Avon Rubber Defined Benefit Retirement and Death Benefit Plan

Statement of Investment Principles

This Statement of Investment Principles (SIP) covers only the defined benefit section of the Plan. It is set out in four parts. The first two cover the objectives and implementation of the plan and the last two sections cover the Trustee's overall policy on governance, risk measurement and management.

Investment Objective

The aim of the Trustee is to invest the assets of the Plan to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considered the lowest risk asset allocation that could be adopted in relation to the Plan’s liabilities. There was then selected an asset allocation strategy designed to achieve a higher return than this lowest risk strategy, which at the same time still represented a prudent approach to meeting the Plan’s liabilities.

STRATEGY

The Trustee has agreed, following a review of the investment strategy, to implement the following asset allocation:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Interim Target Weighting* %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability Driven Investment Funds and Cash</td>
<td>45</td>
</tr>
<tr>
<td>Cashflow Driven Investments</td>
<td>25</td>
</tr>
<tr>
<td>Return-Seeking Investments</td>
<td>30</td>
</tr>
</tbody>
</table>

*The interim target weighting represents only decisions complete to date from the October 2019 Manager Selection meetings, with the final Target still subject to discussions and implementation.

The return-seeking investments are currently invested in a combination of diversified growth funds and an equity fund, while the Cashflow Driven Investments combine a multi-asset credit fund and a secured finance fund. The allocation to the equity fund it expected to be removed in long term. It is believed this approach will be best able to meet the objective set out above.
The actual asset allocation will deviate from the target weighting from time to time. Furthermore, the Trustee may also implement investments not on the basis of the asset allocation set out above but as a medium term position intended to take advantage of shorter term opportunities in the markets. Such investments will be made following advice from the Plan's investment adviser and will be maintained on a temporary basis while it is believed that the Plan will benefit from the deviation. The Trustee will monitor any such positions and formally review the asset allocation following actuarial valuations.

The Trustee targets an inflation and interest rate hedge ratio of 85% of funded liabilities valued on the basis of a discount rate represented by the gilt + 1% per annum. This is achieved by investing in Liability Driven Investment Funds with BlackRock. As the pooled LDI funds make use of leverage, the Trustee will seek to hold enough cash in the portfolio that would allow covering one potential recapitalisation event of such funds.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, and in particular the strength of the funding position relative to the liability profile. The Trustee’s policy is to make the assumption that equities will outperform gilts over the long term and assume that active fund management can be expected to add value. However, the Trustee recognises the potential volatility in equity returns, particularly relative to the Plan’s liabilities, and the risk that the fund managers will not achieve the targets set. In choosing the Plan's investment options the Trustee considered written advice from its investment advisers and consequently ensures its policy affords significant consideration of:

- the need to consider a full range of asset classes;
- the risks and rewards of a range of alternative asset allocation strategies;
- the suitability of each asset class;
- the need for appropriate diversification.

In addition, when setting this strategy, the Trustee also remained in consultation with the sponsoring employer.

**IMPLEMENTATION**

Mercer Limited ("Mercer") has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates. Mercer is paid an agreed annual fee which includes all services needed on a regular basis. Some one-off projects fall outside the annual fee and the fees for these are negotiated separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing
investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

ESG, Stewardship and Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors are important and may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. This also applies to exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The strategic rationale of different asset classes that help the Trustee to achieve the Plan’s investment objectives remains the primary driver behind the Plan’s investment strategy. However, within this context, the Trustee is increasingly working to integrate ESG, climate change and stewardship within the Plan’s investment processes in appointing new investment managers and monitoring existing investment managers.

Member Views

Member views are not explicitly sought or taken into account in the selection, retention and realisation of investments. However, the Trustee has agreed to include a statement on its ESG beliefs in the next annual newsletter and members are welcome to provide feedback on this.

Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future. However, the Trustee has agreed that for future investment manager selections, a minimum ESG rating of ESG3 will be set as a pre-requisite as part of the selection process for asset classes where ESG considerations are considered to have a material impact on investment performance. The Trustee makes use of the investment consultant’s ESG ratings.

The investment objectives and fund manager structures are as follows:
**BlackRock Investment Management (UK) Limited (“BlackRock”)**

*Liability Matching Funds*

The funds’ objective is to respond to changes in the selected part of the yield curve in the pre-determined way.

*Liability Solutions Cash Fund*

This is a cash collateral fund held by clients at BlackRock using Liability Matching Funds. Its aim is to preserve capital whilst generating a cash return in line with GBP 3-month LIBOR, and it will invest in instruments that carry a more risk than you would find in a pure deposit fund.

As the pooled Liability Matching Funds make use of leverage, the Trustee will seek to hold enough cash in the fund that would allow covering one potential recapitalisation event of such funds.

**CQS Management (“CQS”)**

*Multi-Asset Credit Fund*

The CQS Credit Multi-Asset Fund aims to provide a modest level of income generation at low levels of risk (both default risk and volatility). The Fund also attempts to preserve capital through its conservative investment philosophy and ability to trade tactically between senior secured loans, high yield bonds, investment grade bonds, asset backed securities and convertible bonds.

The target return is cash + 4 - 5% p.a. with historic volatility of low single digits. The Fund distributes semi-annual income payments at a fixed rate of 3m £ Libor + 3% p.a.

**Majedie Asset Management (“Majedie”)**

*UK Focus Fund*

UK equity manager with emphasis on outperforming in all market conditions through awareness of both bottom up and top down drivers of stock returns.

Aims to outperform the FTSE All Share Index by 5% p.a.

**Ruffer LLP (“Ruffer”)**

*Global Long Only Absolute Return Fund*

Diversified Growth Fund that invests across asset classes, generally in traditional investments such as holdings in equities and bonds, and attempts to make money by high level asset allocation decisions and also stock selection. The Fund’s objective is not to lose money in any twelve month rolling period and to generate consistent returns which are significantly greater than inflation and the return on cash.

**Insight**

*Insight Broad Opportunities Fund*

Diversified Growth Fund that invests across asset classes. Positions in traditional asset classes are held, but the manager also makes regular use of derivative positions in order to improve the profile of returns. The Fund's
objective is to outperform cash (as measured by the 3-month £ LIBID) by 4% p.a. (net of fees) delivering approximately half of the volatility of returns from global equities.

Ares

Secured Income Fund

Secured Finance Fund that focuses on investments that offer enhanced downside protection and returns in excess of corporate bonds while maintaining an investment-grade average credit quality. The Fund aims to deliver net of fees returns of 4-6% p.a. 90% of available income is paid out on a quarterly basis.

RISK MEASUREMENT AND MANAGEMENT

The Trustee recognises that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities (this is known as the “funding risk”). The Trustee has identified a number of factors which have the potential to cause such a deterioration of the Plan’s funding level and accordingly contribute to the funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee and its advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Plan’s assets to include an allocation to LDI funds which reduces this mismatching risk.
- The risk of a shortfall of liquid assets relative to the Plan’s immediate liabilities (“cash flow risk”). In order to minimise the probability that this occurs, the Trustee and its advisers will take into account the timing of future payments when managing the Plan’s cash flows.
- The risk that fund managers will fail to achieve the rate of investment return assumed by the Trustee (“manager risk”). This risk was considered by the Trustee and its advisers upon the initial appointment of the fund managers and will remain a consideration on an ongoing basis.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustee and its advisers considered this risk when setting the Plan’s investment strategy.
- The possibility of failure of the Plan’s sponsoring employer (“covenant risk”). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of occurrences of fraud, poor advice or acts of negligence (“operational risk”). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.
Due to their complex and interrelated nature the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). At times when it is found to be useful some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk was modelled explicitly as part of the most recent investment strategy review.

Having set an investment objective which relates directly to the Plan’s liabilities and implemented it using a range of fund managers, the Trustee’s policy is to monitor, where possible, these risks on a periodic basis. To allow it to do this, the Trustee receives reports showing:

- Actual funding level versus the Plan specific funding objective.
- Performance versus the Plan investment objective.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

**GOVERNANCE**

The Trustee is responsible for the investment of the Plan’s assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee takes into account whether or not it has the appropriate training and whether or not there is available expert advice that might allow it to make an informed decision. The Trustee has established the following decision making structure:

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<th>Trustee</th>
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<tbody>
<tr>
<td>• Set structures and processes for carrying out its role.</td>
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<tr>
<td>• Select and monitor planned asset allocation.</td>
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<tr>
<td>• Select direct investments (see below).</td>
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<tr>
<td>• Monitor investment advisers and fund managers.</td>
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<tr>
<td>• Monitor direct investments.</td>
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<tr>
<td>• Make day-to-day decisions relevant to operation of Plan's investment strategy.</td>
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<table>
<thead>
<tr>
<th>Investment Adviser</th>
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<tr>
<td>• Advise on all aspects of the investment of the Plan assets,</td>
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<tr>
<td>including implementation.</td>
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<tr>
<td>• Advise on this statement.</td>
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<td>• Provide required training.</td>
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<th>Fund Managers</th>
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<tr>
<td>• Operate within the terms of this statement and their written contracts.</td>
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<tr>
<td>• Select individual investments with regard to their suitability and diversification.</td>
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<tr>
<td>• Advise Trustee on suitability of the proposed benchmark.</td>
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The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee’s policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members AVCs, the Liability Matching Funds provided by BlackRock, the return seeking funds provided by Majedie, Ruffer and Insight and cashflow driven investments provided by CQS and Ares. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee’s investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated either on an ad valorem basis or a performance related fee basis. The structure is been chosen based on aligning the fund managers’ interests with those of the Plan and achieving a reasonable level of fees.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc
costs. The Trustee's investment advisor monitors the level of commission paid, and will advise if they become unjustifiable given the goods and services received.

The Trustee has invested the Plan’s assets through pooled funds. The managers of these investments have appointed their own custodians. The custodians provide safekeeping for all the fund’s assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate action.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

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Trustee

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Trustee

Date: 18 June 2020

Avon Rubber Pension Trust Limited
Trustee of the Avon Rubber Retirement and Death Benefits Plan

Acknowledged on behalf of Avon Rubber p.l.c.

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Deputy Chief Financial Officer