with DWP guidance.

### (i) Default arrangement – (Standard Life Passive Plus IV Universal Strategic Lifestyle Profile)

Performance to 31 March 2022	Annualised returns (% p.a.)	
	1 year	5 years
Age of member in 2022		
25	8.7	5.7
45	8.7	5.7
55	8.7	5.7

Source: Standard Life

The Standard Life Passive Plus IV Universal Strategic Lifestyle Profile has been the default arrangement since March 2021 and was available as a self-select investment prior to then.

### (ii) Self-select investments

#### Strategic Lifestyle Passive Plus V Universal

Performance to 31 March 2022	Annualised returns (% p.a.)	
	1 year	5 years
Age of member in 2022		
25	10.8	6.8
45	10.8	6.8
55	10.8	6.8

Source: Standard Life

#### Strategic Lifestyle Passive Plus III Universal

Performance to 31 March 2022	Annualised returns (% p.a.)	
	1 year	5 years
Age of member in 2022		
25	5.3	4.4
45	5.3	4.4
55	5.3	4.4

Source: Standard Life

## Strategic Lifestyle Passive Plus IV Lump Sum

Performance to 31 March 2022	Annualised returns (% p.a.)	
Age of member in 2022	1 year	5 years
25	8.7	5.7
45	8.7	5.7
55	8.7	5.7

Source: Standard Life

## Individual funds

Performance to 31 March 2022	Annualised returns (% p.a.)	
Fund name	1 year	5 years
SL Vanguard US Equity Pension Fund	22.7	14.8
Standard Life At Retirement (Passive Plus Universal) Pension Fund	1.6	2.6
Standard Life Money Market Pension Fund	-0.1	0.3
SL ASI UK Smaller Companies Pension Fund	4.0	11.5
SL BlackRock ACS World ex UK Equity Tracker Pension Fund	16.0	11.8
SL iShares Pacific ex Japan Equity Index Pension Fund	5.2	7.8
SL Schroder Global Emerging Markets Pension Fund	-10.8	5.7
Standard Life Passive Plus III Pension Fund	5.3	4.4
SL Blackrock ACS Continental European Equity Tracker Pension Fund	7.0	7.0
Standard Life Passive Plus V Pension Fund	10.8	6.8
SL iShares UK Equity Index Pension Fund	12.9	4.5
Standard Life Passive Plus IV Pension Fund	8.7	5.7

Source: Standard Life

### 3. Member Borne Charges and Transaction costs

The Trustee should regularly monitor the level of charges borne by members through the investment funds. These charges comprise:

- **Charges:** these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;
- **Transaction costs:** these are not explicit, and are incurred when the Plan's fund manager buys and sells assets within investment funds but are exclusive of any costs incurred when members invest in or sell out of funds.

The Trustee is also required to confirm that the total costs and charges paid by any member in the default arrangement have not exceeded 0.75% p,a, (the charge cap) and produce an illustration of the cumulative effect of the overall costs and charges on members' retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

The Total Expense Ratio (TER) is a measure of the total cost to the member associated with managing and operating a fund. These operating expenses may include management fees, legal fees, auditor fees and other administrative costs. In a lifestyle strategy, like the default arrangement, the TER payable is dependent on how far a member is from retirement.

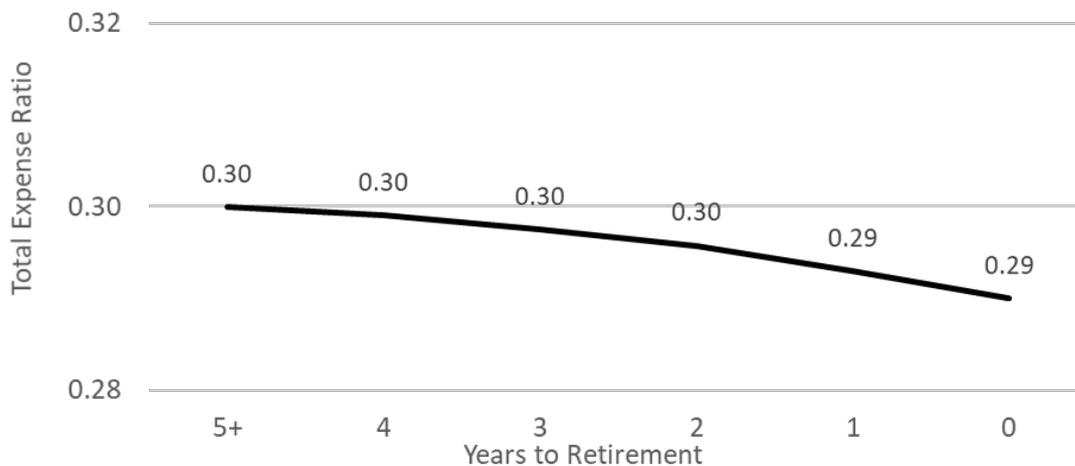
A table is shown in the Appendix which sets out, for each lifestyle strategy used by the Plan, how the TERs change in the approach to retirement.

Transaction costs are those costs incurred by the fund within the day-to-day management of the assets. They cover such things as the cost of buying and selling securities within the fund. These costs are incurred on an ongoing basis, are an inevitable consequence of managing the fund and are in addition to the TER. Standard Life has provided transaction cost information for the period covered by this statement and this information is included in the tables below along with the TERs for each of the funds used by the Plan. Where transaction costs have been provided as a negative cost, these have been set to zero by the Trustee.

**(i) Default arrangement - Standard Life Passive Plus IV Universal Strategic Lifestyle Profile Fund**

	<b>Total Expense Ratio (% p.a.)</b>	<b>Transaction Costs % p.a.</b>	<b>Total costs % p.a.</b>
<b>Passive Plus IV Universal Strategic Lifestyle Profile Fund</b>			
Standard Life Passive Plus IV	0.30	0.10	0.40
Standard Life Pre Retirement (Passive Plus Universal)	0.30	0.10	0.40
Standard Life At Retirement (Passive Plus Universal)	0.29	0.08	0.37

The TER that a member paid over the year depends on their term to retirement as shown in the below chart. The TER ranges from 0.29% p.a. to 0.30% p.a. which is within the 0.75% charge cap for schemes that are used for auto-enrolling their employees.



Transaction costs ranged between 0.08% p.a. and 0.10% p.a. meaning the total cost associated with the Passive Plus IV Universal Strategic Lifestyle Profile Fund is between 0.37% p.a. and 0.40% p.a.

**(ii) Self-select investment funds**

In addition to the Passive Plus IV Universal Strategic Lifestyle Profile Fund members also have the option to invest in a further three lifestyle strategies, and 12 individual funds.

The TERs and transaction costs for each of these are shown in the following tables:

<b>Alternative lifestyle strategies</b>	<b>Total Expense Ratio (% p.a.)</b>	<b>Transaction Costs % p.a.</b>	<b>Total costs % p.a.</b>
<b>Strategic Lifestyle Passive Plus V Universal</b>			
Standard Life Passive Plus V	0.28	0.08	0.36
Standard Life Pre Retirement (Passive Plus Universal)	0.30	0.10	0.40
Standard Life At Retirement (Passive Plus Universal)	0.29	0.08	0.37
<b>Strategic Lifestyle Passive Plus III Universal</b>			
Standard Life Passive Plus III	0.29	0.10	0.39
Standard Life Pre Retirement (Passive Plus Universal)	0.30	0.10	0.40
Standard Life At Retirement (Passive Plus Universal)	0.29	0.08	0.37
<b>Strategic Lifestyle Passive Plus IV Lump Sum</b>			
Standard Life Passive Plus IV	0.30	0.10	0.40
Standard Life Pre Retirement (Passive Plus Lump Sum)	0.28	0.12	0.40
Standard Life At Retirement (Passive Plus Lump Sum)	0.28	0.09	0.37

<b>Individual funds</b>	<b>Total Expense Ratio (% p.a.)</b>	<b>Transaction Costs % p.a.</b>	<b>Total costs % p.a.</b>
SL Vanguard US Equity Pension Fund	0.31	0.12	0.43
Standard Life At Retirement (Passive Plus Universal) Pension Fund	0.29	0.08	0.37
Standard Life Money Market Pension Fund	0.30	0.00	0.30
SL ASI UK Smaller Companies Pension Fund	0.79	0.00	0.79
SL BlackRock ACS World ex UK Equity Tracker Pension Fund	0.30	0.03	0.33
SL iShares Pacific ex Japan Equity Index Pension Fund	0.32	0.16	0.48
SL Schroder Global Emerging Markets Pension Fund	1.26	0.23	1.49
Standard Life Passive Plus III Pension Fund	0.29	0.10	0.39
SL Blackrock ACS Continental European Equity Tracker Pension Fund	0.32	0.01	0.33
Standard Life Passive Plus V Pension Fund	0.28	0.08	0.36
SL iShares UK Equity Index Pension Fund	0.30	0.18	0.48
Standard Life Passive Plus IV Pension Fund	0.30	0.10	0.40

**(iv) Illustration of the cumulative effect of costs and charges**

**From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.**

The following tables set out an illustration of the effect of charges and transaction costs on the projection of an example member's pension savings.

The "before charges" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after charges" figures

represent the savings projection using the same assumed investment return but after deducting member borne fees and making an allowance for transaction costs. The "impact of charges" figures represent the difference between the before and after charges figures.

The transaction cost figures used in the illustration are those provided by the managers over the past year, subject to a floor of zero (i.e. the illustration does not assume a negative cost over the long term).

The illustration is shown for the following

- Strategic Lifestyle Passive Plus IV Universal (default arrangement)
- Standard Life Passive Plus V Pension Fund (the lowest cost fund available on a self-select basis)
- SL Schroder Global Emerging Markets Pension Fund (the highest cost fund available on a self-select basis)

The illustrations have been prepared having regard to statutory guidance, selecting a suitable representative member on joining the Plan, and are based on a number of assumptions about the future which are set out following the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on a typical member of the Plan on joining the Plan they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

**Notes:** The Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.

- |  |                                      |
|--|--------------------------------------|
| - Starting age is:                                     | 18                                   |
| - Inflation:   | 2.0% each year                       |
| - The starting fund size:                              | £0                                   |
| - The starting salary:                                 | £25,000                              |
| - Total Contributions:                                 | 15% per year                         |
| - Salary on which contributions are based increase by: | 3.5% each year from age 18 to age 65 |
| - Age at which benefits are taken:                     | 65                                   |

Values shown are estimates and are not guaranteed.

Projected Pension Account in today's money									
Year	Passive Plus IV Universal SLP (default investment arrangement)			Standard Life Passive Plus V Pension Fund			SL Schroder Global Emerging Markets Pension Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
1	£3,780	£3,770	£10	£3,790	£3,780	£10	£3,790	£3,760	£30
3	£11,800	£11,700	£100	£11,800	£11,800	£0	£11,800	£11,600	£200
5	£20,400	£20,200	£200	£20,700	£20,400	£300	£20,700	£19,900	£800
10	£45,100	£44,100	£1,000	£46,200	£45,200	£1,000	£46,200	£43,000	£3,200
15	£74,600	£72,100	£2,500	£77,400	£74,900	£2,500	£77,400	£69,400	£8,000
20	£109,000	£104,000	£5,000	£115,000	£110,000	£5,000	£115,000	£99,700	£15,300
25	£151,000	£143,000	£8,000	£161,000	£152,000	£9,000	£161,000	£134,000	£27,000
30	£200,000	£187,000	£13,000	£215,000	£202,000	£13,000	£215,000	£173,000	£42,000
35	£257,000	£238,000	£19,000	£281,000	£260,000	£21,000	£281,000	£217,000	£64,000
40	£324,000	£296,000	£28,000	£360,000	£329,000	£31,000	£360,000	£268,000	£92,000
45	£403,000	£364,000	£39,000	£453,000	£409,000	£44,000	£453,000	£324,000	£129,000
Retirement	£438,000	£393,000	£45,000	£495,000	£445,000	£50,000	£495,000	£349,000	£146,000

#### Assumed Growth Rates:

##### Passive Plus IV Universal SLP (default arrangement)

Standard Life Passive Plus IV:	5.0%
Standard Life Pre Retirement (Passive Plus Universal):	3.5%
Standard Life At Retirement (Passive Plus Universal):	2.5%
	5.0%

##### Standard Life Passive Plus V Pension Fund:

SL Schroder Global Emerging Markets Pension Fund:	5.0%
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#### **4. Value for Members assessment**

**The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members.**

The Trustee is required to make an annual assessment of charges and costs borne by the members and the extent to which they represent good value for members. To do this, the Trustee has developed a framework which looks at the member-borne charges and the benefits of membership so it can assess whether members are getting good value.

The costs have been identified as TER, Transaction Costs and are set out in section 3 of this statement. The Trustee has considered the benefits of membership under the following five categories: governance, investments, administration and member experience and member communications. Benchmarking relative to other pension arrangements or industry best practice guidelines is also undertaken.

The Trustee's beliefs have formed the basis of the analyses of the benefits of membership. These are set out below along with the main highlights of their assessment.

##### Governance

The Trustee believes in having robust processes and structures in place to support effective management of risks and ensure members interests are protected, increasing the likelihood of good outcomes for members.

The Trustee has robust processes and structures in place to support effective oversight and management of all aspects of the Plan. This includes regular engagement with key service providers.

The Trustee has put in place a specialist DC sub-committee to help support good governance of the Plan.

The Trustee Directors undertake regular and appropriate training to ensure they can continue to fulfil their responsibilities.

##### Investments

The Trustee believes that a well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a significant contribution to the delivery of good member outcomes.

The Plan offers a variety of strategies and funds covering a range of member risk profiles, asset classes and management styles. The investment strategy has been designed, following advice from the Trustee's investment adviser, with the specific needs of members in mind.

The investment strategy is subject to regular review to ensure its continued appropriateness. The Trustee is supported in this ongoing review by their investment adviser.

##### Administration

The Trustee believes that good administration and record keeping play a crucial role in ensuring that scheme members receive the retirement income due to them. In addition, that

the type and quality of service experienced by members has a bearing on the level of member engagement.

The Trustee obtains information to help assess and monitor the quality of the administration service. This includes reviewing quarterly administration reports and having regular discussions with the administrator.

The administrator has reported high levels of service during the year.

### Member Communications

The Trustee believes that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.

The Trustee provides members with annual briefings and workshops.

Standard Life provide members with online tools and support as well as regular communications.

### Other Benefits

The Trustee has considered other benefits offered by the Plan including its flexible employee contribution structure.

The Trustee's assessment concluded that the charges and transaction costs borne by Plan members represents good value for members relative to the benefits of Plan membership.

## **5. Processing of Core Financial Transactions**

**The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the investment of contributions, transfer of member funds into and out of the Plan, transfers between different investments within the Plan and payments to and in respect of members/beneficiaries.**

The Trustee is required to report to members the processes and controls in place in relation to core financial transactions, which include:

1. Investing contributions paid into the Plan;
2. transferring assets related to members into or out of the Plan;
3. switching assets between different investments within the Plan; and
4. making payments from the Plan to, or on behalf of, members.

The Trustee has overall responsibility for ensuring transactions are processed promptly and accurately. In practice, the Plan administrator, Standard Life, implements all transactions in accordance with service standards agreed with the Trustee. The service standards cover the timeliness in which processes are completed with a target to complete tasks within 10 working days.

Standard Life provide regular reports summarising the service provided to members and the amount of time taken to process various tasks. Any mistakes or delays are investigated thoroughly and corrected as quickly as possible. The Trustee monitor and review the administrator's processes and are comfortable that all core financial transactions have been processed promptly and accurately under their remit as administrator. Key processes include:

- A full member and Plan reconciliation being undertaken annually as part of the annual preparation of the Trustee Report & Accounts.
- Provision of quarterly administration reports – enabling the Trustee to check core financial transactions and review processes.
- Monthly contribution checks and daily reconciliation of the Trustee’s bank account.
- Checks for all investment and banking transactions prior to processing.
- Straight-through processing for joiners, contributions, leavers and information results. This avoids the need for manual intervention which significantly reduces the risk of error.

The Trustee is satisfied that over the period:

- the administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Plan year.

## **6. Trustee Knowledge and Understanding (TKU)**

**Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator’s Code of Practice 7.**

The comments in this section relate to the Plan as a whole and not solely the DC Section.

There are currently six Trustee Directors; four Company nominated and two member nominated, thereby fulfilling the legal requirement that at least one-third of a pension scheme’s trustee directors should be member nominated.

The Trustee has processes and procedure in place to meet the Pension Regulator’s Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- The Trustee met four times during the year at quarterly board meetings and at various other times throughout the year as needed and at sub-committee level. These meetings were supported by the Trustee’s advisers who have provided specialist advice and updates on legislation, guidance and best practice developments. Trustee meeting minutes were compiled and circulated.
- The Trustee is familiar with the Plan documentation, including the Trust Deed & Rules, Report & Accounts and SIP. In particular, the Trustee refers to the Rules as appropriate when making decisions, review and discuss the Plan’s Report & Accounts and regularly review and update the SIP as appropriate.
- The Trustee keep knowledge of the law relating to pensions and trusts up to date through training provided at Trustee meetings and external seminars. Specifically, the Trustee review

quarterly updates from their advisers and receives legal training periodically. All training sessions (both external and at meetings) are recorded on their training log.

- The Trustee is familiar with the investment principles appropriate for DC schemes. The Trustee review quarterly updates from their advisers and receive training and updates on markets and developing investment thinking. Furthermore, specific training is provided so as to ensure the Trustee is able to make informed decisions in respect of the strategies and funds used by the Plan at the appropriate time. For example, the Trustee received training on crisis management and response to help ensure the Plan remains resilient through the Coronavirus crisis.

All of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit.

In addition to the skills within the Trustee Board, the Trustee engaged with the appointed professional advisers regularly, throughout the year, to ensure that the Plan is well run and functions are exercised properly. To maintain a thorough understanding of the functioning of the Plan, the Directors reviewed quarterly governance reports from Standard Life (the administration and platform provider) and received an independent annual audit report.

New Trustee Directors are asked to complete the Trustee Toolkit within six months of appointment and the Chair ensures they have access to the key documents. Training is also provided to ensure any newly appointed Trustee Directors are familiar with the Plan, the relevant documentation and their duties. No new Trustee Directors were appointed over the course of the year.

The Trustee discuss their training requirements each year and training logs are reviewed and updated as appropriate.

With support from their advisers, the Trustee identify areas of training that are appropriate based on the Plan's business plan and developments within the pensions industry. These are addressed with training provided by the Trustee's advisers as appropriate.

The Trustee believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and the relevant principles relating to the funding and investment of occupational schemes.

The Trustee consider that they meet the Pension Regulator's Trustee Knowledge and Understanding requirements and are confident that their combined knowledge and understanding, together with the support of their advisers, enables them to properly exercise their functions as the Trustee of the Plan.

Signed on behalf of the Trustee of the Avon Rubber Retirement and Death Benefits Plan by the Chair of Trustee

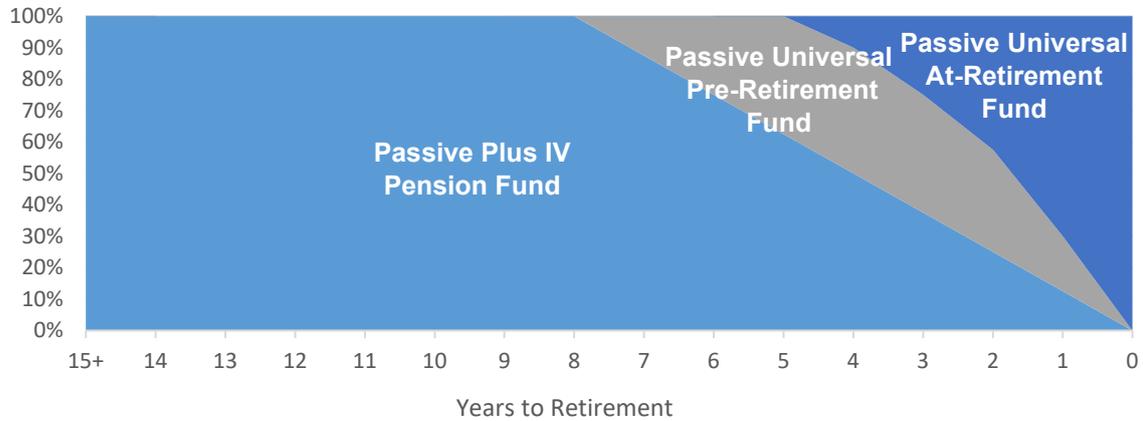
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Signature \_\_\_\_\_

Date \_\_\_\_\_

## Appendix

### Standard Life Passive Plus IV Universal Lifestyle Strategy (default arrangement)



### Lifestyle strategies – TERs

The TERs for each of the lifestyle strategies for each year to retirement are set out in the table below:

Years to Retirement	Passive Plus			
	Universal			Lump Sum
	III	IV	V	IV
10+	0.29	0.30	0.28	0.30
9	0.29	0.30	0.28	0.30
8	0.29	0.30	0.28	0.30
7	0.29	0.30	0.28	0.30
6	0.29	0.30	0.29	0.30
5	0.30	0.30	0.29	0.29
4	0.30	0.30	0.29	0.29
3	0.30	0.30	0.29	0.29
2	0.30	0.30	0.29	0.29
1	0.30	0.29	0.29	0.28
0	0.30	0.29	0.29	0.28