

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. The Trustee also complies with the requirements to maintain and take advice on this Statement and with the disclosure requirements. This advice is provided by Aon Solutions Limited who are authorised and regulated by the Financial Conduct Authority. The Trustee has also consulted the Scheme's Sponsoring Employer.

Effective Date This SIP is effective from 24 September 2020.

Fiduciary Manager The Trustee has appointed Aon Investments Limited as their Fiduciary Manager, who they consider to be their main asset manager. Policies within this Statement that refer to 'Fiduciary Manager' refer to Aon Investments Limited or any other direct investments that Trustee may make from time to time.

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 Aon Investments Limited (the "Fiduciary Manager"). Discretion has been granted to the Fiduciary Manager to decide on the most suitable asset mix, between Growth Assets and Matching Assets, to achieve the return target.

Following a review of the Scheme's investment strategy in September 2019 the Trustee agreed for the asset manager's return target to be as shown in the table below.

Period	Return Target
From February 2015 to July 2017	Outperform the Liability Benchmark by 3.0% p.a. over rolling three-year periods
From July 2017 to October 2019	Outperform the Liability Benchmark by 2.0% p.a. over rolling three-year periods
From October 2019	Outperform the Liability Benchmark by 1.5% p.a. over rolling three-year periods

To mitigate performance volatility relative to the Scheme's liabilities, the Fiduciary 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 that the Fiduciary Manager or other appointed investment manager will 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 Fiduciary Manager or other appointed investment managers, the Trustee will monitor the level of ESG integration on an annual basis by using ESG rating information provided by Aon Investments Limited, where relevant and available.
- The Trustee will request that the Scheme's directly appointed investment managers, including the Fiduciary Manager, provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on an annual basis. Should the Trustee of Fiduciary Manager look to appoint a new investment manager, this information will be requested 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 and assets the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee annually reviews the stewardship activity of the Fiduciary Manager to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustee will receive annual reports on stewardship activity carried out by the Fiduciary Manager. These reports include detailed voting and engagement information from underlying investment managers.

As part of the Fiduciary Manager's management of the Scheme's assets, the Trustee expects the manager to:

- Ensure that (where appropriate) underlying investment managers exercise the Trustee's voting rights in relation to the Scheme's

assets; and

- Report to the Trustee on stewardship activity by underlying investment managers as required.

The Trustees will engage with the Fiduciary Manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee may engage with their Fiduciary Manager, who in turn is able to engage with underlying investment managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustee will consider, on a case by case basis, a range of methods by which it would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

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 Sponsoring Company
- 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 Fiduciary Manager and 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

Arrangements with asset managers

▪

The Trustee recognises that the arrangements with the Fiduciary Manager, and correspondingly the underlying investment managers, are important to ensure that interests are aligned. The Trustee seeks to ensure that the Fiduciary Manager is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustee receives regular reports, at least quarterly, and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and assess the Fiduciary Manager over 3-year periods.

The Trustee is supported in this activity by the ongoing monitoring and engagement activities undertaken by the Fiduciary Manager, Aon Investments Limited, with respect to the underlying investment managers in which it invests.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by the Fiduciary Manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee delegates the ongoing monitoring of the underlying investment managers to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying investment managers are aligned with the investment objectives of the Scheme. This includes monitoring the extent to which the underlying investment 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 activity by the ongoing monitoring and engagement activities undertaken by the Fiduciary Manager, Aon Investments Limited, with respect to the underlying investment managers in which it invests.

The Trustee shares the policies, as set out in this SIP, with the Scheme's Fiduciary Manager and appointed investment managers for review and request confirmation as to whether their management approach is in alignment with the Trustee's policies.

Before appointment of a new Fiduciary Manager or investment manager, where the Scheme has a direct relationship with the manager, 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 amend that documentation so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the Fiduciary Manager or investment managers by other means (where necessary), and regular monitoring of

performance and investment strategy, is in most cases sufficient to incentivise the Fiduciary Manager or investment 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 the Fiduciary Manager or investment managers are considered to make 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 terminate or replace the appointment where this is deemed necessary.

There is typically no set duration for arrangements with a Fiduciary Manager or investment managers, but their appointments will be reviewed periodically, and at least every three years.

Cost and transparency considerations

Cost Monitoring:

The Trustee is aware of the importance of monitoring their Fiduciary Manager and other appointed investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustee will receive annual cost transparency reports from their Fiduciary Manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the fiduciary manager;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager;
 - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager;
- Any charges incurred through the use of pooled funds (custody, admin, audit fees etc)
- The impact of costs on the investment return achieved by the Scheme.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee.

The Trustee benefits from the economies of scale provided by the Fiduciary Manager in two key cost areas:

The ability of the Fiduciary Manager to negotiate reduced annual management charges with the appointed investment managers;

The ability of the Fiduciary Manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the investment managers and achieve efficiencies where possible;

Evaluation of performance and remuneration:

The Trustee assesses the (net of all costs) performance of the appointed

Fiduciary Manager at least every three years against the Scheme's specific liability benchmark and investment objective. The remuneration paid to the Fiduciary Manager and fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustee monitors these costs and performance trends over time.

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 at least every three years. 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 investment 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 also sought to minimise risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.

Members have no choice as to how their EXTV funds are invested. The Trustee does not explicitly take into account the views of members and beneficiaries in relation to ethical considerations or social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"). 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'). 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 at least every three years.

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 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 table.

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. Details of these funds are outlined below:

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.

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 as 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 Fiduciary Manager, and appointed investment managers of pooled funds are responsible for the appointment and monitoring of the custodian of the pooled fund's assets. The custodians are independent of the Scheme's Sponsoring Employer.

Investment Adviser

Aon Solutions UK 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 Scheme's Sponsoring Employer will also be consulted.

Asset 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 Aon Investments Limited ("AIL") are included in the management fees paid to AIL. 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:

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

[Redacted Signature]

16/9/2020

Director of TMD Friction UK Trustee Limited

SIGNATURE

DATE

[Redacted Signature]

28/9/2020

Director of TMD Friction UK Trustee Limited

SIGNATURE

DATE