Avon Rubber Defined Benefit Retirement and Death Benefit Plan
Statement of Investment Principles

This Statement of Investment Principles (SIP) covers only the defined benefit section of the Plan. It is set out in four parts. The first two cover the objectives and implementation of the Plan and the last two sections cover the Trustee's overall policy on governance, risk measurement and management.

Investment Objective

The aim of the Trustee is to invest the assets of the Plan to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considered the lowest risk asset allocation that could be adopted in relation to the Plan's liabilities. An asset allocation strategy was then selected, designed to achieve a higher return than this lowest risk strategy, which at the same time still represented a prudent approach to meeting the Plan's liabilities.

STRATEGY

The Trustee has agreed, following a review of the investment strategy, to implement the following asset allocation:

Asset Class	Interim Target Weighting* %	Long Term Target Weighting** %
Matching Investments	40	40
Cashflow Driven Investments	42	50
Return-Seeking Investments	18	10
Total	**100**	**100**

**Whilst the Plan's agreed upon investment strategy is being implemented, particularly with respect to the Europa Real Estate Debt Fund, it was agreed to adopt an interim benchmark that represents only investments which are already in place.*
*** Represents the final strategic allocation decided in October 2019. This allocation is still being built up as the Real Estate Debt Fund draws down capital.*

The return-seeking investments are currently invested in a combination of Matching Investments, Cashflow Driven Investments and Return-Seeking Investments. The Matching Investments are currently invested in a combination of Liability Driven Investment funds, Maturing Buy and Maintain Credit funds and Cash. Cashflow Driven Investments include a multi-asset credit fund, a secured finance fund, an infrastructure equity fund and a real estate debt fund. The Return-Seeking Investments includes two diversified growth funds, one of which is being gradually sold down to fund the real estate debt allocation

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

The actual asset allocation will deviate from the target weighting from time to time. Furthermore, the Trustee may also implement investments not on the basis of the asset allocation set out above but as a medium term position intended to take advantage of shorter term opportunities in the markets. Such investments will be made following advice from the Plan's investment adviser and will be maintained on a temporary basis while it is believed that the Plan will benefit from the deviation. The Trustee will monitor any such positions and formally review the asset allocation following actuarial valuations.

The Trustee targets an inflation and interest rate hedge ratio of 90% of funded liabilities valued on the basis of a discount rate represented by gilts + 0.5% per annum. This is achieved by investing in Liability Driven Investment Funds with BlackRock and from the Maturing Buy and Maintain Credit funds with Insight. As the pooled LDI funds make use of leverage, the Trustee will seek to hold enough cash in the portfolio that would allow covering one potential recapitalisation event of such funds.

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, and in particular the strength of the funding position relative to the liability profile. The Trustee's policy is to make the assumption that growth assets will outperform gilts over the long term and assume that active fund management can be expected to add value. However, the Trustee recognises the potential volatility in growth asset returns, particularly relative to the Plan's liabilities, and the risk that the fund managers will not achieve the targets set. In choosing the Plan's investment options the Trustee considered written advice from its investment advisers and consequently ensures its policy affords significant consideration of:

- the need to consider a full range of asset classes;
- the risks and rewards of a range of alternative asset allocation strategies;
- the suitability of each asset class;
- the need for appropriate diversification.

In addition, when setting this strategy, the Trustee also remained in consultation with the sponsoring employer.

IMPLEMENTATION

Mercer Limited ("Mercer") has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates. Mercer is paid an agreed annual fee which includes all services needed on a regular basis. Some one-off projects fall outside the annual fee and the fees for these are negotiated separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

ESG, Stewardship and Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors are important and may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

Given the investments are in pooled funds, the Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights obligations attached to the Plan's investments.

With regards to stewardship, the Trustee wishes to encourage best practice in terms of corporate activism. It therefore encourages its investment managers to discharge their responsibilities in respect of investee companies in accordance with relevant legislation and codes.

The Trustee has delegated the exercise of voting rights to the Plan's appointed investment managers, where relevant, on the basis that voting powers will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the investment managers have produced written guidelines of their process and practice in this regard.

The Trustee wishes to encourage best practice in terms of active engagement with entities in which they invest. The Trustee has given the investment managers full discretion when undertaking such engagement activities and therefore encourages the Plan's investment managers to discharge their responsibilities in respect of investee companies in accordance with the principles underlying the UK Corporate Governance Code and the UK Stewardship Code, in respect of all resolutions at annual and extraordinary meetings. The Trustee will review the investment managers' policies and engagement activities (where applicable) on an appropriate basis.

The strategic rationale of different asset classes that help the Trustee to achieve the Plan's investment objectives remains the primary driver behind the Plan's investment strategy. However, within this context, the Trustee is increasingly working to integrate ESG, climate change and stewardship within the Plan's investment processes in appointing new investment managers and monitoring existing investment managers.

Member Views

Member views are not explicitly sought or taken into account in the selection, retention and realisation of investments. However, the Trustee has agreed to include a statement on its ESG beliefs in annual newsletters and members are welcome to provide feedback on this.

Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future. However, the Trustee has agreed that for future investment manager selections, a minimum ESG rating of ESG3 will be set as a pre-requisite as part of the selection process for asset classes where ESG considerations are considered to have a material impact on investment performance. The Trustee makes use of the investment consultant's ESG ratings.

Investment Managers monitoring and engagement

Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which the Trustee has appointed them.

The Trustee looks to their investment consultant (Mercer) for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the manager's appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Some portfolios are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) as part of each strategic review.

As the Trustee invests in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but believe appropriate mandates can be selected to align with the overall investment strategy.

Encouraging long-termism and consideration of ESG issues:

As per the ESG, Stewardship and Climate change section of this SIP, the Trustee considers the investment consultant's assessment of how each investment manager embeds ESG issues into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustee will use these assessments in decisions around selection, retention and realisation of manager appointments.

The Trustee meets with the investment managers as required and can challenge decisions made including voting history and engagement activity, and can challenge such decisions to try to ensure the best performance over the medium to long term.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then the manager may be replaced.

Monitoring manager appointments

The Trustee receives performance reports from the investment consultant each quarter, which present performance information over 3 months, 6 months, 1 year, since latest actuarial valuation and since investment inception periods. The Trustee reviews absolute performance and relative performance against a suitable index used as a benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is primarily on long term performance but short term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees. The Trustee may meet with investment managers if they are dissatisfied with their performance or engagement activity, and may choose to terminate the relationship with the manager if they see fit.

Monitoring portfolio turnover costs

The Trustee does not explicitly monitor portfolio turnover costs across the whole portfolio but this is considered by Mercer and forms part of their research views.

However, the Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

Manager Turnover

The Trustee is a long-term investor and is not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment is reviewed and the Trustee decides to terminate for a more suitable appointment.

Investment Objectives

The Plan’s investment objectives and fund manager structures are as follows:

<u>**BlackRock Investment Management (UK) Limited (“BlackRock”)**</u> *Liability Matching Funds* The funds’ objective is to respond to changes in the selected part of the yield curve in the pre-determined way. *Liability Solutions Cash Fund* This is a cash collateral fund held by clients at BlackRock using Liability Matching Funds. Its aim is to preserve capital whilst generating a cash return in line with GBP 3-month LIBOR, and it will invest in instruments that carry a more risk than you would find in a pure deposit fund. As the pooled Liability Matching Funds make use of leverage, the Trustee will seek to hold enough cash in the fund that would allow covering one potential recapitalisation event of such funds.
<u>**CQS Management (“CQS”)**</u> *Multi-Asset Credit Fund* The CQS Credit Multi-Asset Fund aims to provide a modest level of income generation at low levels of risk (both default risk and volatility). The Fund also attempts to preserve capital through its conservative investment philosophy and ability to trade tactically between senior secured loans, high yield bonds, investment grade bonds, asset backed securities and convertible bonds. The target return is cash + 4 - 5% p.a. with historic volatility of low single digits. The Fund distributes semi-annual income payments at a fixed rate of 3m £ Libor + 3% p.a.
<u>**Ruffer LLP (“Ruffer”)**</u> *Global Long Only Absolute Return Fund* Diversified Growth Fund that invests across asset classes, generally in traditional investments such as holdings in equities and bonds, and attempts to make money by high level asset allocation decisions and also stock selection. The Fund's objective is not to lose money in any twelve month rolling period and to generate consistent returns which are significantly greater than inflation and the return on cash.
<u>**Insight**</u> *Insight Broad Opportunities Fund* Diversified Growth Fund that invests across asset classes. Positions in traditional asset classes are held, but the manager also makes regular use of derivative positions in order to improve the profile of returns. The Fund's objective is to outperform cash (as measured by the 3-month £ LIBID) by 4% p.a. (net of fees) delivering approximately half of the volatility of returns from global equities.

<u>Ares</u> *Secured Income Fund* Secured Finance Fund that focuses on secured debt investments that offer enhanced downside protection and returns in excess of corporate bonds while maintaining an investment-grade average credit quality. The Fund aims to deliver net of fees returns of 4-6% p.a. 90% of available income is paid out on a quarterly basis.
<u>JP Morgan</u> *Infrastructure Equity Fund* JP Morgan will manage the Plan's infrastructure equity exposure, which sits within the cashflow driven portfolio. The agreement with JP Morgan permits the Trustee to invest the Plan's assets in the JP Morgan Global Infrastructure Investments Fund ("the JP Morgan Infrastructure Equity Fund"). The portfolio consists of several underlying infrastructure assets across different regions, subsectors and companies, and aims to deliver net of fees returns of 8-12% p.a. where the majority of this (5-7% p.a.) of available income is paid out on a quarterly basis.
<u>Europa Capital</u> *UK Real Estate Debt Fund III* The objective of the Real Estate Debt mandate with Europa is to provide a net of fees return of 6% p.a. over the life of the Fund, consisting predominantly of income. Europa aims to achieve this through making loans with downside protection of 25-30% embedded within loan documentation, conservative underwriting and strong lender documentation provisions. The Fund focuses in making smaller loans with a regional focus that seeks to benefit from the retraction of traditional bank lending in this sector. The Fund is closed-ended with an expected time horizon of 7 years. The Trustee committed £35m (c.10% of assets) to the Fund, which is gradually being drawn down through the investment period.
<u>Insight</u> *Maturing Buy & Maintain Credit – 2026-2030 and 2031-2035 Funds* The Maturing Buy and Maintain Credit funds aim to capture the credit risk premium in an efficient and predictable way, through investing in fundamentally strong and attractively priced corporate bonds with a low turnover and focus on avoiding defaults and stressed selling. The strategy will also provide a degree of interest rate hedging and it will marginally reduce the overall level of leverage in the Plan's LDI portfolio.

RISK MEASUREMENT AND MANAGEMENT

The Trustee recognises that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities (this is known as the "funding risk"). The Trustee has identified a number of factors which have the potential to cause such a deterioration of the Plan's funding level and accordingly contribute to the funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Plan's assets to include an allocation to LDI funds which reduces this mismatching risk.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ("cash flow risk"). In order to minimise the probability that this occurs, the Trustee and its advisers will take into account the timing of future payments when managing the Plan's cash flows.
- The risk that fund managers will fail to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk was considered by the Trustee and its advisers upon the initial appointment of the fund managers and will remain a consideration on an ongoing basis.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Plan's investment strategy.
- The Trustee recognises that there is also a risk that Environmental, Social and Governance ("ESG") issues, including climate change, may negatively impact asset classes, sectors and companies, and therefore negatively impact investment returns on the Plan's assets.
- The possibility of failure of the Plan's sponsoring employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of occurrences of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to their complex and interrelated nature the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). At times when it is found to be useful some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk was modelled explicitly as part of the most recent investment strategy review.

Having set an investment objective which relates directly to the Plan's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks on a periodic basis. To allow it to do this, the Trustee receives reports showing:

- Actual funding level versus the Plan specific funding objective.
- Performance versus the Plan investment objective.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

GOVERNANCE

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee takes into account whether or not it has the appropriate training and whether or not there is available expert advice that might allow it to make an informed decision. The Trustee has established the following decision making structure:

<table>
<tr><td colspan="2">Trustee
• Set structures and processes for carrying out its role.
• Select and monitor planned asset allocation.
• Select direct investments (see below).
• Monitor investment advisers and fund managers.
• Monitor direct investments.
• Make day-to-day decisions relevant to operation of Plan's investment strategy.</td></tr>
<tr><td>Investment Adviser
• Advise on all aspects of the investment of the Plan assets, including implementation.
• Advise on this statement.
• Provide required training.</td><td>Fund Managers
• Operate within the terms of this statement and their written contracts.
• Select individual investments with regard to their suitability and diversification.
• Advise Trustee on suitability of the proposed benchmark.</td></tr>
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The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members AVCs, the Matching Funds provided by BlackRock and Insight, the return seeking funds provided by Ruffer and Insight and cashflow driven investments provided by CQS, Ares, JP Morgan and Europa. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the

Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee’s investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated either on an ad valorem basis or a performance related fee basis. The structure is been chosen based on aligning the fund managers’ interests with those of the Plan and achieving a reasonable level of fees.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs. The Trustee's investment advisor monitors the level of commission paid, and will advise if they become unjustifiable given the goods and services received.

The Trustee has invested the Plan’s assets through pooled funds. The managers of these investments have appointed their own custodians. The custodians provide safekeeping for all the fund’s assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate action.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Trustee

Trustee

Date: 28th September 2021

Avon Rubber Pension Trust Limited
Trustee of the Avon Rubber Retirement and Death Benefits Plan
September 2021