

The Avon Rubber Retirement and Death Benefits Plan (“the Plan”)

Defined Contribution Section (“the Scheme”)

Annual governance statement by the Trustee Chairman

Introduction

As the Trustee Chairman, I have to provide you with a yearly statement which explains what steps have been taken by the Trustee Directors, with the help of our professional advisers, to meet the governance standards that apply to the defined contribution section of the Plan.

The Trustee Directors are committed to meeting the governance standards and we have a Defined Contribution (DC) Sub-Committee of three Trustee Directors who meet regularly to monitor the controls and processes put in place in connection with the Scheme’s investments and administration.

I welcome this opportunity to explain what the Trustee Directors are doing to ensure the Plan is run as effectively as it can be. This statement covers the period 1 April 2016 to 31 March 2017.

1. Default investment arrangement

The default investment arrangement is provided for members who do not select an investment option. Members can also choose to invest in the default investment arrangement. This year 81% of members had their contributions invested or partially invested in the default investment arrangement. The remainder had their contributions invested or partially invested in other investment funds offered by the Scheme. Some of our members are invested in more than one investment fund offered by the Scheme.

Setting an appropriate investment strategy

The Trustee Directors are responsible for setting and monitoring the investment strategy for the Scheme’s default arrangement.

In 2014, on the transfer of the Scheme to Standard Life, the Trustee nominated the Passive Plus III Universal Strategic Lifestyle Profile Fund as the default fund for members who do not make an active investment choice. This is a lifestyle fund which tracks a number of Stock Market indices. The Trustee believes that the Passive Plus III fund is an appropriate default fund for the following reasons:

- a) It has an easy to understand investment style;
- b) the low cost to members;
- c) its balanced approach to investment risk;
- d) the life styling switching profile which reduces the exposure to market volatility in the years leading up to retirement. The profile switches members’ investments into the Standard Life Pre Retirement (Passive Plus Universal) Pension Fund 10 years before retirement and then finally into the Standard Life At Retirement (Passive Plus Universal) Pension fund 4 years before retirement.

Details of the wider investment strategy are recorded in the Statement of Investment Principles for the Plan which is included as an appendix to the Plan’s Annual Report.

Reviewing the default investment arrangement

The Trustee Directors are expected to:

1. review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every 3 years; and

2. take into account the needs of the Scheme membership when designing the default arrangement.

In accordance with our obligations, the DC Sub-Committee, in conjunction with advice from Aon Hewitt, has carried out a detailed analysis of the Scheme's membership and decided to change the default fund in September 2017, from the Standard Life Passive Plus III fund to the Standard Life Active Plus III Pension Fund. This fund will have a 0.40% annual total expense ratio (TER) charge which is below the charge cap. The Active Plus III fund is deemed appropriate for our members as it offers the appropriate level of risk, there is the potential for long-term growth and it moves to lower risk investments as members approach retirement.

2. Charges and transaction costs paid by members

The level of TER charges applicable to the Scheme's default arrangement during the Plan year were 0.31% - 0.32% per annum depending on which of the lifestyle funds a member is invested in.

There are a range of other investment funds offered through Standard Life which offer flexibility and choice for members who want more active involvement in their investment. We have members who are currently invested in 20 of these funds and the total annual charge for these funds range from 0.30% up to 1.24% per annum.

We have asked Standard Life for the level of transaction costs paid by members relating to the funds, however Standard Life has informed us that it does not currently disclose transaction cost information for unit-linked funds, due to the challenges relating to both producing and benchmarking this information. The FCA, who regulate the fund management industry, has published a consultation paper around their proposed transaction cost methodology, the outcome of which is expected during 2017. The Trustee Directors are aware that this is an industry-wide issue and is not isolated to the Plan.

Good value for members

When assessing the charges and transaction costs that are payable by members, the Trustee Directors are required to consider the extent to which the investments options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market. Over the next year, the Trustee Directors will carry out an in-depth cost-benefit analysis and will look at the benefits members get, including Scheme governance, investment options, administration and communications.

The Trustees' framework for assessing value for members is to look at investment returns and overall fund performance (on a quarterly basis) and compare this to the charges that are deducted from members' funds. Through the Governance Report and the Member Outcome Report, the Trustee Directors have assessed the fund performance and membership value in detail. With our advisers help we have assessed members' investment returns and overall fund performance to ensure that the charges borne by the members are reasonable for the funds offered under the Scheme. We considered, in particular, that higher charges in specialist funds are usual and in the case of the funds we offer, justified. We have secured a rebate from Standard Life for the Scheme, for both active and passive funds, of 0.71% per annum which significantly reduces the costs borne by the members.

Based on our high level, cost based assessment; the Trustee Directors have concluded that the Scheme represents good value for members.

3. Core financial transactions

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

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

The Trustee Directors have overall responsibility for ensuring transactions are processed promptly and accurately. In practice, the Scheme administrator, Standard Life, implements all transactions in accordance with service standards agreed with the Trustee Directors. Standard Life provide regular reports to the DC Sub-Committee 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 Directors monitor and review the administrator's processes and are comfortable that core financial transactions have been processed promptly and accurately under their remit as administrator.

I am pleased to report that in the last Plan year there have been no material administration service issues which need to be reported here. I am confident that the processes and controls we have put in place with Standard Life are robust and will ensure that all financial transactions are dealt with in a timely and professional manner.

4. Trustee Knowledge and Understanding

The law requires that trustees have knowledge and understanding of (among other things) the law relating to pensions and trusts, as well as the principles relating to the funding of pension schemes and the investment of scheme assets. We take our training and development responsibilities seriously and all Trustee Directors regularly undertake training to meet this requirement, including specific training relating to DC schemes and investments. Training and attendance at appropriate seminars are recorded in a Trustee training log. The Trustee training log is maintained and reviewed at every Trustee meeting to ensure that the training, knowledge and understanding requirements are being met and so that any gaps in the knowledge of our Trustee Directors can be identified. This allows us to organise training on those areas identified. Also, all newly appointed Trustee Directors are expected to complete a minimum standard of training within six months of joining the Trustee Board.

There are currently 5 Trustee Directors; 3 Company nominated and 2 member nominated. The Trustee Directors meet four times a year at quarterly board meetings and at various times throughout the year at sub-committee level. Taking into account the professional advice available to the Trustee and as a result of the training activities which have been completed by the Trustee Directors, we are confident that the combined knowledge and understanding of the Trustees enables them to exercise their functions as trustees of the Scheme.

Miles Ingrey-Counter
Trustee Chairman