

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 am pleased to provide you with our 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 2017 to 31 March 2018.

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 80% 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.

On 4th October 2017 we changed the default scheme from the Standard Life Passive Plus III Universal Strategic Lifestyle Profile Fund (the ‘Passive Plus’) to the Standard Life Active Plus III Pension Fund (the ‘Active Plus’), for members who do not make an active investment choice.

The Active Plus Fund was chosen as the default fund as the result of a detailed analysis of the Scheme’s membership and on the basis of investment advice from Aon Hewitt. The Trustee believes that the Active Plus Fund is an appropriate default fund for the following reasons:

1. The new default scheme, the Active Plus Fund, was deemed appropriate as it has a 0.41% annual total expense ratio (TER) charge which is below the charge cap.
2. It offers the appropriate level of risk for our members, with the potential for long-term growth.
3. It also provides “lifestyling” which means that as our members approach retirement, investment risk is gradually reduced by moving their fund into deposit style investments.
4. It has an easy to understand investment style.
5. It is low cost to members.
6. It offers a balanced approach to investment risk.

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, and as detailed above, the DC Sub-Committee, in conjunction with advice from Aon Hewitt, changed the default fund in October 2017. This was in response to a detailed review of the Plan's membership and as part of the Trustee's ongoing obligation to ensure that the default fund remains appropriate. The Trustee Directors will keep the investment strategy and objectives of the default fund under review.

2. Charges and transaction costs paid by members

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 on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority transaction cost disclosure requirements (which require investment providers to provide information on charges and transaction costs using a standard approach) came into effect from 3 January 2018. These rules are designed to enhance the ability of governance bodies to obtain information to review value for money. Standard Life has provided transaction cost information for the period covered by this statement where it is available and this information is included in the table below.

The standard reporting format calculates these costs as the difference between the price at which the transaction was actually executed and the price when the order to make that transaction entered the market. This can result in a negative cost (i.e. a gain) as in the case of the Passive Plus IV Fund shown below.

Lifestyle strategies	Total Expense Ratio (% p.a.)	Transaction Costs (%)
Strategic Lifestyle Active Plus III Universal (default investment strategy)		
Standard Life Active Plus III	0.41	0.001713
Standard Life Pre Retirement (Active Plus Universal)	0.41	0.002007
Standard Life At Retirement (Active Plus Universal)	0.39	0.001472
Strategic Lifestyle Active Plus IV		
Standard Life Active Plus IV	0.47	0.00134
Standard Life Pre Retirement (Active Plus Universal)	0.41	0.002007

Standard Life At Retirement (Active Plus Universal)	0.39	0.001472
Strategic Lifestyle Active Plus V		
Standard Life Active Plus V	0.47	0.001345
Standard Life Pre Retirement (Active Plus Universal)	0.41	0.002007
Standard Life At Retirement (Active Plus Universal)	0.39	0.001472
Strategic Lifestyle Passive Plus III		
Standard Life Passive Plus III	0.31	0.00024
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.000207
Standard Life At Retirement (Passive Plus Universal)	0.32	0.000145
Strategic Lifestyle Passive Plus IV		
Standard Life Passive Plus IV	0.32	-0.000014
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.000207
Standard Life At Retirement (Passive Plus Universal)	0.32	0.000145
Individual funds		
Standard Life Active Plus IV	0.47	0.00134
Standard Life Active Plus V	0.47	0.001345
Standard Life MyFolio Managed V	0.74	0.002206
Standard Life At Retirement (Passive Plus Universal)	0.32	0.000145
Standard Life Investments UK Smaller Companies	0.79	
Old Mutual UK Mid Cap	1.14	
MyFolio Managed IV	0.72	
Vanguard US Equity	0.31	
Standard Life Passive Plus V	0.33	
BlackRock Cash	0.50	
Standard Life Passive Plus III	0.31	0.00024
Standard Life MyFolio Managed Income V	0.91	
Standard Life Investments UK Equity Unconstrained	1.01	
Invesco Perpetual High Income	1.18	
BlackRock Aquila Connect World (Ex-UK) Equity	0.31	

In view of the statutory requirement for fund managers to disclose transaction costs, we fully expect to be able to include transaction cost information to be available for all funds held by members in the next statement. From 6 April 2018, the statement will also include an illustrative example of the cumulative effect of the costs and charges borne by members.

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.

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 and also to consider the benefits members get, for example, communications, at retirement support and access to relevant information. Through the Governance Report and the Member Outcome Report, the Trustee Directors have assessed the fund performance, membership value and benefits 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 and an assessment of the benefits members get; 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 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. All of our trustees use the “Trustee Toolkit” which is an online learning programme provided by the Pensions Regulator, aimed at trustees of occupational pensions schemes. This provides a series of online learning modules which ensure that our trustees meet the minimum level of knowledge and understanding required. A number of our trustees attended investment LDI training this reporting period. 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 6 Trustee Directors; 4 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