Statement of Investment Principles
Defined Contribution Section of the Avon Rubber Retirement and Death Benefits Plan

Introduction
The Avon Rubber Retirement and Death Benefits Plan (‘the Plan’) is a hybrid pension scheme consisting of defined benefit (DB) and defined contribution (DC) sections established under the same trust deed. The current document governing the Plan is the rules dated 30 September 2009. This statement is prepared by Avon Rubber Pension Trust Limited as the sole trustee of the Plan (‘the Trustee’) but relates solely to the DC section; a separate statement is in place for the DB section. The DC section is a "qualifying scheme" for the purposes of automatic enrolment and the Pensions Act 2008.

The DC section contains funds that are earmarked for each member of the Plan which are held under a group insurance policy issued by Standard Life Assurance Limited (‘Standard Life’) to the Trustee.

The requirement to prepare a Statement of Investment Principles (SIP)
Under section 35 of the Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004) and regulation 2 of The Occupational Pension Schemes (Investment) Regulations 2005 (the "Investment Regulations"), there is a requirement to prepare a Statement of Investment Principles (‘SIP’). A SIP is a written statement of the investment principles governing investment decisions made by the Trustee.

In accordance with The Occupational Pension Schemes (Investment) Regulations 2005 the statement is reviewed:
- At least every three years; and
- Without any delay after any significant change in investment policy or the demographic profile of relevant members.

The Trustee’s investment responsibilities are governed by the Plan’s trust deed and this Statement takes full regard of its provisions. A copy of the Plan’s trust deed is available for inspection upon request.

Strategy
The Trustee's primary objectives for the Defined Contribution Section are:
- To provide members with a range of investment options to meet their individual risk/return requirements and to monitor and review the range on a regular basis;
- To ensure that the fund range recognises that members' investment needs change as they progress towards retirement age with younger members generally seeking real growth and older members' greater security;
- To ensure that the individual fund options are managed to achieve a return commensurate with an acceptable level of risk given the stated aims of each fund.

The Trustee's policy is to provide suitable information for members so that they can make appropriate investment decisions. Members are responsible for selecting the fund or combination of funds in which they wish to invest their pension accounts from the available range.
The Trustee uses a fund platform provided by Standard Life to implement the Plan's objective. The platform provides access to a range of pooled funds through a single administration interface. Members currently have access to all of the funds available on the Standard Life platform, but will be reviewed in 2020. The available funds are listed in a member booklet published by Standard Life on their website.

In addition, the Plan offers the Standard Life **Active Plus III Universal Strategic Lifestyle Profile Fund**.

There are three main stages in this investment strategy:

- More than 10 years to retirement (the 'growth phase'), assets are invested in the Standard Life Active Plus III Pension Fund which aims to produce growth while being managed to a balanced level of risk;

- Between 10 and 5 years to retirement, half of the assets are gradually moved into the Standard Life Pre Retirement (Active Plus Universal) Pension Fund, which is a lower risk fund than the earlier growth phase;

- During the last 5 years before retirement, all the assets are gradually moved into the Standard Life At Retirement (Active Plus Universal) Pension Fund, which is the lowest risk fund of the three and is designed to give flexibility at retirement or to be appropriate for drawdown.

**Default Investment**

The Trustee is required to designate a default investment strategy for members who join the Plan and do not choose an investment option for how their contributions are invested. The Trustee has designated the Standard Life Active Plus III Universal Strategic Lifestyle Profile (outlined above) as the default arrangement for the Plan. This fund has been designed by Standard Life to be appropriate for drawdown at retirement.

The Default option was reviewed in 2017. The default will be reviewed again in 2020 with regard to the current membership profile of the Plan.

The Trustee's policies in relation to the Default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended are those set out elsewhere in this document as they apply similarly to the overall fund range within the DC section.

**Risk Measurement and Management**

The Trustee has considered risk from a number of perspectives.

The investment options made available to members have been chosen with the aim of enabling members to control the following risks:

- **Inflation risk.** The risk that the investment returns over members’ working lives will not keep pace with inflation and will not, therefore, secure an adequate retirement benefit.

- **Volatility risk.** The risk of significant short-term fluctuations in the value of members' invested capital which some members may be concerned about.
• **Capital risk.** The risk of a significant fall in the value of members’ invested capital as they approach retirement.

• **Conversion risk.** The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured.

A number of other risks have also been considered when deciding on the investment options to make available to members:

• **Default option risk.** The risk of the default option being unsuitable for the requirements of some members. The Trustee has provided additional Lifestyle and individual fund options in addition to the default, and has communicated to members the need to review their own requirements and circumstances before making any investment decisions.

• **Investment Manager Risk.** The risk that the selected investment managers underperform their objectives. The Trustee also provides passive options that avoid active management risk.

• **Diversification Risk.** The Trustee has chosen funds that are constructed from well diversified portfolios of assets to reduce the stock specific risk faced by the Plan.

• **Liquidity.** Being forced to sell investments to pay benefits in unfavourable financial market conditions. The Trustee has invested in unitised pooled funds which are easily redeemable.

• **Geared or speculative investments using derivatives.** The Trustee has not invested in funds that are geared or make speculative use of derivatives.

• **Credit Risk.** The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The credit risk the Plan is exposed to arises from both holdings in the underlying funds, and through the investment in the Standard Life platform.

• **Market Risk.** The Plan is subject to currency, interest rate and other price risk associated with the underlying investments on the Standard Life platform. These risks can impact the valuations of the funds. The Trustee has selected a wide range of funds to be available to allow members to suitably diversify their investments to manage these risks. This is also considered when setting the lifestyle strategies.

Due to the complex and interrelated nature of these risks, the Trustee generally considers these risks in a qualitative rather than quantitative manner as part of an ongoing review process.

**Implementation**

The Trustee recognises that members have differing investment needs and that these may change during the course of members’ working lives. The Trustee also recognises that members have different attitudes to risk, and also that different members may wish to target different forms of benefit at retirement.

The Trustee believes that members should be able to make their own investment decisions based on their individual circumstances. The Trustee regards its duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs, if they so wish.

The range of funds, and default strategies, was chosen by the Trustee after taking advice from the Trustee's investment advisers. In choosing the Plan's
investment options, it is the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.
- The suitability of each asset class for a defined contribution scheme.
- The need for appropriate diversification of asset classes.
- The current and expected future membership of the Plan.

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 has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

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<tr>
<th>Trustee</th>
<th>Investment Advisers</th>
<th>Platform Provider</th>
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<tbody>
<tr>
<td>Monitors actual returns versus the Plan’s investment objective.</td>
<td>Advise on all aspects of the investment of the Plan's assets, including implementation as required.</td>
<td>Operates within the terms of this statement and their written contracts.</td>
</tr>
<tr>
<td>Sets structures and processes for carrying out its role.</td>
<td>Advise on this statement.</td>
<td>Manages the allocation of certain of the funds (including the default) between underlying fund managers, in accordance with agreed benchmarks and rebalancing</td>
</tr>
<tr>
<td>Selects investment advisers and fund managers.</td>
<td>Provide any required training.</td>
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<tr>
<td>Decides on appropriate structure for implementing investment strategy.</td>
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<tr>
<td>Monitors investment advisers and fund managers.</td>
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<td>Makes ongoing decisions relevant to the operational principles of the Plan's investment strategy.</td>
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<td>Reviews the DC fund range and lifestyle options.</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 endorses the UK Stewardship Code (the 'Code') that was published in July 2010 by the Financial Reporting Council. The Code employs the same principles as set out in the Institutional Shareholder Committee's Statement of Principles.

The written advice will consider the issues set out in the Occupational Pension Schemes (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

Environmental, Social and Governance Considerations

The Trustee views any considerations that can affect long term, risk adjusted returns as being financially material. Financially material considerations include environmental, social and governance factors, including climate change, which can negatively impact the value of investments held if not understood and evaluated properly.

The Trustee considers these risks by taking advice from their investment adviser when setting the Plan’s investment strategy, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

As part of their delegated responsibilities, the Trustee expects the Plan’s fund managers to:

• Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets.
• Exercise the Trustee’s voting rights in relation to the Plan’s assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If a manager is found to be falling short of the standards that the Trustee expects, the Trustee undertakes to engage with the manager and seek a more sustainable position.

The Trustee endeavours to review the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of its policies to those of that manager and ensure the manager uses its influence as a major institutional investor to carry out the Trustee’s rights and duties as a responsible shareholder and asset owner. This will include voting, along with engaging with underlying investee companies and assets to promote good corporate governance and accountability.

Policies on Costs and Transparency

It is the Trustee’s view that long term performance, net of fees, is an important metric on which to evaluate its asset managers. Asset managers are remunerated by the deduction of set percentages of assets under management, which is in line
with market practice. This avoids a short-term approach to investment performance that may be the result of any performance-related fees. The Trustee believes it is important to understand all the different costs and charges, which are paid by members. These include:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER')
- implicit charges, such as the portfolio turnover costs (transaction costs) borne within a fund. The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.

The Trustee collects information on these member-borne costs and charges on an annual basis, where available, and sets these out in the Fund's Annual Chairman’s Statement regarding DC Governance (the "Annual Chairman's Statement"), which is made available to members in a publicly accessible location.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects its investment adviser to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chairman's Statement exercise.

**Trustee’s policies on arrangements with asset managers**

The Trustee monitors those investments used by the Plan to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies as set out in the Statement of Investment Principles, including those on non-financial matters.

The Trustee also monitors those investments available through the Plan, but not included in the default strategy. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant. Before appointment of a new investment, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to express its expectations to the asset managers to try to achieve greater alignment.

The Trustee believes that setting clear expectations to the asset managers and regular monitoring of asset managers’ performance and investment strategy is, in most cases, sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium and long-term financial and non-financial performance.

Where asset managers are considered to be making decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.
There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

**Members' Views and Non-Financial Factors**

The Trustee recognises the importance of offering a suitable range of investment options for members and, where applicable, will consider member feedback on updating the default strategy and self-select fund range.

The funds that make up the default strategy and other investment options do not apply purely ethical or moral judgements as the basis for investment decisions.

**Realisation of Investments**

The Plan’s assets are invested in daily priced pooled investment funds, and the vast majority of the underlying assets are invested in quoted markets. The platform provider can be required to realise investments as soon as it becomes appropriate to do so.

**Review**

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

Dated: 30 September 2020

Signed:

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Name:

Signed:

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Name: