

## **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, and report to the full Trustee Board.

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 2020 to 31 March 2021.

##### **1. Default arrangement**

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

A default investment arrangement is provided for members who do not select an alternative investment option. Members can also choose to invest in the default arrangement. This year, 87% of members had their contributions invested or partially invested in the default arrangement. The remainder chose to have their contributions invested in one or more of the other investment funds and strategies offered by the Scheme.

##### **Setting an appropriate investment strategy**

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

A review of the investment strategy was undertaken during the year which included reviewing the default arrangement. We were supported in this review by our investment advisers, Aon. The review concluded on 23 July 2020. After considering the Scheme's membership profile and investment performance, and supported by analysis and advice from Aon, we decided to change the default arrangement from the Standard Life Active Plus III Pension Fund ('the Active Plus III strategy') to the Standard Life Passive Plus IV Universal Strategic Lifestyle Profile Fund ('the Passive Plus IV strategy'). Details of both these strategies are shown in the Appendix.

This change to the default arrangement was made on the basis that the Passive Plus IV strategy was expected to be better placed to meet the needs of members and our objectives. In particular:

1. It is low cost in that it has an annual total expense ratio (TER) charge of between 0.31% and 0.32% (depending on how far members are to retirement) which is below the charge cap of 0.75% p.a. for schemes that are used for auto-enrolling their employees.
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 automatically moving their funds into less volatile investments.
4. It has an easy to understand investment style which offers a balanced approach to investment risk.
5. It is designed to be appropriate regardless how members take their benefits at retirement.

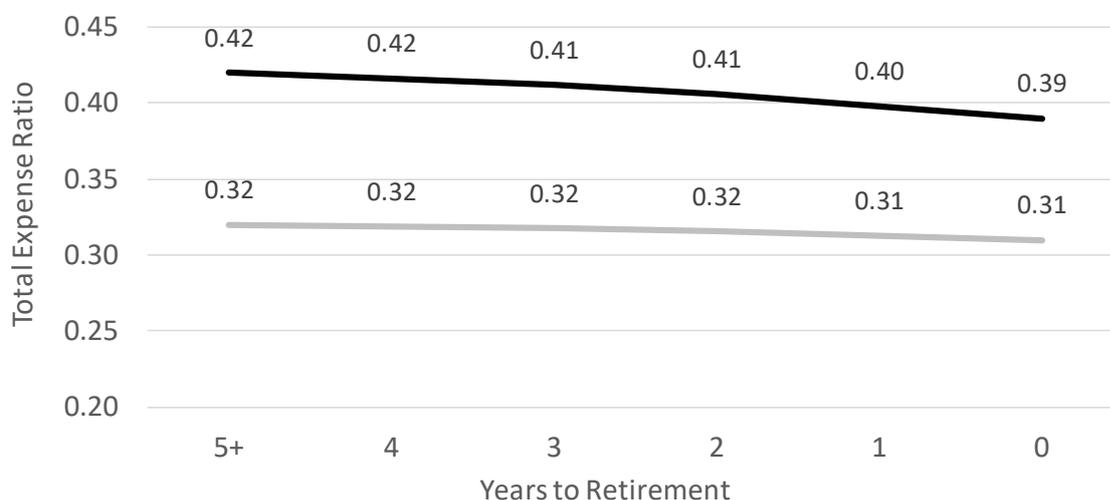
The move to the new default arrangement took place in February and March 2021 and was accompanied by changes to the other investment options available to members.

Details of the wider investment strategy are recorded in the Statement of Investment Principles for the Plan which is included alongside this statement in the Plan’s Annual Report.

The Trustee Directors will continue to monitor the Scheme's investments. This will include reviewing the performance of the default arrangement against its aims and objectives on a quarterly basis and reviewing analysis of fund performance to check that the risk and return levels meet expectations. We will also undertake another full strategy review before 23 July 2023.

### 2.1 Charges and transaction costs paid by members

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 former and new default arrangements, the TER payable is dependent on how far a member is from retirement. Details of the TERs associated with the former and new default arrangements are set out in the chart below; the upper black line shows the TER associated with the Active Plus III strategy and the lower grey line shows the TER associated with the Passive Plus IV strategy.



A table is shown in the Appendix which sets out, for each lifestyle strategy used by the Scheme, 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 Scheme.

There are two tables. The first table sets out the costs and charges associated with funds and strategies that were used by members prior to the change in the investment strategy which were made in February and March 2021. The second table sets out the costs and charges associated with funds and strategies in the new arrangement.

**Table 1 - Former investment strategy**

	Total Expense Ratio (% p.a.)	Transaction Costs (%)
Strategic Lifestyle Active Plus III Universal (former default arrangement)		
Standard Life Active Plus III	0.42	0.22
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.22
Standard Life At Retirement (Active Plus Universal)	0.39	0.18
Strategic Lifestyle Active Plus IV Universal		
Standard Life Active Plus IV	0.47	0.28
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.22
Standard Life At Retirement (Active Plus Universal)	0.39	0.18
Strategic Lifestyle Active Plus V Universal		
Standard Life Active Plus V	0.47	0.22
Standard Life Pre Retirement (Active Plus Universal)	0.42	0.22
Standard Life At Retirement (Active Plus Universal)	0.39	0.18
Strategic Lifestyle Passive Plus III Universal		
Standard Life Passive Plus III	0.31	0.12
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.13
Standard Life At Retirement (Passive Plus Universal)	0.31	0.10
Strategic Lifestyle Passive Plus IV Universal		
Standard Life Passive Plus IV	0.32	0.12
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.13
Standard Life At Retirement (Passive Plus Universal)	0.31	0.10
Strategic Lifestyle Passive Plus V Universal		
Standard Life Passive Plus V	0.30	0.10
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.13
Standard Life At Retirement (Passive Plus Universal)	0.31	0.10

Strategic Lifestyle MyFolio Managed IV Universal		
Standard Life MyFolio Managed IV Pension Fund	0.67	0.25
Standard Life Pre Retirement (MyFolio Managed Universal)	0.60	0.22
Standard Life At Retirement (MyFolio Managed Universal)	0.52	0.16
Strategic Lifestyle MyFolio Managed V Universal		
Standard Life MyFolio Managed V Pension Fund	0.68	0.24
Standard Life Pre Retirement (MyFolio Managed Universal)	0.60	0.22
Standard Life At Retirement (MyFolio Managed Universal)	0.52	0.16
Individual funds		
SL SLI UK Equity Unconstrained	1.01	0.69
SL ASI UK Smaller Companies	0.78	0.08
SL Invesco High Income	1.17	1.11
SL Schroder UK Mid 250	1.25	0.10
SL Jupiter UK Mid Cap	1.14	0.25
SL Vanguard US Equity	0.31	0.01
Standard Life North American Equity	0.30	0.09
SL ASI Global Smaller Companies	1.10	0.12
SL BlackRock ACS World ex UK Equity Tracker	0.31	0.04
SL Blackrock ACS Continental European Equity Tracker	0.30	0.01
SL Janus Henderson European Selected Opportunities	1.23	0.21
SL ASI (SLI) Emerging Markets Equity	1.08	0.02
SL Fidelity Asia	1.48	0.13
Standard Life Asia Pacific ex Japan Equity	0.43	0.00
Standard Life UK Gilt	0.30	0.08
SL iShares UK Gilts All Stocks Index	0.30	0.06
Standard Life Property	0.32	0.17
Standard Life Money Market	0.30	0.00

**Table 2 - New investment strategy**

	Total Expense Ratio (% p.a.)	Transaction Costs (%)
Strategic Lifestyle Passive Plus IV Universal (new default arrangement)		
Standard Life Passive Plus IV	0.32	0.12
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.13
Standard Life At Retirement (Passive Plus Universal)	0.31	0.10
Strategic Lifestyle Passive Plus IV Annuity		
Standard Life Passive Plus IV	0.32	0.12
Standard Life Pre Retirement (Passive Plus Annuity)	0.32	0.13
Standard Life At Retirement (Passive Plus Annuity)	0.30	0.11
Strategic Lifestyle Passive Plus IV Lump Sum		
Standard Life Passive Plus IV	0.32	0.12
Standard Life Pre Retirement (Passive Plus Lump Sum)	0.30	0.09
Standard Life At Retirement (Passive Plus Lump Sum)	0.30	0.08
Strategic Lifestyle Passive Plus III Universal		
Standard Life Passive Plus III	0.31	0.12
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.13
Standard Life At Retirement (Passive Plus Universal)	0.31	0.10
Strategic Lifestyle Passive Plus V Universal		
Standard Life Passive Plus V	0.30	0.10
Standard Life Pre Retirement (Passive Plus Universal)	0.32	0.13
Standard Life At Retirement (Passive Plus Universal)	0.31	0.10
Individual funds		
SL ASI UK Smaller Companies (closed)	0.78	0.08
SL iShares UK Equity Index	0.30	0.38
SL Vanguard US Equity Pension Fund	0.31	0.01
SL BlackRock ACS World ex UK Equity Tracker	0.31	0.04
SL Blackrock ACS Continental European Equity Tracker	0.31	0.01

SL iShares Pacific ex Japan Equity Index	0.34	0.17
SL Schroder Global Emerging Markets	1.27	0.17
SL Invesco Global Targeted Returns	1.11	0.48
SL iShares UK Gilts All Stocks Index	0.30	0.06
SL iShares Index Linked Gilt Index	0.30	0.01
SL iShares Corporate Bond Index	0.32	0.27
Standard Life Property	0.32	0.17
Standard Life Money Market	0.30	0.00

## 2.2 Illustration of effect of costs and charges

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
  - o Strategic Lifestyle Active Plus III Universal (the former default arrangement)
  - o Strategic Lifestyle Passive Plus IV Universal (the new default arrangement)
  - o Standard Life Money Market
  - o SL Vanguard US Equity

The projections have been produced based on the relevant statutory guidance. Please note they make no allowances for the investment risks and hence do not provide an indication of the range of outcomes associated with a particular investment.

**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
- Contributions 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.

### STRATEGIC LIFESTYLE ACTIVE PLUS III UNIVERSAL (former default arrangement)

Year	Before Charges	After Charges	Impact of Charges
1	£3,790	£3,790	-
5	£20,300	£20,100	£200
10	£44,200	£43,300	£900
15	£72,300	£70,100	£2,200
20	£105,000	£100,000	£5,000
25	£142,000	£135,000	£7,000
30	£186,000	£175,000	£11,000
35	£237,000	£220,000	£17,000
40	£295,000	£272,000	£23,000
45	£362,000	£329,000	£33,000
<b>Retirement</b>	<b>£391,000</b>	<b>£354,000</b>	<b>£37,000</b>

**Growth Rate:**

Standard Life Active Plus III:	4.5% p.a.
Standard Life Pre Ret (Active Plus Universal):	1.5% p.a.
Standard Life At Ret (Active Plus Universal):	3.0% p.a.

### STRATEGIC LIFESTYLE PASSIVE PLUS IV UNIVERSAL (new default arrangement)

Year	Before Charges	After Charges	Impact of Charges
1	£3,800	£3,800	-
5	£20,500	£20,400	£100
10	£45,300	£44,600	£700
15	£75,000	£73,200	£1,800
20	£110,000	£106,000	£4,000
25	£152,000	£146,000	£6,000
30	£201,000	£191,000	£10,000
35	£259,000	£244,000	£15,000
40	£326,000	£306,000	£20,000
45	£405,000	£376,000	£29,000
<b>Retirement</b>	<b>£440,000</b>	<b>£407,000</b>	<b>£33,000</b>

**Growth Rate:**

Standard Life Passive Plus IV:	5.0% p.a.
Standard Life Pre Ret (Passive Plus Universal):	3.5% p.a.
Standard Life At Ret (Passive Plus Universal):	2.5% p.a.

## STANDARD LIFE MONEY MARKET

Year	Before Charges	After Charges	Impact of Charges
1	£3,730	£3,730	-
5	£18,800	£18,700	£100
10	£38,200	£37,700	£500
15	£58,300	£57,000	£1,300
20	£79,000	£76,800	£2,200
25	£100,000	£97,200	£2,800
30	£122,000	£118,000	£4,000
35	£146,000	£139,000	£7,000
40	£170,000	£162,000	£8,000
45	£196,000	£185,000	£11,000
<b>Retirement</b>	<b>£206,000</b>	<b>£195,000</b>	<b>£11,000</b>

### Growth Rate:

Standard Life Money Market: 1.0%

## SL VANGUARD US EQUITY

Year	Before Charges	After Charges	Impact of Charges
1	£3,810	£3,810	-
5	£20,800	£20,600	£200
10	£46,500	£45,700	£800
15	£77,800	£76,000	£1,800
20	£115,000	£112,000	£3,000
25	£161,000	£155,000	£6,000
30	£217,000	£206,000	£11,000
35	£283,000	£267,000	£16,000
40	£362,000	£339,000	£23,000
45	£456,000	£423,000	£33,000
<b>Retirement</b>	<b>£498,000</b>	<b>£460,000</b>	<b>£38,000</b>

### Growth Rate:

SL Vanguard US Equity: 5.0%

## **2.3 Value for members**

The Trustee Directors are 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 Directors have 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 borne by members are the Total Expense Ratio charge and transaction costs and are set out earlier in this statement. As part of their assessment, the Trustee Directors have looked at the level of member borne costs relative to other options available in the market and considers them to be appropriate.

The Trustee Directors have considered the benefits of membership under the following headings; scheme management and governance, administration, investment governance, communications and other benefits. A summary of the assessment outcome is set out below:

### Scheme Management and Governance

The Trustee Directors believe strong governance and management is crucial in ensuring the proper functioning of the Scheme.

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

The Trustee Directors have put in place a specialist DC sub-committee to help support good governance of the Scheme.

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

### Administration

The Trustee Directors believe good administration and record keeping is a critical aspect of the Scheme's benefit provision.

The Trustee Directors obtain information to help them 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.

### Investment Governance

The Trustee Directors believe 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 Scheme 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 Directors are supported in this ongoing review by their investment adviser.

### Communications

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

The Trustee Directors provide 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.

Based on our 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 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 Scheme;
3. transferring assets related to members into or out of the Scheme;
4. transferring assets between different investments within the Scheme; and
5. making payments from the Scheme 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. 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 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. Key processes include:

- A full member and Scheme reconciliation being undertaken annually as part of the annual preparation of the Trustee Report & Accounts.
- Provision of quarterly administration reports – enabling the Trustee Directors to check core financial transactions and review processes.
- Monthly contribution checks and daily reconciliation of the Trustees' 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.

I am pleased to report that, in the last 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 (TKU)**

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 law requires that trustees have knowledge and understanding of 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 and other matters to enable them to exercise their functions as trustees properly.

The Trustee has met the Pension Regulator's TKU requirements during the Scheme year through the following measures:

- The Trustee Directors met four times a 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 Trustees' advisers who have provided specialist advice and updates on legislation, guidance and best practice developments. Trustee meeting minutes were compiled and circulated.

- Trustee Directors are familiar with the Scheme documentation, including the Trust Deed & Rules, Report & Accounts and SIP. In particular, the Trustee Directors refer 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.

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

- Trustee Directors are familiar with the investment principles appropriate for DC schemes. The Trustee reviews quarterly updates from their advisers and receives 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 Scheme at the appropriate time. For example, the Trustee received training on crisis management and response to help ensure the Scheme remains resilient through the Coronavirus crisis.

Training and guidance was also provided to the Trustee Directors, by their advisers, in respect of the technical, legal and investment considerations associated with the move to the new investment strategy.

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 Directors engaged with the appointed professional advisers regularly, throughout the year, to ensure that the Scheme is well run and functions are exercised properly. To maintain a thorough understanding of the functioning of the Scheme, 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 Director is familiar with the Scheme, the relevant documentation and their duties. No new Directors were appointed over the course of the year.

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

With support from their advisers, the Trust Board identifies areas of training that are appropriate based on the Scheme's business plan and developments within the pensions industry. These are addressed with training provided by the Trustees' advisers as appropriate.

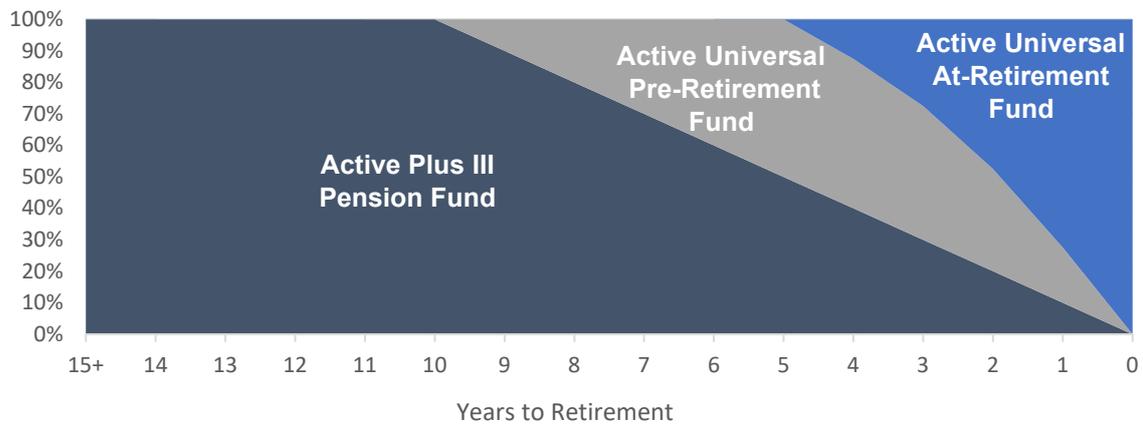
Overall, the Trustee is confident that all requirements of the Regulations as they apply are being met in the interests of members of the Scheme.

Miles Ingrey-Counter

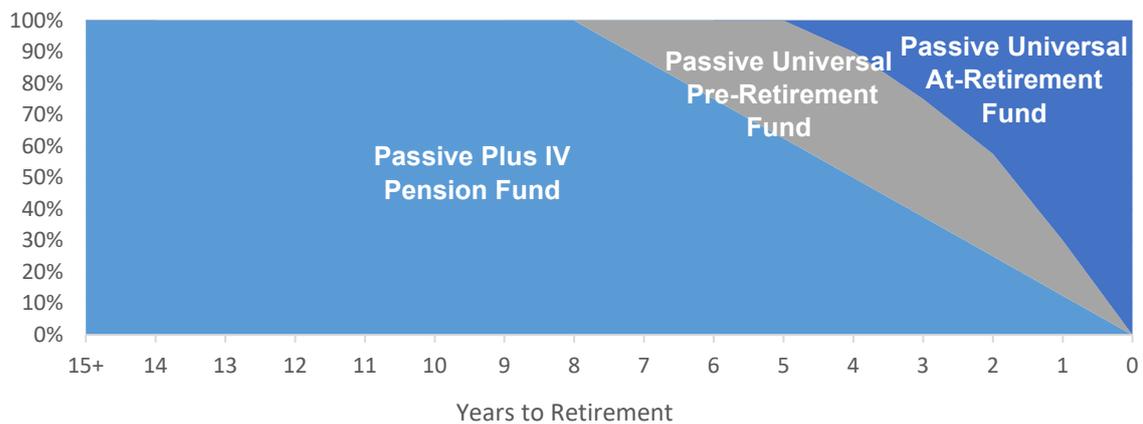
Chairman

## Appendix

### Standard Life Active Plus III Universal Lifestyle Strategy (former default arrangement)



### Standard Life Passive Plus IV Universal Lifestyle Strategy (new 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	Active Plus			Passive Plus					My Folio Managed	
	Universal			Universal			Annuity	Lump Sum	Universal	
	III	IV	V	III	IV	V	IV	IV	IV	V
10+	0.42	0.47	0.47	0.31	0.32	0.30	0.32	0.32	0.67	0.68
9	0.42	0.47	0.47	0.31	0.32	0.30	0.32	0.32	0.67	0.68
8	0.42	0.47	0.47	0.31	0.32	0.30	0.32	0.32	0.67	0.68
7	0.42	0.46	0.46	0.31	0.32	0.30	0.32	0.32	0.66	0.67
6	0.42	0.46	0.46	0.31	0.32	0.31	0.32	0.32	0.65	0.66
5	0.42	0.45	0.45	0.32	0.32	0.31	0.32	0.31	0.64	0.65
4	0.42	0.44	0.44	0.31	0.32	0.31	0.32	0.31	0.63	0.63
3	0.41	0.43	0.43	0.31	0.32	0.31	0.32	0.31	0.61	0.61
2	0.41	0.42	0.42	0.31	0.32	0.31	0.31	0.31	0.58	0.59
1	0.40	0.41	0.41	0.31	0.31	0.31	0.31	0.30	0.55	0.55
0	0.39	0.39	0.39	0.31	0.31	0.31	0.30	0.30	0.52	0.52