

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 annual 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 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 and in accordance with the relevant governance standards. This statement covers the period 1 April 2018 to 31 March 2019.

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 84% 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 4 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 following a detailed analysis of the Scheme’s membership and on the basis of investment advice from Aon. The Trustee believes that the Active Plus Fund is an appropriate default fund for the following reasons:

1. It is low cost in that 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 which 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, reviewed and changed the default fund in October 2017, in accordance with the above obligation and 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 an inevitable consequence of managing 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.	Total Expense Ratio (% p.a.)	Transaction Costs (%)
Strategic Lifestyle Active Plus III Universal (default investment strategy)		
Standard Life Active Plus III	0.42	0.001385
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.001414
Standard Life At Retirement (Active Plus Universal)	0.40	0.001031
Strategic Lifestyle Active Plus IV		
Standard Life Active Plus IV	0.47	0.001493
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.001414
Standard Life At Retirement (Active Plus Universal)	0.40	0.001031
Strategic Lifestyle Active Plus V		

Standard Life Active Plus V	0.47	0.000489
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.001414
Standard Life At Retirement (Active Plus Universal)	0.40	0.001031
Strategic Lifestyle Passive Plus III		
Standard Life Passive Plus III	0.31	0.000579
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.000315
Standard Life At Retirement (Passive Plus Universal)	0.32	0.000166
Strategic Lifestyle Passive Plus IV		
Standard Life Passive Plus IV	0.33	0.000513
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.000315
Standard Life At Retirement (Passive Plus Universal)	0.32	0.000166
MyFolio Managed V Universal SLP		
Standard Life MyFolio Managed V Pension Fund	0.73	0.002022
Standard Life Pre Retirement (MyFolio Managed Universal)	0.60	0.003761
Standard Life At Retirement (MyFolio Managed Universal)	0.52	0.00356
Individual funds		
Standard Life Active Plus IV	0.47	0.001493
Standard Life Active Plus V	0.47	0.000489
Standard Life At Retirement (Active Plus Universal)	0.40	0.001031
Standard Life At Retirement (MyFolio Managed Universal)	0.52	0.00356
Standard Life At Retirement (Passive Plus Universal)	0.32	0.000166
Standard Life MyFolio Managed IV Pension Fund	0.70	
Standard Life MyFolio Managed V Pension Fund	0.73	0.002022
Standard Life Passive Plus III Pension Fund	0.31	0.000579
Standard Life Passive Plus IV Pension Fund	0.32	0.000513
Standard Life Passive Plus V Pension Fund	0.33	
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.001414
Standard Life Pre Retirement (MyFolio Managed Universal)	0.60	0.003761
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.000315

SL BlackRock ACS World ex UK Equity	0.31	
SL Invesco Perpetual High Income Pension Fund	1.18	
SL BlackRock Gold & General Pension Fund	1.26	
SL Old Mutual UK Mid Cap Pension Fund	1.15	
SL SLI Global Smaller Companies Pension Fund	1.11	
SL SLI UK Equity Unconstrained Pension Fund	1.01	
SL SLI UK Smaller Companies Pension Fund	0.79	
SL Vanguard US Equity Pension Fund	0.31	

The Trustee Directors have been unable to obtain a breakdown of transaction costs from Standard Life for every fund on offer to members due to limitations on the information that Standard Life are currently able to provide from their systems. The Trustee will work with Standard Life to ensure that full details of all transaction charges are made available for all funds in the future and we continue to request that this information be provided. Transaction costs for all funds will be published on our website when they become available.

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 represent good value for members when compared to other options available in the market.

The Trustees' framework for assessing value for members is to review whether charges are reasonable by reference to investment returns, overall fund performance (on a quarterly basis) and also the benefits members get, for example, communications, support at retirement and access to relevant information. 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.

2.1 Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

- 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 auto-select option for DC members (the Strategic Lifestyle Active Plus III Universal Fund) since this is the arrangement with the most members invested in it, as well as three funds from the Plan's self-select fund range. The three self-select funds shown in the illustration are:
 - SL SLI UK Smaller Companies Pension Fund [mid-range TER self-select fund]
 - SL BlackRock Gold & General Pension Fund [highest TER self-select fund]
 - SL Vanguard US Equity Pension Fund [lowest TER self-select fund]

Please note that these projections make no allowances for the investment risks, and hence do not provide an indication of the range of outcomes associated with, a particular investment.

Year	Standard Life SLI UK Smaller Companies Pension Fund (KR)		Standard Life BlackRock Gold & General Pension Fund (BFBG)		Standard Life Vanguard US Equity Pension Fund (GGMJ)		Strategic Lifestyle Active Plus III Universal Fund	
	Before Costs	After Costs	Before Costs	After Costs	Before Costs	After Costs	Before Costs	After Costs
1	16,300	16,200	16,300	16,100	16,300	16,200	16,200	16,100
3	29,800	29,300	29,800	29,000	29,800	29,600	29,500	29,200
5	44,500	43,300	44,500	42,700	44,500	44,000	43,800	43,000
10	86,900	82,900	86,900	80,700	86,900	85,300	84,500	81,800
15	138,000	129,000	138,000	124,000	138,000	134,000	133,000	126,000
20	201,000	183,000	201,000	175,000	201,000	194,000	190,000	179,000
25	276,000	247,000	276,000	232,000	276,000	265,000	258,000	239,000
30	367,000	321,000	367,000	298,000	367,000	348,000	339,000	309,000
35	475,000	406,000	475,000	373,000	475,000	447,000	425,000	382,000
40/NRD	604,000	505,000	604,000	459,000	604,000	564,000	503,000	446,000

Notes

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: 27
- Inflation: 2.0% each year
- The starting fund size: £10,000
- The starting salary: £40,000
- Contributions: 7.5% per year
- Contributions increase by 3.5% each year
- Age at which benefits are taken: 67
- Values shown are estimates and are not guaranteed.

The projected annual returns used, after the impact of fees, are as follows:

- Strategic Lifestyle Active Plus III Universal: 4.5% pa above inflation for the initial years, gradually reducing to a return of 2.5% pa above inflation at the ending point of the lifestyle;
- Standard Life SLI UK Smaller Companies Pension Fund: 5.0% pa above inflation;
- Standard Life BlackRock Gold & General Pension Fund: 5.0% pa below inflation;
- Standard Life Vanguard US Equity Pension Fund: 5.0% pa above inflation.

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 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 all 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. 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 six Trustee Directors; four Company nominated and two member nominated. The Trustee Directors meet four times a year at quarterly board meetings and at various other times throughout the year as the need arises and 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 Trustee Directors enables them to exercise their functions as trustees of the Scheme.

Miles Ingrey-Counter
Chairman