



TMD Friction UK Pension Scheme

Chair's Statement

1 April 2022 to 31 March 2023

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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 which requires the publication of 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 have supplied to us in their report titled "Review of the AVC & EXT V 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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XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

01 Introduction

£0.69m

Total defined contribution funds in the Scheme.

This is the Chair's Statement for the TMD Friction UK Pension Scheme covering the period 1 April 2022 to 31 March 2023.

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. 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 Investment Managers ("LGIM").

The Money Purchase funds now held in the Scheme relate to benefits 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 2023 is £697,662 and a breakdown is shown in Appendix A. It should be noted that some members invest in more than one fund, and the breakdown in Appendix A only includes members once, hence the difference in the total shown.

The Scheme closed to future Defined Benefit accrual and future AVC payments on 5 February 2016 and has never been used as a Qualifying Scheme for auto enrolment purposes

Governance and Queries

The Trustee Board is committed to having high governance standards and meets regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration.

I welcome this opportunity to explain what the Trustee does to help ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact the Trustee C/O XPS Pensions Group, 1 City Square, Leeds, LS1 2ES

I, Lawrence Bleasdale, am signing this Statement as the Chair of the Scheme.

02 Default Investment Strategy

Statement of Investment Principles (SIP)

A copy of the SIP, which sets out the objectives for the Scheme's investment strategy, can be found in Appendix A

23 August 2023

Date of the most recent review of the fund range and default arrangement's strategy and performance

02.01 The default investment option

In relation to the EXTV and AVC funds the Trustee has added commentary in the Scheme's "default arrangement" section. It should be noted that on the basis that no future contributions can be paid to the EXTV and AVC funds since 2016, there is no default arrangement in the Scheme in the sense of the definition of that term within auto enrolment legislation. However, as all EXTV members are invested in the LGIM Multi-Asset (formerly Consensus Index) fund, the Trustee considers this fund as the default investment in the plain English sense.

02.02 Reviewing the default investment arrangement

The Trustee is expected to review the investment strategy and objectives of the default investment option at regular intervals.

On the advice of Aon, the Scheme's investment advisers, the Trustee reviewed their paper entitled "Review of the arrangements holding EXTV and AVC funds" dated 23 August 2022, 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. These recommendations were agreed upon and implemented in April 2023. The August 2023 review, which came after the end of statement period, was undertaken and presented to the Trustee at the September 2023 Trustee meeting. The review showed that the new funds chosen for the lifestyle strategy had outperformed their predecessors and there were no concerns raised by the Trustee.

In Aon's August 2022 review, no immediate concerns were raised about the suitability in respect of the EXTV investments. However, Aon suggested making changes to the AVC arrangement and lifestyle strategy. The Trustee implemented Aon's proposal, which included the following changes:

- The LGIM Global Equity FW 60:40 Index Fund was replaced with the LGIM All-World Equity Index Fund in the growth phase
- The LGIM Over 5-Year Index-Linked Gilt Index Fund was replaced with the Retirement Income Multi-Asset Fund in the de-risking phase
- The allocation was increased to 100% cash at retirement over the last 2 years

The reasons for the changes included replacing the LGIM Global Equity Fund with the LGIM All-World Equity Index Fund to reduce the concentration risk in these holdings arising from the current overweight allocation to UK equities and instead provide exposure to developed and emerging market equities on a market capitalisation basis. Furthermore, Aon also recommended changing the funds used in the AVC lifestyle strategy to reduce volatility, increase diversification and to target the format in which most members are expected to draw these funds i.e., as cash at retirement.

By commissioning a Value for Members Assessment and a review on the AVC and EXTV funds, the Trustee has looked at the level of risk and number of investment funds offered to members, changing long-term investment market conditions and the investment products and techniques available in the marketplace.

02 **Default Investment Strategy** continued

During the period covered by the Statement, the Trustee has, via the Value for Members Assessment, also reviewed the performance of the underlying funds in the default investment option against the aims and objectives set out in the Statement of Investment Principles (SIP). The Trustee believes they continue to meet these aims. This review included analysis of the fund returns against their benchmarks and consideration of general market trends.

03 Net returns, charges and transaction costs

03.01 Net Returns

Changes to legislation introduced in October 2021 require trustees of relevant occupational pension schemes to report on the net investment returns for the default arrangement(s) and for each fund in which scheme members are invested during the scheme year.

Net investment returns refer to the returns on funds after the deduction of all transaction costs and charges and including them in this statement is intended to help members understand how their investments are performing.

03.02 Fund Performance

Aon provides the Trustee with annual investment performance information to monitor the investments, which it reviews and challenges in Trustee meetings. The Trustee raises performance questions directly with Aon, the appointed investment adviser.

This table shows how the EXTV and AVC funds have performed for members over the last one and five years:

	5 years (2018-2023)	1 year (2023)
EXTV Default	%p.a.	%p.a.
LGIM Multi-Asset (formerly Consensus) fund	4.1	-4.4
AVC Self-Select Funds (LGIM)		
Global Equity Fixed Weights (60:40) Index ^{1*}	6.7	2.5
Multi-Asset (formerly Consensus Index)	3.8	-4.7
Over 15 Year Gilt Index	-6.5	-29.8
Over 5 Year Gilt Index – Linked Gilts Index ^{1*}	-4.2	-30.5
Cash ¹	0.6	2.1
Lifestyle Strategy²		
Age 25	6.7	2.5
Age 45	6.7	2.5
Age 55	1.7	-0.3

(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2023)

¹Components of the lifestyle strategy (*until April 2023)

²For the AVC Lifestyle Strategy, the underlying assets change over time, but these changes take place after age 55; therefore the net returns for this strategy have been shown at age 25, 45 and 55.

03 Net returns, charges and transaction costs continued

Members may self-select their investment strategy, investing in any of these funds in whatever proportions they choose

03.01 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 Legal and General Investment Managers (LGIM).

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 TMD Friction (UK) Limited ("the Company"). All LGIM administration costs are paid by the Scheme, and hence members with AVCs invested with LGIM only pay the investment charges. For EXTV members, we note that members pay no charges on their funds.

Members in the LGIM 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 level of costs and charges for the default arrangement is lower than the charge cap of 0.75% p.a. The charges and transaction costs across all funds available to members during the Scheme year were:

Fund Name	Transaction Costs	Total Expense Ratio
	%	%
LGIM Self Select Funds		
Global Equity Fixed Weights (60:40) Index ^{1*}	0.04	0.16
Multi-Asset (formerly Consensus Index) AVC fund	0.04	0.25
Multi-Asset (formerly Consensus Index) EXTV fund	0.04	0.00
Over 15 Year Gilt Index	0.19	0.10
Over 5 Year Gilt Index – Linked Gilts Index ^{1*}	0.21	0.12
Cash ¹	0.04	0.13

(Source: Review of the arrangements holding EXTV and AVC funds report by Aon)

¹Components of the lifestyle strategy (*until April 2023)

The Trustee annually compares the performance and charges of the LGIM funds to make sure they remain competitive. The fees are noted to represent better value when compared with similar providers, and hence the Trustee believes the charges represent excellent value for members.

The total expense ratio (TER) is a measure of the total cost of a fund to an investor. Total costs may include various fees primarily operational and management fees and other expenses. Typically, it consists of the annual management charge (AMC), plus 'other' charges incurred with running the fund.

Not included in the total expense ratio are transaction costs which 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 LGIM Over 5 Year Gilt Index – Linked Gilts Index, however when reviewed in line with market alternatives, the Trustee considered this to be a reasonable charge. The highest overall cost was noted for the LGIM Over 5 Year Gilt Index – Linked Gilts Index AVC fund. When viewed in respect of the type of fund, performance and comparison to the wider market, the Trustee considered this to be a reasonable charge.

04 Core financial transactions

04.01 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"). Amongst other matters, this covers the accuracy and timeliness of all core financial transactions which are normally completed with 12 working days;
- > having XPS Administration report on their performance against the SLAs above as a means of monitoring that the SLA requirements are being met and to cover what they do to ensure no issues arise; 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. I can confirm there were no material issues in the Statement period on which to report and 99% of all cases completed were done so within the service level agreed. Controls around administration and the processing of transactions are documented in the risk register which is regularly maintained and reviewed in order to minimise the occurrence of any issues and to understand any root cause.

The core financial transactions include:

- > **The investment of Money Purchase contributions** - no further contributions are 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 arrangement 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 with agreed authorisation and checking levels 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 also 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.

04.02 Administration

The Trustee closely monitors 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 and, as part of this review, XPS carries out regular meetings with the current providers to assess the quality and levels of service to ensure that the financial transactions which are important to members are dealt with promptly and accurately.

Over the period of review, the Trustee considers the administration to have broadly contributed to the good value provided by the Scheme.

05 Value for Members

05.01 Assessment of Value

The Trustee has reviewed 'Value for Members' (VFM) considering the latest guidance from the Pensions Regulator and Department for Work & Pensions for arrangements such as the Scheme. The Trustee has also taken advice from XPS Pensions on the VFM requirements and received a report from XPS Pensions in October 2023 considering whether the Scheme provides good value, which the Trustee reviewed in October 2023.

The Trustee's assessment has included the consideration of the member-borne costs and charges and the net returns for the Scheme's investment options (net of all costs and charges) against three alternative arrangements and undertaken initial discussions with one comparator on accepting the benefits of the Scheme should it be wound-up (as required by regulation).

Against this objective, the Trustee has assessed the various elements of the money purchase funds as outlined below and have concluded that the Scheme represents good Value for Money for members for the following reasons:

- > the governance of the Scheme (which include the 'Trustees' knowledge and understanding', along with the general oversight and governance) are provided to a level which the Trustee considers as suitable and having provided good value. The Trustee Board considers the performance of the money purchase investments annually and discusses this in a meeting with the Investment Adviser, Aon. Furthermore, the Board includes investment governance matters (e.g. SIP reviews / CMA reviews / Fiduciary Manager reviews) within their Annual Business Planner;
- > the EXTV default investment strategy continues to take account of the membership profile and the AVC lifestyle strategy aims to grow member pots while managing risk. The Trustee Board also reviews the strategy annually and considers the recommendations provided by the Investment Adviser, Aon;
- > investment fund performance compares reasonably well against comparator funds in alternative arrangements;
- > the investment options available give members access to a variety of asset classes in which to invest and which the Trustee Board believes add to the value provided to members of the Scheme. Aon have provided some recommended changes to the AVC lifestyle strategy and self-select funds, which the Trustee implemented in April 2023. The changes made to the lifestyle strategy were as follows:
 - The LGIM Global Equity FW 60:40 Index Fund was replaced with the LGIM All-World Equity Index Fund in the growth phase
 - The LGIM Over 5-Year Index-Linked Gilt Index Fund was replaced with the Retirement Income Multi-Asset Fund in the de-risking phase
 - The allocation was increased to 100% cash at retirement over the last 2 years
- > The Trustee decided to implement Aon's proposal to adopt a more global approach in the growth phase, and to achieve greater asset diversification in the de-risking phase;
- > the costs and charges and net returns for the AVC arrangement compare very well against comparator funds in alternative arrangements. For members of the EXTV arrangement, the charges are paid for by the Company which enhances the value of this arrangement;
- > the expenses of running the Scheme, over and above the investment management charges met by members, are covered using contributions from the Scheme, rather than by members;
- > the range of benefit options available to members at retirement are in-line with the member profile or other arrangements of this type, and members may access other options

05 Value for Members continued

via transfer to other arrangements. However, the Trustee implemented further changes in April 2023 to the AVCs arrangement to target cash options at retirement which is more reflective of the format in which the majority of members are expected to draw these funds;

- > annual and ad hoc member communications (via for example benefit statements, an annual newsletter and a member online portal) provide members with clear and coherent information on their benefits and the options available to them.

- > The Trustee has also appointed Informed Pensions to provide deferred members over the age of 55. The Trustee decided to increase the number of free independent financial advice sessions from 1 to 2, to ensure professional advice is available to members who are thinking about their pension benefits;

- > the Trustee keeps its providers' service levels under review by checking performance against agreed 'Service Level Agreements'. For example, meetings are held with XPS to review their performance as third-party administrator on a quarterly basis to ensure that administrative performance meets the standard set by the Trustee.

06 Trustee Knowledge and understanding

06.01 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, cyber security, 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 includes a Professional Independent Trustee providing the Board with professional knowledge of the law relating to pensions and trusts, principles of investment and the requirements for funding a pension scheme. In addition, the overall knowledge and understanding is boosted and 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 at all times via a secure online portal.

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.

06.02 Trustee Training

New Trustee Directors are expected to carry out the Pensions Regulator ('TPR') toolkit modules training and be fully conversant with the Scheme's documentation within 6 months. There were 2 new Trustee Directors in the period of this Statement. Each Trustee Director has undertaken training in the year.

A log of Trustee Director participation in training is maintained by XPS, and training needs are regularly identified based on forthcoming projects and gaps in Trustee 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 received training on the following topic:

- > The General Code of Practice, an Effective System of Governance, and Own Risk Assessments

The Trustee also makes use of a team of expert advisers investment advisers, representatives from the third-party administrator, and other experts including legal advisers regularly attend meetings of the Trustee Board.

06.03 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 enable us to exercise properly our functions as the Trustee of the Scheme.

07 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 members’ interests.

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

Name

Lawrence Bleasdale

Qualification

Chair of TMD Friction UK Trustee Limited

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 arrangements holding EXTV and AVC funds" dated 23 August 2023. The table below summarises the membership and assets under management in the EXTV / AVC arrangements:

Provider	Fund name	Fund value £	Number of members
LGIM EXTV Funds			
Value as at 31 March 2023	Multi-Asset (formerly Consensus) Fund	345,963	15
LGIM AVCs			
Values as at 31 March 2023	Global Equity FW 60:40 Index ^{3*}	231,835	10
	Multi-Asset (formerly Consensus) Fund	30,139	2
	Over 5 Year Index-Linked Gilt Index ^{3*}	34,461	6
	Over 15 Year Gilt Index	10,867	1
	Cash ³	44,396	6
	Total	697,662²	29¹

¹ Some members invest in more than one fund. We have only included members once in the total shown.

² Fund value shown is bid value for the EXTV funds and mid-value for the AVC funds

³ Components of the lifestyle strategy (*until April 2023)

Fund Value Breakdown & Projections

continued

Taken from the Aon paper "Review of the arrangements holding EXTV and AVC funds" dated 23 August 2023.

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced additional 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 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 the Trustee has chosen are:

Example member	Number of years to retirement	Current fund value
EXTV arrangement		£
1 – youngest member (age 52)	13	1,500
2 - average member (age 56)	9	19,300
AVC arrangement		
3 – youngest member (age 54)	11	1,100
4 – average member (age 63)	2	8,700

EXTV arrangement

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

Example member 1 – EXTV member who is 13 years from retirement with a current fund value of £1,500 invested in the Multi-Asset (formerly Consensus) Fund:

Number of years to retirement	Before charges (£)	After charges (£)	Impact of charges (£)
10	£1,659	£1,658	£1
5	£1,962	£1,959	£3
0	£2,321	£2,314	£7

Fund Value Breakdown & Projections continued

Example member 2 – EXTV member who is 9 years from retirement with a current fund value of £19,300 invested in the Multi-Asset (formerly Consensus) Fund:

Number of years to retirement	Before charges (£)	After charges (£)	Impact of charges (£)
5	£22,074	£22,055	£19
0	£26,109	£26,057	£52

AVC arrangement

In order to show the effect of costs and charges on a range of funds with different growth rates, costs and charges, we have illustrated the lifestyle strategy, the Multi Asset Fund and the Cash Fund. For the lifestyle strategy, we have illustrated the new strategy which has been in place since April 2023, as these projections are forward-looking.

Example member 3 – AVC member who is 11 years from retirement with a current fund value of £1,100 invested in a range of Legal & General Funds:

Number of years to retirement	Lifestyle Strategy			Over 5 Year Index-Linked Gilt Index Fund (highest charges)			Cash Fund (lowest charges)		
	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)
10	£1,149	£1,147	£0	£1,099	£1,097	£2	£1,099	£1,097	£2
5	£1,417	£1,397	£20	£1,094	£1,081	£13	£1,094	£1,085	£9
0	£1,670	£1,621	£49	£1,088	£1,065	£23	£1,088	£1,073	£15

Example member 4 – AVC member who is 2 years from retirement with a current fund value of £8,700 invested in a range of Legal & General Funds:

Number of years to retirement	Lifestyle Strategy			Over 5 Year Index-Linked Gilt Index Fund (highest charges)			Cash Fund (lowest charges)		
	Before charges	After charges	Impact of charges	Before charges	After charges	Impact of charges	Before charges	After charges	Impact of charges
0	£9,159	£9,104	£55	£8,683	£8,649	£34	£8,683	£8,660	£23

Fund Value Breakdown & Projections

continued

Notes and assumptions

Fund values shown are estimates and are not guaranteed (they are rounded to the nearest £10).

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

Inflation is assumed to be 2.5% p.a.

Illustrations assume no further contributions are paid, as the Scheme is closed to future accrual.

Example member ages and starting fund values are representative of the Scheme's membership as at 1 April 2023.

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 longest period available up to five years, in line with statutory guidance, to reduce the level of transaction cost volatility. 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 costs on fund values over time.

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

Investment option	Growth rate	Costs and charges
EXTV Multi Asset Fund	3.5% p.a. above inflation	0.0234% p.a.
Lifestyle Strategy	Between 0.1% p.a. below inflation and 3.5% p.a. above inflation*	Between 0.1341% p.a. and 0.3687% p.a.*
Over 15 Year Gilt Index Fund	0.1% p.a. below inflation	0.2018% p.a.
Cash Fund	0.1% p.a. below inflation	0.1341% p.a.

*depending upon term to retirement.

Appendix B

Statement of Investment Principles

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 Investments Limited ("AIL") 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 01 July 2023.

Fiduciary Manager The Trustee has appointed AIL as its Fiduciary Manager, which it considers to be its main asset manager. Policies within this Statement that refer to the "Fiduciary Manager" refer to AIL or any other direct investments that the 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.
- The Trustee will take strategic advice from AIL, on the underlying asset allocation, to achieve the below target return.

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 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 December 2020 the Trustee agreed for the Fiduciary 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 to December 2020	Outperform the Liability Benchmark by 1.5% p.a. over rolling three-year periods
From December 2020*	Outperform the Liability Benchmark by 1.0% p.a. over rolling three-year periods

*This return target will be achieved through advice from AIL, on the underlying asset allocation, as set out in the Implementation section.

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 managers 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 AIL, where relevant and available; and
- 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 or 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 its Investment Adviser.

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 has delegated all voting and engagement activities to the Scheme's investment managers, via AIL. The Trustee accepts responsibility for how the manager stewards assets on its behalf, including the casting of votes in line with each managers' individual voting policies. The Trustee reviews manager voting and engagement policies on an annual basis from AIL to ensure they are in line with the Trustee's expectations and in members' best interests.

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

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- 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.

Underlying investment managers invested via the Fiduciary Manager, or any managers directly appointed, are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the Trustee.

Where voting is concerned, the Trustee expects the underlying investment managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee will engage with its Fiduciary Manager, which in turn is able to engage with underlying investment managers, investee companies 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.

This engagement aims to ensure that robust active ownership behaviours, reflective of the Trustee's active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

Should the Trustee's monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage via different medium such as emails and meetings, with its Fiduciary Manager, to discuss how alignment may be improved 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 Liability Driven Investment ("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's objectives, and assesses 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, ALL, 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, ALL, 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.

Asset Allocation

The below asset allocation has been agreed on with the intention of achieving the return objective as set in December 2020, of outperforming the Liability Benchmark by 1.0% p.a. over rolling three-year periods.

Asset class	Weighting
Managed Growth Strategy	15%
Diversified Liquid Credit	40%
Credit Default Swaps*	3%
Liability Driven Investment (LDI)	42%

*The actual exposure of the CDS is 15%.

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 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	All World Equity Index Fund %	Retirement Income Multi-Asset Fund %	Cash Fund %
0	-	-	100
1	10	40	50
2	20	70	10
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.
All World Equity Index Fund	The Fund aims to track the performance of the FTSE All-World Index (less withholding tax where applicable) to within +/- 0.5% per annum for two years out of three.
Retirement Income Multi-Asset Fund	The Fund provides exposure to a range of different asset classes that may include equities, bonds, property, commodities, infrastructure, private equity, global real estate companies and other asset classes deemed by the fund manager to be relevant to the objective of the fund (to provide long-term investment growth) which may be actively or passively managed.
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 the Sterling Overnight Index Average 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 Investments Limited ("AIL") 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 the Fiduciary Manager, 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:

Director of TMD Friction UK Trustee Limited

SIGNATURE

DATE

25/7/2023

Director of TMD Friction UK Trustee Limited

SIGNATURE

DATE

20 JULY 2023



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XPS Pensions (Trigon) Limited, Registered No. 12085392.

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All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774)