



TMD Friction UK Pension Scheme

Chairman's Statement

1 April 2019 to 31 March 2020

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Disclaimers, confidentiality and non-disclosure

This Statement has been commissioned by the Trustee of the TMD Friction UK Pension Scheme. The intended users of this note are the Trustee Directors and Scheme members. Its scope and purpose is to provide the Trustee with a report that can be shared with members to demonstrate the governance of the Scheme is in line with legislation to publish an annual Chairman's Statement. In preparing this Statement and illustrations, the Trustee has had regard to:

- The Occupational Pension Schemes (Scheme Administration) Regulations 1996;
- The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018;
- The Pensions Regulator's Code of Practice number 13 on 'Governance and administration of occupational trust-based schemes providing money purchase benefits'; and
- The Pensions Regulator's quick guide to the Chair's Statement and the Technical Appendix.

We have used the information that Aon Hewitt ("Aon") have supplied to us in their report titled "Review of the AVC & EXTV Arrangements", as well as other public information as specified in the Statement, which we have accepted without independent checking. We do not accept responsibility for any errors that may arise that are due to such information being incorrect. We are not lawyers. If you believe that you require legal advice then you must consult an appropriately qualified professional.

It is noted that this advice will be shared with Wrigleys Solicitors LLP. This advice may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than the Trustee may rely on or make decisions based on this advice (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This advice has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This advice is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

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01 Introduction

This is the Chair's Statement for the TMD Friction UK Pension Scheme (the "Scheme") covering the period 1 April 2019 to 31 March 2020.

As the Chair of the Trustee, I provide you with a yearly Statement which explains what steps have been taken by the Trustee Board, with help from our professional advisers, to meet the governance standards as defined in the Occupational Pension Scheme (Charges and Governance) Regulations 2015. The law sets out what information has to be included in my Statement and this is designed to help members achieve a good outcome from their pension savings.

The Scheme is a hybrid pension arrangement, and was up until 2017, comprised of separate Defined Benefit and Money Purchase sections. In March 2017, members of the Money Purchase Section transferred to an arrangement of their choice, retired or transferred either to a Group Personal Pension Plan or a Section 32 arrangement, both operated by Legal & General ("L&G").

The Money Purchase funds now held in the Scheme relate to benefits provided on a Money Purchase basis and are in respect of Additional Voluntary Contributions ("AVCs") and benefits from previous transfers in (commonly called the External Transfer Values - in this Statement referred to as "EXTV"). The total value of these funds as at 31 March 2020 is £779,386, and a breakdown is shown in Appendix A.

The Scheme closed to future Defined Benefit accrual and future AVC payments on 5 February 2016.

This Statement covers the following:

- Processing core financial transactions;
- Member borne charges and transaction costs;
- Value for members; and
- Trustee knowledge and understanding.

The Trustee is committed to having high governance standard and I welcome this opportunity to explain what the Trustee does to help ensure the Money Purchase elements within the Scheme are run effectively.

Default investment arrangement

In relation to the EXTV and AVC funds the Trustee has excluded any commentary on the "default arrangement" sections of the Regulations on the basis that no contributions can be paid to the EXTV and AVC funds and neither are used for auto enrolment purposes. Therefore no such "default arrangement" exists.

On the advice of Aon, the Scheme's investment advisers, the Trustee has reviewed their paper entitled "Review of the AVC & EXTV Arrangements" dated 11 August 2020, alongside the Scheme's investment objectives and the performance of the investments in the EXTV and AVC funds to ensure that they are still appropriate given the Trustee's investment duties. No concerns were raised about the suitability of the AVC or EXTV providers or the investments.

Queries

If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact Scheme's Administrators, XPS Administration.

02 Charges and transaction costs

Investment Manager Charges

The Trustee has selected a range of funds which they believe to be appropriate for members of the Scheme. The funds are managed by L&G and Equitable Life Assurance Society ("Equitable Life"), which from 1 January 2020 changed to Utmost Life and Pensions ("Utmost").

I am required to explain the charges and transaction costs (i.e. the cost of buying and selling investments in the Money Purchase elements of the Scheme) which are paid by members rather than the Company. All L&G administration costs are paid by the Scheme, and hence members with AVCs invested with L&G only pay the investment charges. For EXTV members, we note that they pay no charges on their funds.

All the funds on the L&G platform offered are a combination of active and passively managed. Members in the L&G AVC arrangement may self-select their investment strategy, investing in any of these funds in whatever proportions they choose, and also have the option of selecting the lifestyle strategy designed to reduce investment risk as they approach their normal retirement age.

The charges and transaction costs across all funds available to members during the Scheme year were:

Fund Name	Active or Passively Managed	Annual Management Charges (AMC)	Transaction Costs and other expenses	Total Expense Ratio
L&G Investment Management Ltd				
Global Equity Fixed Weights (60:40) Index	Passive	0.17%	0.00%	0.17%
Multi-asset (formerly Consensus) Index EXTV	Active	0.00%	0.05%	0.00%
Multi-asset (formerly Consensus) Index AVC	Active	0.25%	0.04%	0.25%
Over 15 Years Gilts Index	Passive	0.10%	0.05%	0.10%
Over 5 Years Gilts Index-Linked Gilts Index	Passive	0.10%	0.12%	0.10%
Cash Fund	Active	0.13%	0.00%	0.13%
The Equitable Life Assurance Society to December 2019				
With Profits Fund up to December 2019	Active	1.50%	0.00%	1.50%
Money Market Fund	Active	0.50%	0.00%	0.50%
Utmost Life & Pensions from January 2020				
Secure Cash Fund	Active	0.50%	1.03%	0.50%
Managed Fund	Active	0.75%	0.09%	0.75%

(Source: Review of the AVC & EXTV Arrangements by Aon and the Equitable Life Assurance Society)

Equitable Life had estimated the charges on the With Profits Fund as 1.5% p.a. for a number of years. It explicitly stated this charge, comprised 1.0% p.a. for administering the Fund and 0.5% p.a. towards the cost of guarantees.

The Equitable Life with profits fund provided policy holders with a guaranteed benefit which was the minimum amount payable on maturity, death or at a time specified in the policy. The Trustee believed that the fund provided good value to members, and that it was appropriate for members to have access to the fund, despite relatively high investment management and other charges. This is because if member were to take the benefits when the guarantee applies, the with-profits fund would have paid at least that amount.

Charges and transaction costs

continued

The Trustee regularly compares the performance and charges of the L&G funds to make sure they remain competitive and the fees are noted to be broadly in line with similar providers, and hence the Trustee has no concerns about the L&G fees.

Transaction costs consist largely of the cost of buying and selling assets, which vary from fund to fund and from day to day. The highest cost was noted for the L&G Multi-asset (formerly Consensus) Index AVC, however when reviewed in line with market alternatives, this is considered to be a reasonable charge.

For all the L&G funds used for AVCs these costs are reflected in the AMC applicable to each fund. For the EXTVs, the charges are paid for by the Company.

03 Core financial transactions

Assessing Core Transactions

During the year the Trustee ensured the requirements of Regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 were met and that the Scheme's core financial transactions were processed promptly and accurately by:

- having an agreement in place with XPS Administration (as Scheme administrator) committing them to defined service level agreements ("SLAs"). This covers, amongst other matters, the accuracy and timelines of all core financial transactions;
- having XPS Administration report on their performance against the SLAs above as a means of monitoring the SLA requirements were being met and to cover what they did to ensure no issues arose; and
- having the Scheme Auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

Where any error or issue is identified, the Trustee Board takes appropriate steps to resolve and take action as required. A risk register is maintained in order to minimise the occurrence of any issues and to understand any root cause.

The Trustee is required to report to you on the processes and controls in place in relation to the "core financial transactions". The law specifies that these include the following:

- Investing Money Purchase contributions paid into the Scheme - no further contributions are now paid into the AVC or EXTV arrangement.
- The transfer of assets relating to members into and out of the AVC or EXTV arrangements - comprehensive records of individual members' fund values are maintained and reconciled by the Scheme's administrator. Investments withdrawn or transferred to another pension scheme are completed within 12 working days following receipt of all relevant paperwork, subject to any investigations required where there is evidence of a potential pensions liberation.
- Monitoring of bank accounts - a robust review process for investment and banking transactions is in place.
- Payments to members - all payments out of the Scheme in respect of members' benefits are made in line with standard checks and agreed processes and authorisation levels to ensure any payment made is calculated correctly and in line with the Scheme's rules, legislation and complies with HMRC rules and guidance. In addition every effort is made to check for incidents of pension liberation fraud.

Noting the requirement for accurate member data to process payments correctly, the Trustee is taking steps to continually review and correct any problems with the member data which is held by the Scheme administrator.

Administration

The Trustee is closely monitoring the administration function to ensure members get the best service possible in order to provide good value for members. The Trustee regularly reviews service providers.

04 Value for Money for Members

Assessment of Value

When assessing the charges and transaction costs payable by members, the Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members.

The Trustee has completed a "Value for Money for Member's Assessment" which is an in depth review of the current arrangements and consideration of whether this provides appropriate value for members. This is a separate document available upon request, and the outcomes of the assessment are summarised in this section.

Overall the Trustee has concluded that the charges and transaction costs shown in this Statement represent good Value for Money ("VfM") having considered in detail the following elements:

- Processes - that support the efficient administration and governance of the Scheme. These include those explained in the 'Core financial transactions' and the 'Knowledge and understanding of the Trustee' sections of this Statement.
- Returns achieved by the investment funds - compared with the charges and transaction costs.
- Type and range of investment options - allowing members to target their chosen retirement outcome. In addition, a range of self-select funds, covering a range of asset types, are available for those who wish to manage their own investment approach. The Trustee monitors both the performance and appropriateness of the funds and takes action to make changes when required, and the last review was completed on 11 August 2020. The Trustee also considers whether the investments offered and member communications are appropriate, and they offers members the opportunity to maximise the value of the contributions that have already been paid into to the Scheme.
- Quality of communications - reviewed on an ad-hoc basis and are provided by the Scheme's administrator within the legal timescale; and
- The Company pays for most services with the exception of the small investment charges shown in this Statement.

Service Providers

In addition to assessing the costs charged by service providers, the Trustee keeps its providers' service levels under review by checking performance against agreed 'Service Level Agreements'. For example, meetings are held with XPS Administration to review their performance as third party administrator on a quarterly basis in order to ensure that administrative performance meets the standards set by the Trustee.

In order to ensure services provided remain the most appropriate and offer value to members the Company and Trustee will, from time to time, put services out to tender.

Communications

Good member communications are crucial to achieving good value. The Trustee is considering the value of increased member options at retirement, and will also review ways to further improve member communications including the use of web based communications for members in the future.

Value for Money for Members

continued

Flexibility - accessing benefits

Upon request, the Trustee considers allowing members who meet the conditions under legislation the option to take their funds as an Uncrystallised Funds Pension Lump Sum.

The benefits of membership include (amongst other things): the options available to members of matching their investment profile to their desired retirement choice, and to select the option of a lifestyle strategy to assist with reducing their investment risk as they approach retirement.

Transfer of Equitable Life policies to Utmost Life

In June 2018, Equitable Life announced a Proposal, for the with-profit funds to receive an up lift and allow for the investments to be converted to unit linked funds following which they would be transferred to a company called Utmost Life & Pensions.

The Trustee was asked to vote on whether they approved of both the transfer of business to Utmost Life as well as the conversion of with-profit funds into Unit Linked benefits. The move was clearly in members' interests as it would remove the barrier to members moving funds away from a fund that had not been applying bonuses for some time and the vote was a unanimous decision to proceed (over 96% of trustees of all pension schemes voted in favour). The decision was subsequently ratified by the High Court with the transfer due to take place on the 1st January 2020.

The transfer allowed the Trustee to move members accumulated investments with Utmost Life & Pensions. This could significantly reduce the charges that would be applied to the Ex-Equitable Life benefits and allow members much more choice.

The Scheme's investment advisers completed a review of the Scheme's AVC benefits, and recommended that the Trustee transferred the funds from Utmost to the Schemes contract with L&G, as members would pay significantly lower charges from their funds, and it would also consolidate the number of AVC providers the Trustee is required to monitor. To ensure protection from market volatility the funds remained in the Utmost secure cash fund until the transfer to L&G was completed on 8 July 2020.

Conclusion

Assessment of value for members is an ongoing process and the Trustee undertakes a review each year to ensure the Scheme continues to offer good value. With any changes in legislation, market conditions or member views all being considered for the benefits of members.

05 Trustee knowledge and understanding

Statement of Investment Principles

A copy of the Statement of Investment Principles, which sets out the objectives for the Scheme's investment strategy, is appended to this Statement as Appendix B

Knowledge and understanding of the Trustee

The Trustee Directors are satisfied that they have complied with the knowledge and understanding requirements in section 248 of the Pensions Act 2004.

The Trustee Directors collectively bring a broad range of skills and experience in finance, communications, payroll administration, and organisational development to their roles and are fully conversant with the Scheme's documentation including the Trust Deed and Rules and Statement of Investment Principles.

The Trustee Board have knowledge of the law relating to pensions and trusts, principles of investment and the requirements for funding a pension scheme. This is evidenced by the Board's interaction with its advisers as shown in the Trustee Meeting minutes, and the governance framework established by the Trustee to review the performance of the Scheme.

The Trustee Board has access to all key Scheme documentation.

The Trustee has exercised its discretions and powers in line with the Trust Deed and Rules, current legislation and regulation and, where required, legal advice has been taken, demonstrating its working knowledge of the Scheme's Trust Deed and Rules.

Trustee Training

Use of the Pensions Regulator ('TPR') toolkit modules is encouraged, and Directors attend external seminars and updates. Any new Trustee Director would be expected to carry out this training and be fully conversant with the Scheme's documentation within 6 months. A log of Trustee Director participation in training is maintained by XPS, and Trustee Directors are regularly polled regarding the training that they would find most valuable and to identify any gaps in knowledge. The Trustee's legal, actuarial and investment advisers provide in-meeting training on new legislation, pension and market developments and literature published by TPR relating to its Codes of Practice, in particular Code of Practice no 13.

During the period covered by this Statement the Trustee Board had number of training sessions including:

- Member options training – The session highlighted the various options members can be offered including one off exercises, and the potential impacts these can have on Scheme funding.
- Buy in/Buy-out training – Through a high level training session the Trustee noted the structure of a buy-in/buy-out, alongside the preparation required, market background and regulations.
- Valuation and Mortality – Separate sessions reminding the Trustee of mortality assumptions, and the valuation process were also covered in the year.

The Trustee also makes use of a team of expert advisers. Investment advisers, representatives from the third party administrator, and legal advisers attend every Trustee meeting.

Conclusion

As a result of the training activities which have been completed by the Trustee Directors individually and collectively as a Board, and taking into account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enables us to exercise properly our functions as the Trustee of the Scheme.

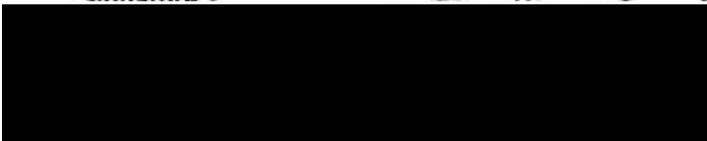
06 Conclusion

“Overall the conclusion is that the Scheme is continuing to deliver value for money to the members”

The annual production of this Statement provides members with a narrative of how the Trustee Board looks after the members’ interests especially in the areas of the 4 key elements within this Statement listed below.

- Charges and transaction costs
- Core financial transactions
- Providing value for money for members
- Trustee knowledge and understanding

The Board will continue to monitor these key areas and report to members both in this annual Statement and other communications as appropriate. In conclusion, with the continual monitoring and the reviews detailed here, the Chair and Trustee are pleased to be able to submit this report in compliance with the Chair’s Statement requirements, in the belief that in the reporting period the Scheme was operated and governed appropriately.

Signature	Date
	16/9/2020
Name	Qualification
Lawrence Bleasdale	Chairman of the TMD Friction UK Pension Scheme (Appointed in 2020)

Appendix A

Fund Value Breakdown & Projections

Membership data, investment performance, fund value breakdown and projections have been taken from the Aon report entitled "Review of the AVC & EXTV Arrangements" dated 11 August 2020. The table below summarises the membership and assets under management in the EXTV / AVC arrangements:

Provider	Fund name	Fund value ³ (£)	Number of members ⁴
Utmost Life & Pensions			
Values as at 31 March 2020	Managed Fund	19,958	5
	Secure Cash Fund		
	Sub-Total	19,958	5
L&G EXTV Funds			
Value as at 31 March 2020	Multi-Asset (formerly Consensus) Fund	473,141	20
L&G AVCs			
Values as at 31 March 2020	Global Equity FW 60:40 Index ⁵	182,651	7
	Multi-Asset (formerly Consensus) Fund	25,575	2
	Over 5 Year Index-Linked Gilt Index ⁵	8,742	2
	Over 15 Year Gilt Index	26,603	2
	Cash ⁵	42,717	5
	Sub-Total	286,287	14⁶
	Total	779,386	39

Source: Utmost Life and Pensions, L&G and XPS

³ Bid value is quoted for Utmost Life and Pensions and the EXTV funds whilst the mid-value is shown for the AVC funds.

⁴ Some members invest in more than one fund.

⁵ The AVC lifestyle strategy uses these funds

⁶ Six AVC members invest in the lifestyle strategy, their funds are reported under the underlying funds in the table above.

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.

To help members understand the impact that costs and charges can have on their retirement savings, the Trustee has produced illustrations of their cumulative effect on the value of four representative scheme members' savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on several assumptions about the future which are set out below under 'notes and assumptions'.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

The representative members we have chosen are:

Example member	Number of years to retirement	Current fund value
EXTV arrangement		
1 – member with a long time to retirement	16	£2,000
2 – average member	10	£16,000
L&G AVC arrangement		
3 – member with a long time to retirement	14	£5,800
4 – average member	5	£5,800

The numbers in the tables below are the projected fund values.

All EXTV funds are invested in the L&G Multi-Asset (formerly Consensus) Fund therefore we have produced illustrations to demonstrate the effect of the above costs and charges on this Fund.

As projected retirement savings for the AVC funds are dependent on investment returns as well as the level of costs and charges, we have illustrated the three most popular investment options, the lifestyle strategy, the Cash Fund and the Over 15 Years Gilt Index Fund, for comparison purposes.

Example member 1 – EXTV member who is 16 years from retirement with a current fund value of £2,000 invested in the L&G Multi-Asset (formerly Consensus) Fund:

After 'x' years	Before charges (£)	After charges (£)	Impact of charges (£)
1	2,020	2,020	0
6	2,122	2,120	2
11	2,229	2,225	4
16	2,342	2,336	6

Example member 2 – EXTV member who is 10 years from retirement with a current fund value of £16,000 invested in the L&G Multi-Asset (formerly Consensus) Fund:

After 'x' years	Before charges (£)	After charges (£)	Impact of charges (£)
5	16,809	16,796	13
10	17,658	17,631	27

Example member 3 – AVC member who is 14 years from retirement with a current fund value of £5,800 invested in a range of L&G Funds:

After 'x' years	Lifestyle strategy			Global Equity 60:40 Index Fund			Cash Fund		
	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)
4	6,800	6,760	40	5,340	5,320	20	5,390	5,360	30
9	7,800	7,690	110	4,820	4,770	50	4,910	4,860	50
14	7,650	7,470	180	4,350	4,280	70	4,480	4,400	80

Example member 4 – AVC member who is 5 years from retirement with a current fund value of £5,800 invested in a range of L&G Funds:

After 'x' years	Lifestyle strategy			Global Equity 60:40 Index Fund			Cash Fund		
	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)
2	6,010	5,990	20	5,570	5,550	20	5,590	5,580	10
7	5,900	5,820	80	5,020	4,980	40	5,100	5,050	50

Notes and assumptions

Fund values shown are estimates and are not guaranteed.

Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

Illustrations assume no further contributions are paid.

Inflation is assumed to be 2.5% p.a.

Starting fund values are representative of the youngest members and median average members for the Scheme.

For the AVC lifestyle strategy, the illustrations take into account the changing proportion invested in the different underlying funds throughout the term to retirement.

The illustrations use the average transaction costs over the last three years, in line with statutory guidance, to reduce the level of volatility in charges. A 'floor' of 0% p.a. has been used for the transaction costs if these were negative so as not potentially to understate the effect of charges on fund values over time.

The growth rates, costs and charges assumed are as follows:

Fund	Growth rate	Costs and charges
EXTV Multi Asset (formerly Consensus) Fund	1.0% p.a. above inflation	0.0157% p.a.
Lifestyle strategy	Between 2.45% below inflation and 4% p.a. above inflation*	Between 0.1496% p.a. and 0.17% p.a.*
Over 15 Year Gilt Index Fund	2.2% p.a. below inflation	0.1157% p.a.
Cash Fund	2.0% p.a. below inflation	0.1261% p.a.

*depending upon term to retirement