Appendix 1 – Chairman's statement

Chair's DC Governance Statement, covering 1 October 2019 to 30 September 2020

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the Cooper-Avon Tyres Limited Pension Plan (the "Plan"), which is a Defined Benefit ("DB") scheme with a DC Section, including Additional Voluntary Contributions ("AVCs"), to help members achieve a good outcome from their pension savings.

The Trustee is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met in relation to:

- the investment options in which Plan members can invest (this means the default arrangement, where one exists, and other funds members can select or have assets in, such as 'legacy' funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- trustee knowledge and understanding.

The DC benefits in the Plan relate to:

- AVCs which are linked to membership of the DB section of the Plan;
- contribution refund amounts linked to extinguished Protected Rights; and
- funds transferred into the Plan from other registered pension schemes, which were invested together with the AVCs.

The Plan's DC transfer-in facility was set up on 1 August 1997 for the sole purpose of accepting transfer values brought into the Plan by members. Any funds transferred in were invested, at the choice of each member, with either Utmost Life & Pensions (previously Equitable Life) or Clerical Medical.

Protected Rights contribution refund amounts are not invested in an investment fund. They are recorded within the Plan and accrue notional interest in line with Bank of England Base Rate.

The DC arrangements closed to further contributions when the Plan closed to future accrual on 5 April 2012.

The Trustee is currently considering the Plan's future financial circumstances and has therefore put any further review of the arrangements, including a detailed DC strategy review, on hold until the Plan's overall position has been determined.

2. Default arrangements

The Plan does not have a 'default' investment strategy in place, as it closed prior to 6 April 2015 and therefore has never been used as a Qualifying Scheme for automatic-enrolment purposes. Members make their own investment choices from the range of funds that the Trustee makes available to members with AVCs and transfer-in benefits. The Trustee is not therefore required to provide a statement on the Plan's default investment strategy, or details of any review as part of this Statement.

However, the Trustee is responsible for investment governance, which includes setting and monitoring investment strategy. The Plan's SIP states that the Trustee's objective is to provide a range of funds which will provide a suitable long-term return for members, consistent with members' reasonable expectations.

As the Plan does not have a default investment strategy, the Trustee is also not required to attach the Plan's Statement of Investment Principles ("SIP") to this Statement. The SIP contains further details of the Plan's investment objectives and the Trustee's investment policies. This document can be obtained from the Plan's administrator, LCP.

The Trustee is also responsible for reviewing the Plan's investments, which means that it reviews the DC funds' investment performance (after charges) and their continued appropriateness for the membership. A full review of the DC arrangements is carried out triennially. The last full review of the DC arrangements was carried out on 20 March 2018: it concluded that the majority of the Plan's unit-linked funds had performed well and broadly in line with their respective benchmark returns over 1, 3 and 5-year periods. A high-level review of the Plan's investment performance was undertaken by the Plan's advisor (LCP) during February 2021, which considered the Plan's AVC fund performance over

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the Plan year and has confirmed that funds have generally performed in line with the respective sector benchmarks.

The Trustee will continue to monitor the Plan's DC investments on a periodic basis to ensure they remain appropriate for the Plan's membership. The Trustee remains satisfied that the investment options are appropriate for the majority of the Plan's membership. However, the Trustee is currently assessing the Plan's financial future and has therefore put the review of the Plan's DC arrangements on hold until the Plan's future has been decided. In the meantime, any consistent investment underperformance will be flagged by the Plan's advisors to the Trustee, which will take any appropriate action.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the Plan's third-party administrator, LCP, in conjunction with the DC providers. Core financial transactions include (but are not limited to):

- processing of transfers out of the Plan;
- transfers of assets between different investments within the Plan; and
- payments to members / beneficiaries.

The Trustee has received assurance from LCP that there are adequate internal controls to ensure that the Plan's core financial transactions are processed promptly and accurately.

The Plan has a service level agreement ("SLA") in place with LCP which covers the accuracy and timeliness of all core financial transactions. The key processes adopted to help it meet the SLA are as follows:

- Plan administration is dealt with by a single team at LCP which is familiar with the features of the Plan.
- LCP has a maximum ten working day SLA, with certain tasks (such as payment of death benefits), subject to a five working day turnaround. LCP has confirmed that the majority of the Plan's transactions are completed comfortably within the ten-day maximum.
- Cases are logged onto a work control tool called 'Work Manager', which automatically highlights the agreed SLAs, along with statutory/whistle-blowing deadlines.
- Bank accounts are monitored by LCP's accounts team, assisted by a tool called 'Dream', which mirrors movements in and out of the Plan's bank account. This gives the team real time confirmation as to how much money is in the account on a given date.
- All DC cash movements (such as transfers out and benefit payments) are subject to a vigorous three stage peer review process, to ensure their accuracy.

As the Plan has been closed for some time and there are relatively few DC members, at present few core financial transactions are carried out.

To help the Trustee monitor whether SLAs are being met, the Trustee receives regular reports. These summarise the transactions that have taken place, turnaround times and any delays against SLA or errors during the period. They also include details on LCP's performance and compliance with the SLA. These reports are reviewed at each Trustee meeting to enable the Trustee to monitor delivery against the agreed SLA. Any issues identified by the Trustee as part of its review processes are raised with LCP immediately, and steps taken to resolve any issues.

Based on its review processes, the Trustee is satisfied that over the period covered by this Statement:

- LCP (as administrator) has operated appropriate procedures, checks and controls, within agreed SLAs;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Plan year.

The Trustee is comfortable that LCP has adequate internal controls in place, such as the AAF (Audit & Assurance Faculty) 01/06 accreditation which helps ensure that core financial transactions relating to the Plan are processed promptly and accurately.

4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by Plan members over the period covered by this Statement. These are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs, which are also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges include the provider's administration charges.

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Additional costs for administration carried out by the Plan administrator have not been stated as these costs are met by the Trustee.

The Trustee is also required to disclose transaction cost figures separately. What this means in the context of this Statement is that the transaction costs shown are those incurred when the Plan's fund managers buy and sell assets within investment funds. They are exclusive of any costs incurred when members invest in and switch between funds. Transaction costs are borne by members.

The charges and transaction costs shown have been supplied by the Plan's current investment managers:

- ReAssure (following the sale of L&G's mature savings business to ReAssure in September 2020);
- Utmost Life & Pensions ("Utmost Life"- following the sale of Equitable Life Assurance's business on 1 January 2020);
- Standard Life;
- Santander; and
- Clerical Medical.

When preparing this section of the Statement, the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term, the Trustee has shown any negative figure as zero.

Default arrangement

As mentioned above, there is no default arrangement in place, so there is no requirement to include details on this.

Self-select options

The level of charges for each AVC fund and the transaction costs over the period covered by this Statement are set out in the following table:

Fund name	TER (%)	Transaction costs (%)
Unit-linked funds		
Clerical Medical Balanced Pension[1]	0.495	0.40
Clerical Medical Cautious Pension	0.495	Not available
Clerical Medical Adventurous Pension	0.495	0.44
Clerical Medical UK Growth	0.495	0.53
Clerical Medical International Growth	0.495	0.86
ReAssure Managed Fund[2]	0.56	0.10
ReAssure European Fund	0.57[3]	0.07
ReAssure Index Linked Gilt Fund	0.51	0.01
ReAssure Distribution Fund	0.59	0.23
Utmost Life UK Equity[4]	0.75	0.18
Utmost Life Managed	0.75	0.14

[1] Clerical Medical's transaction cost data covers the period from 1 October 2019 to 30 June 2020.

[2] Following the sale of L&G's mature savings business to ReAssure in September 2020, transparent transaction cost reporting is not currently available. For completeness, the Trustee has provided last year's transaction cost reporting provided by L&G for what are now Reassure funds. The Trustee will continue to request this information from ReAssure and endeavours to provide the latest figures in next year's DC Chair's Statement.

[3] ReAssure's European Fund was previously known as the 'L&G European Fund' before the transfer from L&G to ReAssure took place. Over the Plan year, the TER has increased from 0.51% to 0.57%.

[4] Utmost Life funds were held by Equitable Life until 31 December 2019. They were transferred to Utmost Life & Pensions on 1 January 2020. Costs and charges for Utmost Life funds have been provided to 30 June 2020.

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Fund name	TER (%)	Transaction costs (%)
Utmost Life Secure Cash[5]	0.50	0.00
Utmost Life Multi-Asset Moderate	0.75	0.24
Utmost Life Multi-Asset Cautious	0.75	0.45
Utmost UK FTSE All Share Tracker	0.50	0.03
Utmost Global Equity	0.75	0.10
Utmost Money Market	0.50	0.00
Deposit funds		
ReAssure Special Deposit Fund[6]	No charges[7]	N/A
Santander Cash Fund	No charges[8]	N/A
With-profits funds		
Clerical Medical With-Profits Fund	1.00[9]	0.33
ReAssure Legal & General With-Profits Fund	No explicit charge	N/A
Standard Life With-Profits Fund	No explicit charge	N/A

Illustration of charges and transaction costs

- The table below provides an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, the Trustee has had regard to the relevant statutory guidance.
- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member-borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return, but after deducting member-borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past two years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past two years as this is the longest period over which figures were available. These should be more indicative of longer-term costs, compared to using figures over the Plan year.
- The illustration is shown for the Utmost Life Multi-Asset Moderate Fund, since this is the arrangement in which most members are invested, as well as four funds from the Plan's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the Utmost Life Global Equity Fund.
  - the fund with the lowest before costs expected return – this is the Santander Special Deposit Fund.

[5] On 1 January 2020 members previously invested in the Equitable Life With-Profits Fund were transferred to the Utmost Life Secure Cash Fund on a temporary basis, before being transferred into Utmost's Multi-Asset Funds within its 'Investing by Age' strategy. The transaction cost for the Secure Cash fund has been provided to 31 March 2020.

[6] With Profits members who remain beyond Normal Retirement Age are moved into this fund. It's not available as a normal self-select option.

[7] This is similar to a standard deposit account with a bank which earns daily interest, which means funds are not subject to explicit fees.

[8] This fund is a deposit / cash account which does not incur explicit charges. Santander has confirmed that members receive interest on a daily basis, currently equivalent to 0.25% per annum. (It should be noted the interest rate reduced from 0.25% to 0.1% on 19 March 2020.)

[9] The charges for the Clerical Medical With-Profits Funds are implicit and are allowed for in the allocation of regular bonuses on each policy. Transaction costs have been provided to 30 September 2020. The TER has remained the same since last year (1%).

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- the fund with highest annual member borne costs – this is the Clerical Medical With-Profits Fund.
- the fund with lowest annual member borne costs – this is the Utmost Life Money Market Fund.

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Projected pension pot in today's money

	Utmost Multi-Asset Moderate Fund		Utmost Global Equity Fund		Santander Special Deposit Fund		Clerical Medical With Profits Fund		Utmost Money Market	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£7,000	£7,000	£7,100	£7,100	£7,000	£7,000	£7,100	£7,000	£6,900	£6,800
3	£7,100	£6,900	£7,400	£7,200	£7,000	£7,000	£7,200	£6,900	£6,600	£6,500
5	£7,200	£6,900	£7,700	£7,400	£7,000	£7,000	£7,400	£6,900	£6,300	£6,200
10	£7,500	£6,800	£8,500	£7,800	£7,000	£7,000	£7,700	£6,800	£5,700	£5,400
15	£7,800	£6,700	£9,400	£8,300	£7,000	£7,000	£8,100	£6,700	£5,200	£4,800
20	£8,000	£6,600	£10,400	£8,800	£7,000	£7,000	£8,500	£6,600	£4,700	£4,200

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual inflation is assumed to be 2.5%.
- The starting pot size used is £7,000. This is the approximate average (median) pot size for active members aged 44-years and younger (rather than using a whole membership average, we have taken this approach to provide a more realistic 20-year projection).
- The projection is for 20 years, which is the approximate duration that the youngest Plan member has until they reach the Plan's Normal Retirement Age.
- The starting salary and contribution rate (employer and employee) are assumed to be zero (0) as the Plan is closed to future contributions.
- The projected annual returns used are as follows (with these being the assumptions used by the providers for Statutory Money Purchase Illustration statements):
  - Utmost Life Multi-Asset Moderate Fund: 0.7% pa above inflation.
  - Utmost Life Global Equity Fund: 2.0% pa above inflation.
  - Santander Special Deposit Fund: 0.0% pa below inflation.
  - Clerical Medical With-Profits Fund: 1.0% above inflation.
  - Utmost Money Market Fund: -2.0% below inflation.
- No allowance for active management outperformance has been made.

5. Value for members assessment

Every year, the Trustee is required to assess the extent to which member-borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value', which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee reviews all member-borne charges annually (including transaction costs where available), with the aim of ensuring that members are obtaining value for money, given the circumstances of the Plan. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's adviser has confirmed that the Plan's fund charges are competitive for the types of fund available to members.

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The date of the last review was 23 December 2019 when the Trustee's investment adviser reviewed the Utmost arrangement (the main AVC provider, with approximately 41% of the total AVC and other DC assets of c£1.0m). The review considered the options for the future investment of the Utmost AVC holdings including: the competitiveness of the fund charges; the risk profile and strategy of the Utmost funds; and the appropriateness of consolidation towards one of the Plan's other AVC arrangements. Following the review, the Trustee's accepted the recommendation that the uplifted value of AVCs previously invested in the Equitable Life With-Profits Fund should be moved to Utmost Life's default investment (the Investing by Age strategy).

As mentioned above, a high-level review of the Plan's investment performance was undertaken by the Plan's advisor (LCP) during February 2021, which considered the Plan's AVC fund performance over the Plan year and has confirmed that funds have generally performed in line with the respective sector benchmarks. Consequently, no further action is required at this current time. As mentioned, the Trustee is currently considering the financial circumstances of the Plan and its future, before carrying out any further analysis.

AVCs for one Plan member with Santander is held in a cash account, which credits interest. It does not deduct explicit charges, so provides a potentially valuable capital guarantee. The Standard Life policy has only one member whose AVCs are invested in a With-Profits fund, which provides a guaranteed value at maturity.

The Clerical Medical arrangement is the second largest AVC holding by fund value and member numbers. It provides a wide range of investment options for members and has a competitive charging structure, applying a 0.505% discount off its standard TERs.

The Trustee will work with its investment advisor to carry out a comprehensive review of the Plan's investments when this is feasible.

In carrying out the assessment, the Trustee also considers the other benefits members receive from the Plan, which include:

- the oversight and governance provided by the Trustee, including ensuring the Plan is compliant with relevant legislation, holding regular meetings to monitor the Plan and addressing any material issues that may impact members;
- the range of investment options available to the Plan's DC membership;
- the quality of communications delivered to members;
- the quality of support services; and
- the efficiency of administration processes and the extent to which the administrator has met or exceeded its SLAs.

As detailed in the earlier section of this Statement covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes the transaction costs provide value for members, as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

Overall, the Trustee believes that members of the Plan receive reasonable value for money for the charges and cost that they incur. The Trustee aims to improve this in future by :

- continuing to monitor the costs borne by members, with a comprehensive review of the Plan's investments to be carried out once the Plan's financial future is determined;
- continuing to monitor the member experience with the Plan's administrator, (LCP), to ensure its service levels remain at current high levels; and
- continuing to ensure that Trustee training is kept up to date, including developments in both DB and DC matters.

6. Trustee knowledge and understanding ("TKU")

The Plan's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material. During the period covered by this Statement, the Trustee received training on a number of topics including:

- CMA review and setting objectives for investment advisers (November 2019) – delivered by the Plan's fiduciary manager, SEI;

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- The new Statement of Investment Principles and Implementation Statement requirements (July 2020) – delivered by SEI; and
- TPR's consultation on its new funding code of practice (October 2020) – delivered by LCP.

The Trustee Directors are familiar with, and have access to, copies of the Plan's governing documentation setting out the Trustee's policies, including the Trust Deed and Rules and SIP (which sets out the policies on investment matters). In particular, the Trustee refers to the Trust Deed and Rules as part of considering whether to make any changes to the Plan, and the SIP is formally reviewed annually and as part of making any change to the Plan's investments. The Trustee Directors believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

All Trustee Directors are required to commit to completing the training, either at the relevant meetings or by personal study. 4 out of the 5 Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (which is an online learning programme designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law). Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements.

A trustee training log is maintained in line with best practice and a training programme is reviewed annually, to ensure it is up to date. Additionally, the Plan has a structured induction process for new Trustee Directors including relevant training from the Chair of Trustee and support from advisers. The Plan has a strong and effective leadership, with a wealth of experience to oversee the governance of the Plan, as follows:

- Quentin Woodley, Chair of Trustee: 7+ years as a trustee and 35+ years in financial services (he is an accountant and former director and senior partner at McKinsey and Company);
- Julian Baldwin: 8+ years as a Trustee and 35+ years' finance experience (he was the Plan's sponsoring employer's Managing Director until his retirement in 2013);
- Terry Fell: 21+ years as a Trustee (with pensions experience in his former union role);
- John Cash: 22+ years as a Trustee (with pension experience in his former HR manager role at the Plan's sponsoring employer); and
- Toni Hulbert: 10+ years as a Trustee.

Regular evaluations of the Trustee's knowledge to help to identify training needs are undertaken. The Trustee carries out an evaluation of the performance and effectiveness of the Trustee Board as a whole, measured against the objectives for the Plan, every three years. Trustee Board effectiveness reviews are carried out by the Trustee's pension advisors using interactive questionnaires. The output helps inform future training needs and business plans.

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the Plan's appointed professional advisors (eg investment consultants, legal and pension advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Plan properly and effectively.

Date: 25 April 2021

Signed by Quentin Woodley, representative for Woodley Pension Trustees Ltd

Chairman of the Cooper-Avon Tyres Limited Pension Plan