Statement of Investment Principles – TMD Friction UK Pension Scheme

Introduction

This Statement of Investment Principles (SIP) has been prepared by the Trustee of the TMD Friction UK Pension Scheme ("the Scheme") to comply with the requirements of the Pensions Acts 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005.

Effective Date

This SIP is effective from 18 September 2019.

1. Strategy

Investment Objectives

The Trustee's objectives are:

- An overall objective to invest the Scheme's assets in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Scheme into the future.
- A shorter-term objective of investing the Scheme's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Scheme's liabilities.

Strategic Allocation of Assets

The Trustee reviewed its investment strategy in January 2015 and agreed to delegate certain decision-making powers by the Trustee to Hewitt Risk Management Services Limited (the "Manager"). Discretion has been granted to the Manager to decide on the most suitable asset mix, between Growth Assets and Matching Assets, to achieve the return target.

Following an investment strategy review in July 2017 and discussions held over the course of 2018 the Trustee has agreed for the Manager return target to be as shown in the table below.

Manager	Return Target
Hewitt Risk Management Services Limited	Outperform the Liability Benchmark by 2% p.a. over rolling three-year periods

To mitigate performance volatility relative to the Scheme's liabilities, the Manager will also hedge 100% of the interest rate and inflation risk, as a proportion of assets, using a liability driven investment strategy.

Environmental, social and governance considerations

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible steward of the assets in which the Scheme invests.

The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.
As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change

risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG on an annual basis.
- The Trustee will request all of the Scheme's investment managers to provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on an annual basis. Should the Scheme look to appoint a new manager, the Trustee will request this information as part of the selection process. All responses will be reviewed and monitored with input from their investment consultant.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Scheme and its beneficiaries.

The Trustee expects the Scheme's investment managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee will request that their investment managers provide details of their stewardship policy and activities on at least an annual basis and will monitor this with input from its investment consultant. The Trustee will engage with its investment managers where necessary for more information.

Members' Views and Non-Financial Factors

The Trustee does not specifically take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (defined as 'non-financial factors' in the 2018 Regulations). The Trustee will review its policy towards this on an annual basis.

Risks

The Scheme is exposed to a number of different investment risks. These include risks relating to:

- Funding – i.e. that the Scheme has insufficient assets to cover 100% of the accrued liabilities
- Mismatching – arising from a difference in the sensitivity of asset and liability values to financial and demographic factors
- Cash flows – arising from a shortfall of liquid assets relative to the Scheme's immediate liabilities
- Investment managers – arising from a failure to meet target returns
- Diversification – an inadequate spread of investments and sources of return
- Covenant – the possibility of failure of the Scheme's sponsor
- Operations – fraud, poor advice or negligence.

The Trustee reduces its exposure to these risks by careful structuring of its funding and investment management arrangements and through its contracts with the Scheme's investment managers. It also closely monitors these risks and receives formal regular reports on funding, cash flows, investment managers (including performance) and diversification.

Mismatching risk is reviewed as part of the triennial actuarial valuation process and has been mitigated with the use of a LDI strategy. Operational risk is reduced as far as possible by due diligence on the appointment and review of investment managers and advisers, and by contracts of engagement.

2. Implementation

Defined Benefit Section

The Trustee has delegated all day-to-day decisions in respect of the Scheme's investment to the Manager through a written contract that specifies the investment return objective relative to a liability benchmark. When choosing asset classes and fund managers, the Trustee and Manager are required to have regard to the criteria for investment set out in the Occupational Pension Plans (Investment) Regulations 2005 (regulation 4). The manager's responsibilities include:

- Realisation of investments;
- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Delegating voting and corporate governance as required for the underlying investment managers to meet the performance objectives of the investments they hold.

Defined Contribution Funds

The Scheme holds defined contribution funds (the EXTV funds). These funds are the result of a bulk transfer in and include GMP liabilities for some members.

The EXTV funds are held in an investment policy in the Trustee's name with Legal & General Investment Management Limited ('LGIM'). The investment policy is under the control of the Trustee and it is the Trustee's policy to review the investments and to obtain written advice about them periodically. The policy is currently invested in the LGIM Multi-Asset (formerly Consensus) Fund.

In setting the investment strategy for these funds, it is the Trustee's objective to seek the best return that is consistent with a prudent and appropriate level of risk, considering the GMP liabilities associated with these funds.

These funds are exposed to a number of different investment risks:

- Market risk – there is a possibility that funds will have to be realised to provide retirement benefits at an inopportune time.
- Inflation risk – the absolute return on investments, and hence the value of members' defined contribution funds may be diminished by inflation.
- Manager risk - the failure of the fund managers to meet their objectives.
- Operational risk - the risk of fraud, poor advice or acts of negligence.
- Annuity purchase risk – annuity rates may be more expensive than anticipated and more expensive annuity rates could coincide with a time when retirement (gilt) funds have lost value due to market fluctuations.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. The Trustee has sought to minimise inflation risk by investing these funds in a Fund that provides good potential for capital growth over the long term. Manager risk is minimised by using passively managed funds wherever feasible.

The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.

The same principles apply to the implementation of the Defined Contribution funds as the Defined Benefits section.

Additional Voluntary Contributions ("AVCs")

The AVCs are invested in an investment policy with Legal & General Investment Management Limited ('LGIM') and an insurance policy with Equitable Life Assurance Society Limited. These policies are under the control of the Trustee and it is the Trustee's policy to review the investments and to obtain written advice about them periodically.

The Trustee recognises that the needs of members who have chosen to pay AVCs will vary according to their attitude to risk, investment sophistication and time to retirement. The Trustee decides the range of funds offered to members, but has no influence on the investment aims of each fund or how the investment managers choose the underlying investments within the fund, as the assets are pooled with many other investors to obtain economies of scale.

AVC members invested in the LGIM policy have the option to enter into a 'Lifestyle' investment arrangement. If they choose to do so their assets are invested in accordance with the following matrix.

Years to Retirement Date	Global Equity Fixed Weight (60:40) Index Fund %	Over 5 year Index-Linked Gilt Fund %	Cash Fund %
0	-	75	25
1	10	75	15
2	20	75	5
3	30	70	-
4	40	60	-
5	50	50	-
6	60	40	-
7	70	30	-
8	80	20	-
9	90	10	-
10	100	0	-

If members do not opt for the 'Lifestyle' option then they can self-select from the funds that make up the lifestyle strategy and the LGIM Multi-Asset (formerly Consensus) Fund are available to them outlined overleaf:

LGIM Funds	Performance Objective
Multi-Asset (formerly Consensus) Fund	The Fund aims to provide long-term investment growth through exposure to a diversified range of asset classes, excluding physical property.
Global Equity Fixed Weight Index Fund (60:40)	The Fund aims to provide diversified exposure to UK and overseas equity markets. It will invest 60% in the UK and 40% overseas with the latter asset distribution fixed with 14% in North America, 14% in Europe ex UK, 7% in Japan and 7% in Asia Pacific ex-Japan. The Fund achieves its objective by investing in a number of LGIM index-tracking funds.
Over 15 year Gilts index Fund	The Fund aims to track the performance of the FTSE-A UK Government Gilts Over 15 Years Index to within +/- 0.25% p.a. for two years out of three.
Over 5 year Index Linked Gilts Index Fund	The Fund aims to track the return of the FTSE-A UK Index Linked Over 5 Years Index within +/- 0.25% p.a. for two years out of three.
Cash Fund	The Fund aims to perform in line with 7-Day GBP LIBID without incurring excessive risk.

Equitable Life Funds	Performance Objective
Managed Fund	The Fund aims to maximise the overall return from investments covering the UK and overseas equities, gilt-edged and fixed interest stocks and property.
With Profits Fund	To hold mostly investments which give a fixed return so that Equitable Life can meet the guaranteed benefits under each policy when they fall due.

Choosing investments

In general individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required to ensure that the Trust's benefit outgoings and other expenditure can be met.

The Trustee, and investment managers (to the extent delegated), will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005, when selecting investments on behalf of the Trust.

3. General

Direct Investments	Assets directly held by the Trustee, including policies of assurance such pooled investment vehicles or AVCs, will be regularly reviewed to ensure that they continue to be appropriate, and written advice will be obtained from the Investment Adviser. The Trustee will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005 when selecting direct investments.
Custody & Accounting	The Scheme does not employ a custodian since the Trustee does not have direct control over the underlying assets. Investment in pooled funds gives the Trustee a right to the cash value of the units or shares rather than to the underlying assets. The Manager, and managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the fund's assets. The custodians are independent of the employer.
Investment Adviser	Aon Hewitt Limited has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995.
Review of SIP	This SIP will be reviewed at least every three years or immediately following a change of investment policy. Written advice on any changes will be taken from the Investment Adviser and the Sponsoring Company will also be consulted.
Fund manager and investment adviser fees	The majority of the fees for advice and services related to the implementation and monitoring of the Scheme's investments with Hewitt Risk Management Services ("HRMSL") are included in the management fees paid to HRMSL. The Trustee's investment advisers are otherwise paid for advice provided on the basis of the time spent by the adviser. For significant areas of advice (for example one off special jobs, or large jobs, such as specific asset and liability modelling), the Trustee will endeavour to agree a project budget. These arrangements recognise the bespoke nature of the advice given, and that no investment decisions have been delegated to the adviser.

Signed for and on behalf of the Trustee of the TMD Friction UK Pension Scheme:

STEVE FIRBANK
Director of TMD Friction UK Trustee Limited **SIGNATURE** 17/10/19 **DATE**

TOM RUSSELL
Director of TMD Friction UK Trustee Limited **SIGNATURE** 17/10/19 **DATE**