

# **TMD FRICTION UK PENSION SCHEME**

## **Report and Financial Statements for the year ended 31 March 2022**

Scheme Registration No: 10253234



1 City Square, Leeds LS1 2ES

XPS Administration is a trading name of XPS Administration Limited  
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB

Part of XPS Pensions Group

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# TMD FRICTION UK PENSION SCHEME

## TRUSTEE AND ADVISERS

### **Trustee:**

TMD Friction UK Trustee Limited  
PO Box 18  
Centurion House  
Centurion Way  
Cleckheaton  
West Yorkshire BD19 3UJ

### **Trustee Directors:**

L Bleasdale (Chairman)  
A Fisher \* (Appointed 24 June 2022)  
S Kirtley (Appointed 20 October 2022)  
C Lyman \*  
T Russell (Resigned 20 October 2022)  
N Trifunovic \* (Resigned 13 June 2022)  
S Willis

Pensions Rapport Limited (represented by J Burns)

\* *Member Nominated*

### **Actuary:**

J Fletcher  
XPS Pensions Limited  
1 City Square  
Leeds LS1 2ES

### **Auditors:**

BHP LLP  
2 Rutland Park  
Sheffield S10 2PD

### **Legal Adviser:**

Wrigleys Solicitors LLP  
19 Cookridge Street  
Leeds LS2 3AG

### **Bankers:**

Bank of Scotland plc  
New Uberior House  
11 Earl Grey Street  
Edinburgh EH3 9BN

### **Investment Managers:**

Aon Investments Limited  
The Aon Centre  
The Leadenhall Building  
122 Leadenhall Street  
London EC3V 4AN

Legal & General Assurance (Pensions Management) Ltd  
One Coleman Street  
London EC2R 5AA

# TMD FRICTION UK PENSION SCHEME

## TRUSTEE AND ADVISERS (continued)

### ***Custodians:***

The Bank of New York Mellon  
One Canada Square  
London E14 5AL

Citibank N. A.  
Citigroup Centre  
Canada Square  
Canary Wharf E14 5IB

### ***Administrators:***

XPS Administration Limited  
1 City Square  
Leeds LS1 2ES

### ***Investment Consultants:***

Aon Solutions Limited  
3 The Embankment  
Sovereign Street  
Leeds LS1 8BJ

### ***Principal Employer:***

TMD Friction UK Limited  
Ground Floor  
Centurion House  
Centurion Way  
Cleckheaton BD19 3UJ

# TMD FRICTION UK PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2022

The Trustee presents to the members its annual report and financial statements for the year ended 31 March 2022.

### **Scheme Information**

The TMD Friction UK Pension Scheme (the "Scheme") is established under and governed by the Definitive Trust Deed and Rules, including subsequent amendments.

The Scheme is a defined benefit Scheme and was established to provide benefits for past and present employees of TMD Friction UK Limited (and associated employers) and their dependants. It provides benefits at retirement and dependants' benefits on earlier death. A guide to these benefits is contained in the members' copy of the Scheme booklet which is subject to the Scheme Rules.

The Scheme is closed to new employees and future accruals. Some members also have transferred-in money purchase funds with a Guaranteed Minimum Pension (GMP) underpin and/or Additional Voluntary Contribution (AVC) funds which are used at retirement to supplement these members' defined benefits.

The Scheme is registered for tax purposes with HM Revenue and Customs (HMRC) in accordance with the Finance Act 2004 and it was contracted out of the State Earnings Related part of the State Pension Scheme under the provisions of the Pension Schemes Act 1993.

The Trustee of the Scheme is a Limited Company, established for the sole purpose of acting as Trustee to the Scheme. The Member Nominated Trustee Directors who held office during and subsequent to the Scheme year end are disclosed on page 2. TMD Friction UK Limited may appoint new or additional Trustee Directors, or remove existing Trustee Directors, with the agreement of the Trustee.

During the year the Trustee met regularly to review the management of the Scheme and to monitor the performance of the investment managers, administrators and advisers.

### **Membership**

The number of members at the year-end was:	2022	2021
Deferred pensioners	210	226
Pensioners including dependants	<u>439</u>	<u>429</u>
<b>Total membership</b>	<u>649</u>	<u>655</u>

In addition to the defined benefits provided to members in the table above, the aggregate value of members' money purchase and AVC funds invested with Legal & General at 31 March 2022 was:

	2022	2021
	£	£
Transferred-in money purchase funds with a GMP underpin	361,945	454,945
AVC funds	<u>381,054</u>	<u>360,777</u>
	<u>742,999</u>	<u>815,722</u>

### **Pension increases**

All pensions in payment were increased in accordance with the Rules of the Scheme with the increase being applied on 1 April 2021. The average total increase for all pensions in payment (including non-increasing pensions) was 0.37%.

Pension in excess of the GMP accrued prior to 6 April 2005 (and not exchanged for a non-increasing pension under the pension increase exchange option) received a Consumer Price Index (CPI) increase of 0.5%, as did pension accrued on or after 6 April 2005.

Deferred pensions in excess of the GMP are increased annually in line with the cost of living up to a maximum of 5% (or a maximum of 2.5% for pension accrued from 6 April 2009).

There were no discretionary increases made during the year.

# TMD FRICTION UK PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### **Transfer Values**

Cash equivalents (transfer values to other approved pension arrangements) payable are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

### **Benefit/Scheme Changes**

There were no changes to Scheme benefits during the year.

### **Going Concern**

The Trustee of the Scheme has made an assessment on going concern and given the funding position and the support from the Principal Employer, the Trustee has concluded that the Scheme retains sufficient liquidity and that the going concern basis remains appropriate for the foreseeable future and at the very least for the next twelve months.

### **Financial Development of the Scheme**

Changes in the Scheme's net assets during the year were as follows:

	£
Net assets at 31 March 2021	86,559,539
Net withdrawals from dealings with members	(3,177,809)
Net returns on investments	<u>2,013,253</u>
Net assets at 31 March 2022	<u><u>85,394,983</u></u>

### **Taxation Status**

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

### **Enquiries**

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee:

c/o XPS Administration Limited  
1 City Square  
Leeds LS1 2ES

Email: [TMDFrictionPensions@xpsgroup.com](mailto:TMDFrictionPensions@xpsgroup.com)

### **MoneyHelper**

MoneyHelper provides pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MoneyHelper can be contacted at:

MoneyHelper  
Holborn Centre  
120 Holborn  
London EC1N 2TD

Tel: 0800 011 3797

Email: [pensions.enquiries@moneyhelper.org.uk](mailto:pensions.enquiries@moneyhelper.org.uk)

Website: [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### ***Pensions Ombudsman***

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
London E14 4PU

Tel: 0800 917 4487

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

### ***The Pensions Regulator (tPR)***

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House  
Trafalgar Place  
Brighton BN1 4DW

Tel: 0345 600 0707

Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### ***The Pension Scheme Registry***

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10253234. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

# TMD FRICTION UK PENSION SCHEME

## INVESTMENT REPORT

The Trustee determines its investment strategy after taking advice from the investment consultant. It has delegated the management of the investments to the investment managers listed on page 2 and it has appointed Aon Investments Limited as 'Fiduciary Manager' of the Scheme's main assets.

### **Statement of Investment Principles**

A Statement of Investment Principles ("SIP") has been produced as required under Section 35 of the Pensions Act 1995. Copies of the SIP are available on request or alternatively may be accessed online at: <https://tmdfriction.com/wp-content/uploads/2021/09/2021-Statement-of-Investment-Principles-signed.pdf>. All investments made during the year were in accordance with this SIP.

### **Investment Strategy**

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 sets the investment strategy taking into account considerations such as the strength of the Employer covenant, the long-term liabilities and the funding plan agreed with the Principal Employer. The investment strategy is set out in the SIP.

The actual asset allocation at 31 March 2022 was:

<b>Asset class</b>	<b>Asset Allocation</b>
	<b>%</b>
Managed Growth	15.1
Hedging Component	44.2
Diversified Liquid Credit	40.2
Cash	<u>0.5</u>
	<b><u>100.0</u></b>

### **Exercise of rights (including voting rights)**

As part of the Fiduciary Manager's management of the Scheme's assets, the Trustee expects the Fiduciary 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 the underlying investment managers as required.

The Trustee 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 companies and 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.

### **Non-financial matters**

The Trustee does not specifically take into account the views of Scheme members and beneficiaries in relation to ethical considerations, the social and environmental impact, or the 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.



## INVESTMENT REPORT (continued)

### **Stewardship**

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 in which the Scheme invests, as ultimately, this creates long-term financial value for the Scheme and its beneficiaries.

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

### **How targeted portfolio turnover or turnover range is to be defined and monitored**

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 managers. 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 assesses the performance (net of all costs) of the Fiduciary Manager at least every three years against the Scheme's specific liability benchmark and investment objectives. The remuneration paid to, and fees incurred by, the Fiduciary Manager are reviewed in the context of the Fiduciary Manager's performance, and the Trustee monitors these costs and performance trends over time.

### **Details of 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 it assesses the Fiduciary Manager over three-year periods.

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 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 with respect to the underlying investment managers in which it invests.

The Trustee requests the Fiduciary Manager and appointed investment managers to confirm whether their management approach is in alignment with the Trustee's policies as set out in the SIP.

Before appointing a new Fiduciary Manager or investment manager, the Trustee also reviews the governing documentation associated with the investment to 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.

## **INVESTMENT REPORT (continued)**

### ***Details of arrangements with asset managers (continued)***

The Trustee believes that having appropriate governing documentation and setting clear expectations to the Fiduciary Manager or investment managers by other means where necessary, together with the 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 that 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 and 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. The appointment of Aon Investments Limited as Fiduciary Manager was last reviewed in December 2021.

### ***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 takes the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee has 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 monitors the level of ESG integration on an annual basis using ESG rating information provided by the Fiduciary Manager where this is relevant and available.
- The Trustee requests that the Scheme's directly appointed investment managers, including the Fiduciary Manager, provide their Responsible Investment policy together with details of how they integrate ESG into their investment decision-making process on an annual basis. Should the Trustee look to appoint a new investment manager, this information is requested as part of the selection process. All responses are reviewed and monitored with input from the Trustee's investment consultant.

### ***Custodial Arrangements***

The Scheme's investments were held with the custodians listed on page 3. The custodians are responsible for the safekeeping of share certificates and other documentation relating to the ownership of listed investments, settlement of trades and income collection.

The Trustee is responsible for ensuring that the Scheme's assets continue to be held securely. It reviews the custodian arrangements from time to time and the Scheme's auditor is authorised to make whatever investigations it deems necessary as part of the annual audit procedures.

## INVESTMENT REPORT (continued)

### **Investment Performance**

The manager and total Scheme performance for the year ended 31 March 2022 was as follows.

	1 year %	3 years % p.a.	5 years % p.a.
Asset Return:	2.1	3.3	3.5
Liability Benchmark Return:	2.3	2.0	2.7
Relative:	-0.2	1.3	0.8

Investment Objective: To outperform the Liability Benchmark\* by 1 % p.a. over rolling three year periods  
(From December 2020)

Source: Aon / Bank of New York Mellon. Returns are in GBP and quoted net of fees.

\* The Liability Benchmark acts as a proxy for the pension liabilities that Aon has been instructed to hedge. Performance is assessed relative to this measure.

### **Implementation Statement**

The Implementation Statement which forms part of the Trustee's report is included on pages 31 to 36.

### **Employer Related Investments**

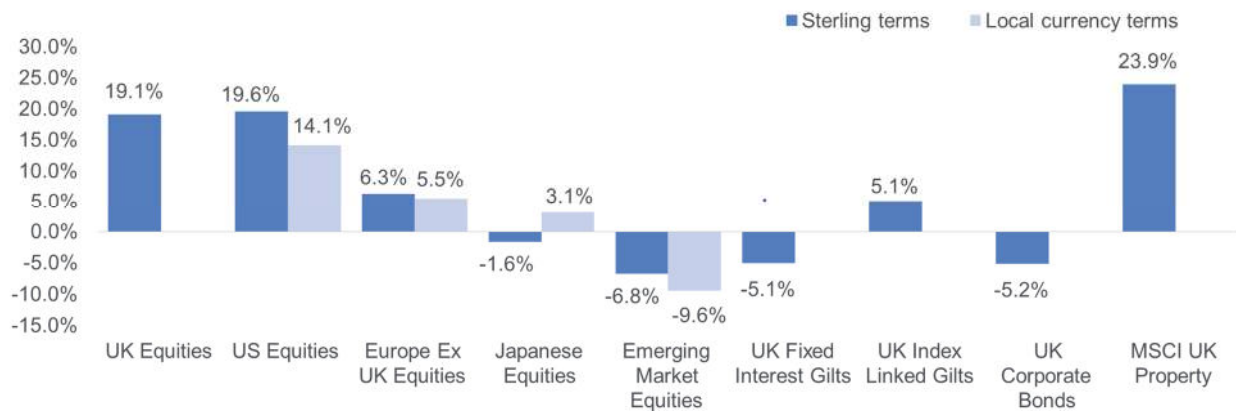
There were no employer related investments at the year end.

# TMD FRICTION UK PENSION SCHEME

## INVESTMENT REPORT (continued)

**Market Background: 12 months to 31 March 2022**

**Index Returns from 31/03/2021 to 31/03/2022**



Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Corporate Bonds)

### General Background

Global equities generated positive returns over the last twelve months. Equities delivered solid returns in 2021, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets reversed some of their gains in Q1 2022 as geopolitical risk took centre stage with Russia invading Ukraine. Furthermore, major central banks continued to move forward with normalising monetary policy as inflation rates worldwide rose rapidly.

The Russian invasion of Ukraine created significant market volatility and economic uncertainty over Q1 2022. G7 sanctions against Russia are likely to slow GDP growth this year and cause further supply chain disruption. While the US has banned Russian oil and gas imports, the picture in Europe is more complicated given its Russian oil and gas dependence. The UK indicated it would phase out Russian oil imports by the end of the year, and the European Union stated that it would reduce dependency on Russian energy by two-thirds this year. Germany also halted approval for the commercial use of Nord Stream 2, their natural gas pipeline sourced from Russia, although Nord Stream 1 remains operational.

US equities posted the strongest local and sterling returns over the year, helped by their high exposure to large technology companies. After approving a \$1.9 trillion economic relief package, the US Senate passed a \$1.2 trillion bipartisan infrastructure bill. However, President Biden's ambitious \$1.75 trillion "Build Back Better" bill suffered a significant setback after his fellow Democratic Senator, Joe Manchin, opposed the bill due to rising inflation, a surging pandemic, and global uncertainty. In Q1 2022, the US equity market started poorly as inflation concerns led to the expectation of a faster than anticipated tightening of monetary policy, which weighed on the performance of sectors such as Information Technology and Consumer Discretionary. However, Economic data continue to be robust. The US economy added 678,000 jobs in February 2022 (above the previous month's upwardly revised 481,000 jobs) and the unemployment rate fell to 3.8%.

UK equities were the second-best performing equity market in sterling terms over the last year. The reopening of the global economy bolstered the UK's Energy and Industrials sectors during 2021. However, the UK reported approximately 5 million Covid-19 cases in Q4 2021 due to the newly discovered Omicron variant, dampening equity returns relative to other regions such as the US and Europe over Q4. UK equities rebounded strongly over Q1 due to their tilt towards the Energy and Materials sectors. This performance was driven by fears over the supply of oil and other key commodities impacted by the conflict in Ukraine.

Emerging markets (EM) were the worst-performing market in local currency and sterling terms over the last twelve months. The rise in interest rates by major central banks resulted in EM returns lagging other markets. State regulatory clampdowns across many of China's corporate sectors, and China's zero-tolerance covid policy causing several Chinese cities to enter strict lockdown dampened economic growth. Russian equities collapsed in price and MSCI and FTSE Russell removed "uninvestable" Russian equities from their widely-tracked emerging markets indices although the weight of Russia is not that large in the equity universe.

## INVESTMENT REPORT (continued)

### **Market Background: 12 months to 31 March 2022 (continued)**

On a global sector level, Energy (43.3%), Health Care (13.7%) and Technology (13.3%) were the best performing sectors in local currency terms. Communication Services (-6.4%) was the worst-performing sector, followed by Consumer Discretionary (-3.9%) and Industrials (4.1%).

Sterling ended the twelve months 1.1% lower on a trade-weighted basis. In Q4 2021, the Bank of England (BoE) raised its benchmark interest rate by 15 basis points to 0.25% to combat inflation. In Q1 2022, the BoE increased its benchmark interest by another 50 basis points to 0.75%. The expectation of higher interest rates and diminishing Brexit fears had improved sentiment over much of 2021, but the outbreak of war in Ukraine led to significant flows towards the US dollar.

Brent crude oil prices rose by 69.8% to \$108 a barrel over the last twelve months. Economic recovery and a cutback in production over the pandemic supported oil prices. In Q3 2021, OPEC+ reached an agreement to increase crude oil production by 400,000 barrels a day from August until the end of 2022, although this pace disappointed expectations. In the fourth quarter, the momentum in oil prices dropped as Omicron, and resurgent Covid fears surfaced. However, crude oil prices rose sharply during the first quarter as geopolitical tensions due to the Russia-Ukraine war further exacerbated supply fears.

Yields fell in Q2 2021 as variant virus risks and worries over a slower pace of global economic recovery arose. Nominal yields then picked up once more over the third quarter of 2021, driving the negative performance of UK fixed-interest government bonds. Yields rose on the back of brought-forward interest rate hike expectations against the background of rising inflation and central bank indications of policy rate increases. However, longer-dated yields briefly fell back in Q4 2021 due to heightened uncertainty surrounding Omicron. Short-dated yields later began to factor in potential monetary policy changes and saw notable increases. In Q1 2022, yields rose strongly across maturities due to expectations of future rate hikes. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.1%, whilst index-linked gilts rose by 5.1% over the last twelve months. Index-linked gilts significantly outperformed nominal gilts due to increased breakevens driven by expectations of more persistent inflation.

Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 24 basis points to 130 basis points.

UK commercial property returned 23.9% over the period, supported by an income return of 5.1% and an 18.0% increase in capital values. The easing of lockdown restrictions helped the retail sector as it returned 20.8% over the year. Meanwhile, the office sector returned 6.7% over the year, whilst industrials continued to outperform with a return of 42.3%.

# TMD FRICTION UK PENSION SCHEME

## REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2020, with formal annual updates completed as at 31 March 2021 and 31 March 2022. The following table sets out the results of these assessments.

	31 March 2020	31 March 2021	31 March 2022
	£'m	£'m	£'m
Value of Assets	86.2	86.2	85.1
Value of Technical Provisions	85.8	81.8	80.1
Surplus	0.4	4.4	5.0
Funding Level	100%	105%	106%

Since 31 March 2020, the funding position has improved from a surplus of £0.4 million to a surplus of £5.0 million. This is primarily due to the changes in financial conditions over the period placing a lower value on the liabilities. The Scheme holds assets designed to match the change in the liability value and hence protect the Scheme's funding position, and these have also fallen in value as a result of the changes in financial conditions. However this has been offset by a higher return than expected on the Scheme's growth assets.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

**Discount interest rate:** term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an addition of 0.5% p.a.

**Future Retail Price inflation:** term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

**Future Consumer Price inflation:** term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 0.75% p.a. until 2030 and no adjustment after 2030.

**Pension increases:** derived from the term dependent rates for future consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

**Mortality:** standard industry tables S3PMA with a scaling factor of 114% for male members; and S3PFA with a scaling factor of 107% for female members with future mortality improvements based on the Actuarial Profession's projection model "CMI\_2019" using the default smoothing parameter, a 1.50% pa long term rate of improvement and a 0.25% initial addition.

## ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

# Actuary's certification of Schedule of Contributions

### TMD Friction UK Limited Pension Scheme

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#### Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the Schedule is to be in force.

#### Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 28 June 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

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#### Signature



#### Date

28 June 2021

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#### Name

Jill Fletcher

#### Qualification

Fellow of the Institute  
and Faculty of Actuaries

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#### Address

1 City Square  
Leeds  
LS1 2ES

#### Employer

XPS Pensions Consulting Limited



# TMD FRICTION UK PENSION SCHEME

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension Scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is also responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pension Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

### Approval of Trustee's Report

The Trustee's Report, which includes the Investment Report, the Report on Actuarial Liabilities and the Statement of Trustee's Responsibilities, was approved by the Trustee.

**For and on behalf of the Trustee**



Trustee



Date



# TMD FRICTION UK PENSION SCHEME

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE TMD FRICTION UK PENSION SCHEME

### Opinion

We have audited the financial statements of the TMD Friction UK Pension Scheme (the "Scheme") for the year ended 31 March 2022 which comprise, the fund account, statement of net assets and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISA (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

### Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE TMD FRICTION UK PENSION SCHEME (continued)**

### **Responsibilities of the Trustee**

As explained more fully in the Trustee's Responsibilities Statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We gained an understanding of the legal and regulatory framework applicable to the Scheme, and considered the risk of such regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations relevant to the Scheme which could give rise to a material misstatement in the financial statements. Our testing included discussions with the Trustee, those charged with governance of the Scheme and with individuals who had direct responsibility for the compliance of laws and regulations (such as administrators and those preparing the financial statements), agreeing financial statement disclosures to underlying supporting documentation and reviewing relevant costs and expenses within the financial statements.

There are inherent limitations in the audit procedures described and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

During our audit work, we did not find any major issues with the Scheme's internal controls.

Audit work was performed in a timely manner shortly after the year end to allow to appropriate evidence to be obtained.

As part of our audit, we addressed the risk of management override of internal controls, including testing of journals and review of the nominal ledger. We evaluated whether there was evidence of bias by the Trustee that represented a risk of material misstatement due to fraud. Minutes of meetings were also reviewed and any discussions between Trustee Directors.

# TMD FRICTION UK PENSION SCHEME

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE TMD FRICTION UK PENSION SCHEME (continued)

### Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.



### **BHP LLP**

*Chartered Accountants and Statutory Auditors*  
Sheffield

29 October 2022

Date: .....

# TMD FRICTION UK PENSION SCHEME

## FUND ACCOUNT

For the year ended 31 March 2022

	Note	2022 £	2021 £
<b>CONTRIBUTIONS AND BENEFITS</b>			
Employer contributions		<u>66,667</u>	<u>200,000</u>
<b>Total contributions</b>	4	<u>66,667</u>	<u>200,000</u>
Benefits paid or payable	5	(2,744,848)	(2,629,768)
Payments to and on account of leavers	6	(173,987)	(486,488)
Administrative expenses	7	<u>(325,641)</u>	<u>(420,415)</u>
		<u>(3,244,476)</u>	<u>(3,536,671)</u>
<b>NET WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>		<u>(3,177,809)</u>	<u>(3,336,671)</u>
<b>RETURNS ON INVESTMENTS</b>			
Investment income	8	30	3
Change in market value of investments	9	<u>2,013,223</u>	<u>3,367,207</u>
<b>NET RETURNS ON INVESTMENTS</b>		<u>2,013,253</u>	<u>3,367,210</u>
<b>NET (DECREASE)/INCREASE IN THE FUND FOR THE YEAR</b>		(1,164,556)	30,539
<b>OPENING NET ASSETS</b>		<u>86,559,539</u>	<u>86,529,000</u>
<b>CLOSING NET ASSETS</b>		<u><u>85,394,983</u></u>	<u><u>86,559,539</u></u>

The notes on pages 21 to 28 form part of these financial statements.

# TMD FRICTION UK PENSION SCHEME

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 31 March 2022

	Note	2022 £	2021 £
<b>INVESTMENT ASSETS</b>	9		
Pooled investment vehicles	10	84,663,511	85,849,506
AVC investments	11	<u>381,054</u>	<u>360,777</u>
<b>TOTAL NET INVESTMENTS</b>		<u>85,044,565</u>	<u>86,210,283</u>
<b>CURRENT ASSETS</b>	15	480,003	501,147
<b>CURRENT LIABILITIES</b>	16	<u>(129,585)</u>	<u>(151,891)</u>
<b>CLOSING NET ASSETS</b>		<u><u>85,394,983</u></u>	<u><u>86,559,539</u></u>

The notes on pages 21 to 28 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations is dealt with in the Report on Actuarial Liabilities on page 13 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on ... 28/10/2022 ...

Signed on behalf of the Trustee



Trustee Director

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

### 1. BASIS OF PREPARATION

The individual financial statements of the TMD Friction UK Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised June 2018) ("the SORP").

The financial statements have been prepared on the going concern basis. At the date of signing these financial statements the Trustee believes that; due to its investments structure, the Scheme is able to comfortably cover its related outgoings for the foreseeable future and until at least 12 months from signing. As a result, and together with the relatively strong position of the Principal Employer, the Trustee considers the preparation of the financial statements on a going concern basis to be appropriate.

### 2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is XPS Administration Limited, 1 City Square, Leeds LS1 2ES.

### 3. ACCOUNTING POLICIES

#### (a) Accounting Convention

The financial statements are prepared on an accruals basis.

#### (b) Contributions

Employer expense contributions are recognised on the due dates in accordance with the Schedule of Contributions or on receipt if earlier with the agreement of the Principal Employer and Trustee.

#### (c) Payments to Members

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

#### (d) Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration with the exception of the PPF Levy and Trustee fees charged by Pensions Rapport Limited which are both borne by the Principal Employer.

#### (e) Investment Income

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

#### (f) Investments

Investments are included at fair value as follows:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

#### (g) Currency

The Scheme's functional and presentation currency is Pound Sterling (GBP).

# TMD FRICTION UK PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

### 3. ACCOUNTING POLICIES (continued)

#### (h) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities in the Statement of net Assets and the amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements.

4. CONTRIBUTIONS	2022	2021
	£	£
Employer contributions		
Expense contributions	<u>66,667</u>	<u>200,000</u>

For the period from 1 April to 28 June 2021, the Principal Employer paid £66,667 in contributions to cover administrative expenses. On 28 June 2021, a revised Schedule of Contributions was signed whereby further contributions towards administrative expenses are payable by the Principal Employer if the Scheme's funding position falls below 100%. No further contributions were payable under this agreement for the remainder of the year to 31 March 2022.

Should the Scheme remain fully funded on a technical provisions basis as at 31 March 2023, no further contributions towards administrative expenses are due from the Principal Employer unless otherwise agreed with the Trustee.

5. BENEFITS PAID OR PAYABLE	2022	2021
	£	£
Pensions	2,459,420	2,462,632
Commutation of pensions and lump sum retirement benefits	285,428	152,757
Lump sum death benefits	-	14,379
	<u>2,744,848</u>	<u>2,629,768</u>

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2022	2021
	£	£
Individual transfers out to other schemes	<u>173,987</u>	<u>486,488</u>

7. ADMINISTRATIVE EXPENSES	2022	2021
	£	£
Administration fees	38,010	37,188
Actuarial fees	182,690	304,606
Legal fees	75,487	63,692
Trustee fees & expenses	3,125	5,697
Other professional fees	16,500	-
Audit fees	9,377	8,763
Miscellaneous expenses	452	469
	<u>325,641</u>	<u>420,415</u>

# TMD FRICTION UK PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

<b>8. INVESTMENT INCOME</b>	2022	2021
	£	£
Interest on cash deposits	30	3

## 9. RECONCILIATION OF INVESTMENTS

	Value at 31.03.2021	Purchases at cost	Sales proceeds	Change in market value	Value at 31.03.2022
	£	£	£	£	£
Pooled investment vehicles	85,394,561	-	(3,060,000)	1,967,005	84,301,566
AVC investments	360,777	24,986	(31,394)	26,685	381,054
	<u>85,755,338</u>	<u>24,986</u>	<u>(3,091,394)</u>	<u>1,993,690</u>	<u>84,682,620</u>

### Money Purchase Funds with a GMP Underpin

Pooled investment vehicles	<u>454,945</u>	<u>-</u>	<u>(112,533)</u>	<u>19,533</u>	<u>361,945</u>
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Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

In addition to the transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

Money purchase funds and AVC investments noted above totalling £742,999 (2021: £815,722) are money purchase assets allocated to members. Further information on these investments is disclosed on page 4 of the Trustee's Report.

## 10. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2022	2021
	£	£
<b>Defined Benefit</b>		
Equity	8,311,199	15,589,528
Liquid Alternatives	2,240,078	4,886,270
Fixed Interest	1,501,871	7,096,726
Low Risk Bond	-	18,622,966
Diversified Liquid Credit	33,925,034	-
Hedging Component (Liability Driven Investments)	37,260,363	37,648,763
Overlay Parametric	432,742	1,221,567
Cash and Accruals	<u>630,279</u>	<u>328,741</u>
	<u>84,301,566</u>	<u>85,394,561</u>

### Money Purchase Funds with a GMP Underpin

Diversified Growth	<u>361,945</u>	<u>454,945</u>
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The defined benefit investments are held in a sole investor (or 'bespoke') pooled arrangement and the classification of investments shown above has been made using a 'look through' approach to the underlying assets held within this bespoke pooled arrangement.

Money purchase funds with a GMP underpin are invested separately from the Scheme's main investments to secure additional benefits for members on a money purchase basis. Members participating in these arrangements receive an annual statement made up to the year-end confirming the value of their fund and the movements in the year.



# TMD FRICTION UK PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

### 11. AVC INVESTMENTS

The Trustee holds assets invested separately from the Scheme's main investments to secure additional benefits on a money purchase basis for those members electing to pay AVC contributions. Members participating in these arrangements receive an annual statement made up to the year-end confirming the value of their fund and the movements in the year. The aggregate value of AVC investments are as follows:

	2022 £	2021 £
Legal & General (unit linked)	<u>381,054</u>	<u>360,777</u>

### 12. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 31 March 2022			
	Level 1 £	Level 2 £	Level 3 £	Total £
Pooled investment vehicles	-	84,663,511	-	84,663,511
AVC investments	<u>-</u>	<u>381,054</u>	<u>-</u>	<u>381,054</u>
	<u>-</u>	<u>85,044,565</u>	<u>-</u>	<u>85,044,565</u>
	At 31 March 2021			
	Level 1 £	Level 2 £	Level 3 £	Total £
Pooled investment vehicles	-	85,849,506	-	85,849,506
AVC investments	<u>-</u>	<u>360,777</u>	<u>-</u>	<u>360,777</u>
	<u>-</u>	<u>86,210,283</u>	<u>-</u>	<u>86,210,283</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

### 13. INVESTMENT RISK DISCLOSURES

#### Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

#### (i) Investment Strategy

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. As the defined benefit investments are held in a sole investor (or 'bespoke') pooled arrangement, these risks have been assessed using a 'look through' approach to the underlying assets held within this bespoke pooled arrangement.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

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 reviewed its investment strategy in January 2015 and agreed to delegate certain decision-making powers of 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 December 2020, the Trustee agreed for the asset manager's return target to be as shown below.

Period:	Return Target
From December 2020:	Outperform the Liability Benchmark by 1.0% 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

### 13. INVESTMENT RISK DISCLOSURES (continued)

#### (ii) Credit Risk

The Scheme is subject to credit risk because the Scheme has cash balances. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the investments it holds in the pooled investment vehicles. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Cash is held within financial institutions which are at least investment grade credit rated. This is the position at 31 March 2022 and the prior year end.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled managers, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Fiduciary Manager carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled managers.

The Scheme invests in a sole investor (or 'bespoke') pooled arrangement which is an Irish Domiciled Qualifying Investor Alternative Investment Fund (QIAIF). A summary of the underlying assets within this bespoke pooled arrangement is shown in the following table using a 'look through' approach:

	2022	2021
	£	£
<b>Pooled Investment Vehicles:</b>		
Open Ended Investment Company	58,229,146	64,307,238
Irish Collective Asset-Management Vehicle	2,924,745	-
Investment Company with Variable Capital	22,700,650	21,011,082
<b>Cash</b>	<u>447,025</u>	<u>76,241</u>
<b>Total</b>	<u>84,301,566</u>	<u>85,394,561</u>

Sources: Aon / Bank of New York Mellon / Managers

Indirect credit risk arising from underlying investments, some being held in bond and liability matching pooled investment vehicles, is mitigated by the underlying exposures on an aggregate basis being predominantly investment grade credit securities. However, the funds may invest in debt securities which may be unrated by a recognised credit rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated debt securities.

The funds may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The funds may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Risk is mitigated by holding a diverse portfolio of investments with exposure to a range of issues and issuers, through the higher yield available on these investments which compensates on an aggregate basis for the risk taken and through the use of an active fund manager who through careful stock selection will aim to reduce the impact of defaults and downgrades.

#### (iii) Currency Risk

No direct currency risk exists as all of the pooled investment vehicles held by the Scheme are denominated in GBP.

Indirect currency risk arises because some investments are held in overseas markets via pooled investment vehicles. The manager may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions. This fluctuation results from changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

# TMD FRICTION UK PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

### 13. INVESTMENT RISK DISCLOSURES (continued)

#### (iv) Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in leveraged gilts through pooled vehicles, and cash, as part of the LDI investment strategy (Hedging Component). Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. The Scheme also has some exposure to bond pooled investment vehicles as part of its diversified return seeking growth portfolio.

#### (v) Other Price Risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which is held in a diversified growth pooled vehicle, investing in a diversified range of return-seeking pooled vehicles including, but not limited to, equities, fixed income, liquid alternatives, property and other asset classes.

#### (vi) Summary of Indirect Investment Risks

The following table summarises the extent to which the various classes of the Scheme's investments are affected by indirect investment risks:

Pooled Investment Vehicles	Credit Risk	Currency Risk	Interest Risk	Other Price Risk	2022 £	2021 £
Low Risk Bond strategy	●	◐	●	◐	-	18,622,966
Diversified Liquid Credit strategy	●	◐	●	◐	33,925,034	
Managed Growth strategy	◐	◐	◐	●	12,727,717	29,084,940
Hedging Component	◐	○	●	○	37,260,363	37,648,763
Cash	-	-	-	-	<u>388,452</u>	<u>37,892</u>
					<u>84,301,566</u>	<u>85,394,561</u>

In the table above, the risk noted affects the investment class (●) significantly, (◐) partially or (○) hardly/not at all as at 31 March 2022.

As they are not considered significant, the Scheme's money purchase and AVC funds invested with Legal & General are not included in these disclosures.

### 14. CONCENTRATION OF INVESTMENTS

The following investments represented over 5% of the net assets of the Scheme:

	2022		2021	
	£	%	£	%
Aon Investments Bespoke Client Fund	84,301,566	98.7	85,394,561	98.7

# TMD FRICTION UK PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2022

<b>15. CURRENT ASSETS</b>	2022	2021
	£	£
Bank balance	480,003	484,480
Contributions receivable - employer	-	16,667
	<u>480,003</u>	<u>501,147</u>
<b>16. CURRENT LIABILITIES</b>	2022	2021
	£	£
Accrued expenses	115,190	151,891
Unpaid benefits	14,395	-
	<u>129,585</u>	<u>151,891</u>

## 17. RELATED PARTIES

During the year ended 31 March 2022, fees totalling £18,283 (2021: £18,197) were paid to certain Trustee Directors for their services to the Scheme of which £3,125 (2021: £5,697) were borne by the Scheme as disclosed in Note 7 to the accounts.

There were two Trustee Directors who were members of the Pension Scheme as at 31 March 2022 (2021: 2); these are C Lyman (deferred pensioner) and N Trifunovic (pensioner).

## 18. TAXATION

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

## 19. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. On 20 November 2020, the High Court also ruled that pension schemes will need to revisit individual transfer payments made since May 1990.

Under the rulings, schemes are required to backdate benefit and transfer out adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

## 20. CONTINGENT ASSET - MEMBER ADVICE FUND

On 6 January 2020, the Principal Employer and the Trustee established a 'notional' Member Advice Fund ("MAF") of £409,091 to pay for the cost of independent financial advice provided to members of the Scheme in connection with member option exercises. The MAF may also be used for any other purpose related to the Scheme as agreed between the Principal Employer and the Trustee.

The value of the MAF is reduced by the costs of independent financial advice (which are paid by the Principal Employer) and the remaining notional value is adjusted by 1% per annum above the Bank of England base rate. As at 31 March 2022, the remaining value of the MAF was £393,958.

At any time before 6 January 2025, the balance remaining on the MAF is payable by the Principal Employer to the Scheme on request by the Trustee, unless the Principal Employer and the Trustee agree otherwise. The MAF has not been included in the financial statements and instead is disclosed in the notes to the financial statements as a contingent asset.

# TMD FRICTION UK PENSION SCHEME

## **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE TMD FRICTION UK PENSION SCHEME**

We have examined the summary of contributions payable to the TMD Friction UK Pension Scheme for the Scheme year ended 31 March 2022 to which this statement is attached.

### **Scope of work on Statement about Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

### **Use of our report**

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

### **Respective responsibilities of the Trustee and the Auditor**

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

### **Statement about Contributions payable under the Schedules of Contributions**

In our opinion, contributions for the Scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 6 January 2020 and 28 June 2021.



### **BHP LLP**

*Chartered Accountants and Statutory Auditors*  
Sheffield

Date: ..... **29 October 2022** .....

# TMD FRICTION UK PENSION SCHEME

## SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions payable to the Scheme by the employer under the Schedules of Contributions were as follows:

	£
Employer expense contributions	<u>66,667</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedules of Contributions	<u>66,667</u>

This summary was approved by the Trustee on 28/10/2022 (date)

Signed on behalf of the Trustee



**Trustee Director**

## IMPLEMENTATION STATEMENT

### TMD Friction UK Pension Scheme (the "Scheme")

#### Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual statement called an Implementation Statement ("IS") which outlines the following:

- A description of any review and changes made to the Statement of Investment Principles ("SIP") over the Scheme year;
- Evidence on how the Trustee has fulfilled the objectives and policies included in the SIP over the Scheme year;
- Description of the voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Scheme year and statement of any use of third-party provider of proxy voting services.

The IS has been prepared by the Trustee and covers the DB and DC Sections of the Scheme covering the Scheme year to 31 March 2022.

#### Executive summary

Based on the activity carried out by the Trustee and its investment managers over the year, the Trustee is of the opinion that its policies have been implemented effectively in practice. The Trustee notes that its fiduciary manager and its relevant investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

The Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. The Trustee will therefore continue to use its influence to drive positive behaviour and change among the managers that it has employed to invest the assets of the Scheme, and with other third parties that the Trustee relies on such as its investment advisers. The Trustee will monitor, assess and ultimately hold them to account to make sure that the assets of the Scheme are appropriately invested.

#### Changes to the SIP over the year to 31 March 2022

The Trustee has a policy to review the SIP formally at least every three years, or after any significant change in investment policy.

The Trustee completed an investment strategy review during 2020 and agreed to reduce the strategy Return Target from gilts + 1.5% to gilts + 1.0% p.a. in late 2020. The SIP was updated for this change during this Scheme year. There were no other material changes made to the SIP during the year.

The latest version of the SIP is available for members to view via the Scheme website here: <https://tmdfriction.com/wp-content/uploads/2021/09/2021-Statement-of-Investment-Principles-signed.pdf>.

#### Meeting the objectives and policies outlined in the SIP – DB section

The Trustee outlines in the SIP several key objectives and policies. These are noted in blue in this report, together with an explanation of how these objectives and policies have been met and adhered to over the course of the year. The Trustee has delegated certain decision-making powers to Aon Investments Limited ("AIL") who is referred to in this document as the "Fiduciary Manager". References to "underlying asset managers" refers to those asset managers which AIL in turn appoints to manage investments on behalf of the Trustee or any other direct investments that the Trustee may make from time to time.



## Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with an interactive version of investment monitoring reports on an online portal being made available to the Trustee to view or download by the Fiduciary Manager and its investment consultant, Aon. The Trustee is able to log onto the online monitoring portal, where information is published which covers performance, strategic asset allocation and risk management of the Scheme's investments, covering a number of different objectives and policies set out in the SIP.

Quarterly Investment Monitoring Reports from the Manager and Aon are published and available via the online reporting portal, this includes;

- Absolute performance and performance relative to the liability return over the quarter, one year, three year and five year periods.
- Asset allocation relative to the previous quarter
- Overview of the interest rate and inflation hedging levels
- Economic market review and outlook

Annually, the Fiduciary Manager provides a fee breakdown showing the annual aggregate management charge of the underlying asset manager.

## Strategy

*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.*

Following improvements to the Scheme's funding position, the Trustee made the decision to de-risk the Scheme's investment strategy and to adopt a lower investment objective to outperform the Liability Benchmark by 1.0% p.a. over rolling three year period in December 2020. This investment objective has remained in place throughout the Scheme year

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

## Environmental, social and governance (ESG) considerations

*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 the Fiduciary Manager, 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.*

# TMD FRICTION UK PENSION SCHEME

Please see the below section "Engagement – AIL" for more details on the Fiduciary Manager's engagement with the underlying asset managers.

The Trustee received a Responsible Investment training session provided by AIL in March 2022, which set out the Fiduciary Manager's commitment to Net Zero as well as evidencing AIL's engagement and commitment to responsible investment.

The Trustee receives regular updates on ESG metrics on its underlying asset managers, and uses these to monitor the managers, with the support of the Fiduciary Manager.

*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 Trustee 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.*

The Trustee monitors the stewardship activity of the Fiduciary Manager on a regular basis, with more detail on the stewardship and voting activity of the Fiduciary Manager provided in the "Engagement – AIL" section.

## Risks

*The Trustee reduces its exposure to the Scheme's risks by careful structuring of its funding and investment management arrangements and through its contracts with the Scheme's Fiduciary Manager and investment managers.*

The Trustee also closely monitors the Scheme's risks and receives formal regular reports on funding, cash flows, investment managers (including performance) and diversification. Please refer to the "Ongoing Monitoring" section for further details on how risks within the Scheme are monitored and reported.

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, as detailed below in the "Engagement – AIL" section.

## Cost and transparency considerations

*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.*

# TMD FRICTION UK PENSION SCHEME

The Trustee received a cost disclosure statement from the Fiduciary Manager for the period 1 January 2020 to 31 December 2020. The report provides information on costs and charges, including a breakdown of the annual management charge required by law. The Trustee will continue to receive and review this report on an annual basis.

*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.*

The Trustee agreed to the change in the base fee charged by the Fiduciary Manager, from 0.30% p.a. to 0.25% p.a. in January 2021. The Trustee then agreed to a further base fee reduction charged by the fiduciary manager from 0.25% p.a. to 0.23% p.a., effective 1 October 2021. 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 and will continue to do so. The Trustee will continue to monitor the cost and performance, at least every three years.

## Meeting the objectives and policies as set out in the SIP – DB section

### Arrangements with asset managers

*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 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 is supported by the ongoing monitoring and engagement activities undertaken by the Fiduciary Manager, with respect to the underlying investment managers in which it invests.

The Trustee 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. More details regarding the Fiduciary Manager's engagement activities over the reporting year can be found in the section "Engagement – AIL".

## Meeting the objectives and policies as set out in the SIP – DC/AVC section

*It is the Trustee's policy to review the DC and AVC investments and to obtain written advice about them at least every three years.*

The Trustee asked its DC investment advisers to review the DC and AVC arrangements during the last reporting period. The review was used to provide supporting evidence for the Chair's Statement and covered provider suitability (in terms of financial strength, charges and quality of administration, where relevant) as well as quality and suitability of investment options offered to members. The report was issued to the Trustee on 3 September 2020.

## Voting and engagement activity undertaken over the year

The DB and DC sections of the Scheme invest in pooled funds across a range of asset classes, and the Trustee has delegated responsibility for the selection, retention and realisation of investments to the Scheme's investment managers or fiduciary manager in whose funds it invests.

As part of the production of this statement, the Trustee, supported by its investment adviser, Aon, has reviewed the voting and engagement activities carried out on its behalf by the Scheme's relevant investment managers and fiduciary manager. If any managers are found to be falling short of the standards expected by the Trustee, the Trustee may take further action, for example by meeting with the laggard manager to discuss the issue or requesting that Aon engages with the manager on its behalf.

The Scheme's relevant investment managers have provided commentary on their approach to voting, including the use of any proxy voting services provided (for equity managers only), and their approach to engaging with the underlying security issuers. The Trustee acknowledges that the concept of stewardship may be less applicable to some asset classes. In particular, stewardship is less relevant for fixed income, including liability driven investments ("LDI"), so these investments have not been covered in this statement. Alternative investments have also not been covered in this statement.

Most of the Scheme's relevant investment managers have provided examples of significant votes they have participated in. Each manager has their own criteria for deciding what is a significant vote. Examples include:

- a vote where a significant proportion of the votes (e.g., more than 20%) went against the management's proposal
- a vote where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to a wider engagement initiative with the company involved
- a vote that demonstrates clear and considered rationale;
- a vote that the client considers inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Scheme.

The Trustee considers a significant vote as one which the voting manager deems to be significant.

## Engagement activity – Aon Investments Limited

The Trustee has delegated the management of the Scheme's DB assets to its fiduciary manager, Aon Investments Limited ("AIL"). AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers on behalf of the Trustee.

The Trustee has reviewed AIL's latest Annual Stewardship Report and believes it shows that AIL is using its resources to effectively influence positive outcomes in the funds in which it invests.

## Voting and Engagement activity – Equity and multi-asset funds

The table below sets out the voting statistics, to 31 March 2022, for each of the material equity and multi-asset investment funds the Scheme was invested in over the year.

# TMD FRICTION UK PENSION SCHEME

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
LGIM Global Equity Fixed Weights (60:40) Index	39,293	99.9%	17.0%	0.2%
LGIM Multi-Asset Fund	88,739	99.8%	20.5%	0.8%
LGIM Multi Factor Equity Fund	11,660	99.8%	19.1%	0.2%
BlackRock Emerging Markets Equity Fund	28,828	100.0%	9.0%	4.0%

Source: Managers

## **LGIM – Multi-Asset Fund, Global Equity Fixed Weights (60:40) and Multi-Factor Equity Fund**

Voting policy: LGIM uses proxy voting adviser Institutional Shareholder Services (“ISS”) to execute votes electronically and for research. LGIM also receives research from Institutional Voting Information Service (“IVIS”). This augments LGIM’s own research and proprietary ESG assessment tools.

LGIM do not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be the best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

Voting Example (Multi Asset Fund and Global Equity Fixed Weights (60:40) Fund): In March 2022, LGIM voted for a proposal for Apple’s board to report on an audit of the company’s civil rights policies. It is LGIM’s policy to support proposals related to diversity and inclusion policies as it considers these issues to be a material risk for companies. Apple opposed the proposal.

## **BlackRock – Emerging Markets Equity Fund**

Voting policy: BlackRock’s proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. Blackrock’s voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the year.

Voting Example: In June 2021, BlackRock voted against a proposal from the management of Huadian Power International, a Chinese energy company. The proposal sought to reorganize its wind and solar power portfolio by transferring all related assets into a dedicated renewable energy entity, which the majority is controlled by its parent company, Huadian Group. In exchange Huadian International would receive a minority stake in the renewable energy entity.

BlackRock voted against the proposal because it was concerned about the conflict of interest between Huadian International and its parent company.



# TMD Friction UK Pension Scheme

## Chair's Statement

1 April 2021 to 31 March 2022



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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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## 01 Introduction

**This is the Chair's Statement for the TMD Friction UK Pension Scheme covering the period 1 April 2021 to 31 March 2022.**

**£0.74m**  
Total defined contribution funds in the Scheme.

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 2022 is £742,999, 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.

### 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 2022

The most recent review of the fund range and default arrangement's strategy and performance was concluded

#### 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 has 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.

No immediate concerns were raised about the suitability in respect of the EXTV investments. However, the Trustee are considering recommendations suggested by the investment advisers Aon, regarding the AVC arrangement and the associated lifestyle strategy. In particular, this included potentially replacing the LGIM Global Equities 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. 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.

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 (2017-2022)	1 year (2022)
<b>EXTV Default</b>	%p.a.	%p.a.
LGIM Multi-Asset (formerly Consensus) fund	5.4	4.3
<b>AVC Self-Select Funds (LGIM)</b>		
Global Equity Fixed Weights (60:40) Index*	6.6	11.5
Multi-Asset (formerly Consensus Index)	5.2	4.0
Over 15 Year Gilt Index	0.8	-7.3
Over 5 Year Gilt Index – Linked Gilts Index*	3.1	4.8
Cash*	0.2	0.0
<b>Lifestyle Strategy<sup>1</sup></b>		
Age 25	6.6	11.5
Age 45	6.6	11.5
Age 55	5.3	10.8

(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2022)

\*Members with AVC can also opt to use these funds as part of the lifestyle strategy

<sup>1</sup>For 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.



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

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

	Transaction Costs	Total Expense Ratio
Fund Name	%	%
<b>LGIM Self Select Funds</b>		
Global Equity Fixed Weights (60:40) Index*	0.0404	0.175
Multi-Asset (formerly Consensus Index) AVC fund	-0.0026	0.26
Multi-Asset (formerly Consensus Index) EXTV fund	0.0068	0.00
Over 15 Year Gilt Index	0.0536	0.09
Over 5 Year Gilt Index – Linked Gilts Index*	0.0209	0.12
Cash*	0.0000	0.125

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

*\*Members with AVC can also opt to use these funds as part of the lifestyle strategy*

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

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 Multi-asset (formerly Consensus) Index AVC, 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 Multi-asset (formerly Consensus) 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 2022 considering whether the Scheme provides good value, which the Trustee reviewed in October 2022.

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 is now implementing;
- > the costs and charges and net returns for the AVC arrangement compare reasonably 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 via transfer to other arrangements. However, the Trustee is now implementing further changes to the AVCs arrangements 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 with a free Independent Financial advice session;

## Value for Members continued

> 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, 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. However, there were no new Trustee Directors in the period of this Statement.

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 had a number of training sessions including:

- > Investment in diversified liquid credit and long dated investment grade credit
- > Pension Scams and The Pension Regulator's ("TPR's") Pledge training
- > Future trends and investment opportunities
- > Stopping pension scams
- > Pension Schemes Act 2021

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.

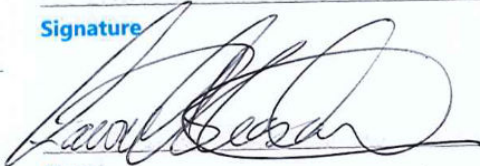



## 07 Conclusion

“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.

<b>Signature</b> 	<b>Date</b> 
<b>Name</b> Lawrence Bleasdale	<b>Qualification</b> 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 2022. The table below summarises the membership and assets under management in the EXTV / AVC arrangements:

Provider	Fund name	Fund value £	Number of members
<b>LGIM EXTV Funds</b>			
<b>Value as at 31 March 2022</b>	Multi-Asset (formerly Consensus) Fund	361,945	<b>15</b>
<b>LGIM AVCs</b>			
<b>Values as at 31 March 2022</b>	Global Equity FW 60:40 Index <sup>3</sup>	103,532	<b>10</b>
	Multi-Asset (formerly Consensus) Fund	39,525	<b>3</b>
	Over 5 Year Index-Linked Gilt Index <sup>3</sup>	45,240	<b>6</b>
	Over 15 Year Gilt Index	22,086	<b>2</b>
	Cash	39,817	<b>6</b>
	<b>Total</b>	<b>612,145<sup>2</sup></b>	<b>30<sup>1</sup></b>

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

<sup>2</sup> Fund value shown is bid value for the EXTV funds and mid-value for the AVC funds

<sup>3</sup> These funds are components of the lifestyle strategy, as well as self-select funds. Nine members invest in the lifestyle strategy, their funds are reported under the underlying funds here.

## Fund Value Breakdown & Projections continued

*Taken from the Aon paper "Review of the arrangements holding EXTV and AVC funds" dated 23 August 2022.*

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
<b>EXTV arrangement</b>		£
1 – youngest member (age 51)	14	1,550
2 - average member (age 55)	10	13,260
<b>AVC arrangement</b>		
3 – youngest member (age 53)	12	1,044
4 – average member (age 62)	3	8,600

### 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 14 years from retirement with a current fund value of £1,550 invested in the Multi-Asset (formerly Consensus) Fund:

Number of years to retirement	Before charges (£)	After charges (£)	Impact of charges (£)
10	£1,587	£1,586	£1
5	£1,634	£1,631	£3
0	£1,682	£1,678	£4

## Fund Value Breakdown & Projections continued

**Example member 2** – EXTV member who is 10 years from retirement with a current fund value of £13,260 invested in the Multi-Asset (formerly Consensus) Fund:

Number of years to retirement	Before charges (£)	After charges (£)	Impact of charges (£)
5	£13,650	£13,640	£10
0	£14,060	£14,030	£30

### 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.

**Example member 3** – AVC member who is 12 years from retirement with a current fund value of £1,044 invested in a range of Legal & General Funds:

Number of years to retirement	Lifestyle Strategy			Multi-Asset Fund (highest charges)			Over 15 Year Gilt Index 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	£1,070	£1,070	£0	£1,060	£1,050	£10	£1,360	£1,354	£6
5	£1,100	£1,090	£10	£1,090	£1,070	£20	£1,155	£1,143	£12
0	£1,010	£990	£20	£1,120	£1,080	£40	£980	£965	£15

**Example member 4** – AVC member who is 5 years from retirement with a current fund value of £7,600 invested in a range of Legal & General Funds:

Number of years to retirement	Lifestyle Strategy			Multi-Asset Fund (highest charges)			Over 15 Year Gilt Index 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	£8,020	£7,980	£40	£8,750	£8,680	£70	£7,800	£7,770	£30

## Fund Value Breakdown & Projections continued

### Notes and assumptions

Fund values shown are estimates and are not guaranteed (they are rounded to the nearest £10 with the exception of example members 1 and 3, because of the disproportionate effect of rounding).

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 2022.

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 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	0.6% p.a. above inflation	0.0179% p.a.
Lifestyle Strategy	Between 3.3% p.a. below inflation and 1.5% p.a. above inflation*	Between 0.1542% p.a. and 0.1833% p.a.*
AVC Multi Asset Fund	0.6% p.a. above inflation	0.2756% p.a.
Over 15 Year Gilt Index Fund	3.3% p.a. below inflation	0.2103% p.a.

\*depending upon term to retirement.



## APPENDIX B

### 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 21 September 2021.

**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 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 Aon, 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 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.

#### Asset Allocation

The below asset allocation has been agreed 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 (CDS)*	3%
Liability Driven Investment (LDI)	42%

\*The actual credit 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.

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**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

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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.

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## 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.

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**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.

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### 3. General

<b>Direct Investments</b>	<p>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.</p> <p>The Trustee will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005 when selecting direct investments.</p>
<b>Custody &amp; Accounting</b>	<p>The Scheme does not employ a custodian since the Trustee does not have direct control over the underlying assets.</p> <p>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.</p>
<b>Investment Adviser</b>	<p>Aon Solutions UK Limited has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995.</p>
<b>Review of SIP</b>	<p>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.</p>
<b>Asset manager and investment adviser fees</b>	<p>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.</p>

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

*[Redacted signature area]*

*for Pension Report*