# Cooper-Avon Tyres Limited Pension Plan

## Trustee's annual report and financial statements
## for the year ended 30 September 2021

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## Appendix 1 – Chairman's statement

# Chair's DC Governance Statement, covering 1 October 2020 to 30 September 2021

## 1. Introduction

The Cooper-Avon Tyres Limited Pension Plan (the "Plan") is a Defined Benefit ("DB") occupational pension scheme with a defined contribution ("DC") Section mainly in respect of transfer values brought into the Plan. A DC pension arrangement is where employee and/or employer contributions are paid into it, the member chooses their investments, and bears the investment risk. A number of members also have DC Additional Voluntary Contributions ("AVCs") in the Plan.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the Plan is required to produce a yearly statement (signed by the Chair of the Trustee) covering:

- processing of core financial transactions (ie administration of the Plan such as investment of any contributions);
- the investment options in which Plan members can invest (this means the default arrangement, where one exists, and other funds members can select or have assets in, such as 'legacy' funds);
- the charges and transaction costs borne by members for the default option, if there is one, and any other investment option members can select or have assets in, such as legacy funds;
- an illustration of the cumulative effect of these costs and charges;
- how the value members obtain from the Plan is assessed; and
- trustee knowledge and understanding.

The DC benefits in the Plan relate to:

- AVCs which are linked to membership of the DB section of the Plan;
- contribution refund amounts linked to extinguished Protected Rights; and
- funds transferred into the Plan from other registered pension schemes, which were invested together with the AVCs.

The Plan's DC transfer-in facility was set up on 1 August 1997 for the sole purpose of accepting transfer values brought into the Plan by members. Any funds transferred in were invested, at the choice of each member, with either Utmost Life and Pensions (previously Equitable Life) or Clerical Medical.

Protected Rights contribution refund amounts are not invested in an investment fund. They are recorded within the Plan and accrue notional interest in line with Bank of England Base Rate.

The DC arrangements closed to further contributions when the Plan closed to future accrual on 5 April 2012.

The Trustee is currently considering the Plan's future financial circumstances and has therefore put any further review of the arrangements, including a detailed DC strategy review, on hold until the Plan's overall position has been determined.

## 2. Default arrangements

The Plan does not have a 'default' investment strategy in place, as it closed prior to 6 April 2015 and therefore has never been used as a Qualifying Scheme for automatic-enrolment purposes. Members make their own investment choices from the range of funds that the Trustee makes available to members with AVCs and transfer-in benefits. The Trustee is not therefore required to provide a statement on the Plan's default investment strategy, or details of any review as part of this Statement.

The Trustee is responsible for investment governance, which includes setting and monitoring investment strategy. The Plan's Statement of Investment Principles ('SIP') states that the Trustee's objective is to provide a range of funds which will provide a suitable long-term return for members, consistent with members' reasonable expectations.

As the Plan does not have a default investment strategy, the Trustee is also not required to attach the Plan's SIP to this Statement. The SIP contains further details of the Plan's investment objectives and the Trustee's investment policies. This document can be obtained from the Plan's administrator, LCP.

The Trustee is also responsible for reviewing the Plan's investments, which means that it reviews the DC funds' investment performance (after charges) and their continued appropriateness for the membership. A full review of the DC arrangements is normally carried out triennially. The last full review of the DC

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arrangements was carried out on 20 March 2018: it concluded that the majority of the Plan's unit-linked funds had performed well and broadly in line with their respective benchmark returns over 1, 3 and 5-year periods. A high-level review of the Plan's investment performance was undertaken by the Plan's advisor (LCP) during February 2021, which considered the Plan's DC fund performance over the previous year and confirmed that funds had generally performed in line with the respective sector benchmarks. A further high-level review was carried out in November 2021, which concluded similarly that the funds generally performed well over the previous 12 months and in accordance with their stated investment objectives.

The Trustee will continue to monitor the Plan's DC investments on a periodic basis to ensure they remain appropriate for the Plan's membership. The Trustee remains satisfied that the investment options are appropriate for the majority of the Plan's membership. However, the sponsoring employer is currently assessing the Plan's financial future and the Trustee has therefore put the full review of the Plan's DC arrangements on hold until the Plan's future is clearer. In the meantime, any consistent investment underperformance will be flagged by the Plan's advisors to the Trustee, which will take any appropriate action.

### 3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Plan, LCP, in conjunction with the DC providers. Core financial transactions include (but are not limited to): the investment of any contributions, processing of transfers out of the Plan, transfers of assets between different investments within the Plan, and payments to members/beneficiaries.

We recognise that delay and error can cause significant issues for members. They can also cause members to lose faith in the Plan, which may in turn reduce their propensity to save and impair future outcomes. We have received assurance from LCP that there are adequate internal controls to ensure that core financial transactions for the Plan are processed promptly and accurately.

The Plan has a service level agreement ("SLA") in place with LCP which covers the accuracy and timeliness of all core financial transactions. The key processes adopted to help it meet the SLA are as follows:

- Plan administration is dealt with by a single team at LCP which is familiar with the features of the Plan.
- LCP has a maximum ten working day SLA, with certain tasks (such as payment of death benefits) subject to a five working day turnaround. LCP has confirmed that the majority of the Plan's transactions are completed comfortably within the ten-day maximum.
- Cases are logged onto a work control tool called 'Work Manager', which automatically highlights the agreed SLAs, along with statutory/whistle-blowing deadlines.
- Bank accounts are monitored by LCP's accounts team, assisted by a tool called 'Dream', which mirrors movements in and out of the Plan's bank account. This gives the team real time confirmation as to how much money is in the account on a given date.
- All DC cash movements (such as transfers out and benefit payments) are subject to a vigorous three stage peer review process, to ensure their accuracy.

As the Plan has been closed for some time and there are relatively few DC members, at present few core financial transactions are carried out.

To help the Trustee monitor whether service levels are being met, we receive regular reports about the administrator's performance and compliance with the SLA. These summarise the transactions that have taken place, turnaround times and any delays against SLA or errors during the period. They also include details on LCP's performance and compliance with the SLA. These reports are reviewed at each Trustee meeting to enable the Trustee to monitor delivery against the agreed SLA. Any issues identified as part of our review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

Based on our review processes, the Trustee is satisfied that over the period covered by this Statement:

- LCP (as administrator) was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Plan year.

The Trustee is comfortable that LCP has adequate internal controls in place such as the AAF (Audit & Assurance Faculty) 01/06 accreditation which helps ensure that core financial transactions relating to the Plan are processed promptly and accurately.

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### 4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

Additional costs for administration carried out by the Plan administrator have not been stated as these costs are met by the Trustee.

The Trustee is also required to disclose transaction cost figures separately. What this means in the context of this Statement is that the transaction costs shown are those incurred when the Plan's fund managers buy and sell assets within investment funds. They are exclusive of any costs incurred when members invest in and switch between funds. Transaction costs are borne by members.

The charges and transaction costs shown have been supplied by the Plan's current investment managers:

- ReAssure (following the sale of L&G's mature savings business to ReAssure in September 2020);
- Utmost Life & Pensions ("Utmost Life"- following the sale of Equitable Life Assurance's business on 1 January 2020);
- Standard Life;
- Santander; and
- Clerical Medical.

The only outstanding data are the TERs from Clerical Medical. We have been in frequent contact with Clerical Medical in attempting to obtain this missing data.

When preparing this section of the Statement we have taken account of the relevant statutory guidance.

### Default arrangements

As mentioned above, there is no default arrangement in place, so there is no requirement to include details on this.

### Self-select fund charges and transaction costs

The level of charges for each DC fund and the transaction costs over the period covered by this Statement are set out in the following table:

| Fund name | TER (%) | Transaction costs (%) |
|---|---|---|
| **Unit-linked funds** | | |
| Clerical Medical Balanced Pension[1] | 0.495 | 0.44% |
| Clerical Medical Cautious Pension | 0.495 | 0.24% |
| Clerical Medical Adventurous Pension | 0.495 | 0.37% |
| Clerical Medical UK Growth | 0.495 | 0.39% |
| Clerical Medical International Growth | 0.495 | 0.36% |
| ReAssure Managed Fund | 0.57 | 0.57 |
| ReAssure European Fund | 0.55 | 0.55 |
| ReAssure UK Equity Fund | 0.53 | 0.53 |
| ReAssure Distribution Fund | 0.56 | 0.56 |
| Utmost Life UK Equity | 0.75 | 0.39 |
| Utmost Life Managed | 0.75 | 0.12 |
| Utmost Life Secure Cash | 0.50 | 0.00 |

[1] Clerical Medical's TERs are from 2020, as they have not provided updated figures in time for this Statement.

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| Fund name | TER (%) | Transaction costs (%) |
|---|---|---|
| Utmost Life Multi-Asset Moderate | 0.75 | 0.32 |
| Utmost Life Multi-Asset Cautious | 0.75 | 0.36 |
| Utmost UK FTSE All Share Tracker | 0.50 | 0.09 |
| Utmost Global Equity | 0.75 | 0.18 |
| Utmost Money Market | 0.50 | 0.00 |
| **Deposit funds** | | |
| ReAssure Special Deposit Fund[2] | No charges[3] | N/A |
| Santander Cash Fund | No charges[4] | N/A |
| **With-profits funds** | | |
| Clerical Medical With-Profits Fund | 1.00 | 0.41 |
| ReAssure Legal & General With-Profits Fund | No explicit charge | N/A |
| Standard Life With-Profits Fund | No explicit charge | N/A |

### Illustration of charges and transaction costs

The table below provides an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, the Trustee has had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member-borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return, but after deducting member-borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past three years as this is the longest period over which figures were available. These should be more indicative of longer-term costs, compared to using figures over the Plan year.
- The illustration is shown for the Utmost Life Multi-Asset Moderate Fund, since this is the arrangement in which most members are invested, as well as two funds from the Plan's self-select fund range. The two self-select funds shown in the illustration are:
  - the fund with the highest annual member borne costs – this is the Clerical Medical With-Profits Fund; and
  - the fund with the lowest annual member borne costs – this is the Santander Special Deposit Fund.

[2] With-Profits members who remain in the Plan beyond Normal Retirement Age are moved into the Special Deposit Fund. It is not available as a normal self-select option.
[3] This is similar to a standard deposit account with a bank which earns daily interest, funds are not subject to explicit fees.

[4] This fund is a deposit / cash account which does not incur explicit charges. Santander has confirmed that members receive interest on a daily basis, currently equivalent to 0% per annum. The interest rate reduced from 0.25% to 0.1% on 19 March 2020.

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*Projected pension pot in today's money*

| | Utmost Multi-Asset Moderate Fund | | Clerical Medical With-Profits Fund | | Santander Special Deposit Fund | |
|---|---|---|---|---|---|---|
| Years invested | Before costs | After costs | Before costs | After costs | Before costs | After costs |
| 1 | £10,500 | £10,400 | £10,500 | £10,400 | £10,200 | £10,200 |
| 3 | £10,600 | £10,300 | £10,700 | £10,300 | £9,700 | £9,700 |
| 5 | £10,800 | £10,200 | £10,900 | £10,200 | £9,300 | £9,300 |
| 10 | £11,200 | £10,100 | £11,500 | £10,000 | £8,300 | £8,300 |
| 15 | £11,500 | £9,900 | £12,100 | £9,900 | £7,400 | £7,400 |
| 20 | £12,000 | £9,800 | £12,700 | £9,700 | £6,600 | £6,600 |

### Notes

- Values shown are estimates and are not guaranteed. The illustrations do not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot 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% pa.
- The starting pot size used is £10,400. This is the approximate average (median) pot size for active members aged 50 years and younger (rather than using a whole membership average, we have taken this approach to provide a more realistic 20-year projection).
- The projection is for 20 years, being the approximate duration that the youngest Plan member has until they reach the Plan's Normal Retirement Age.
- The starting salary and contribution rate (employer and employee) is assumed to be zero as the Plan is closed to future contributions.
- The projected annual returns used are as follows (with these being the assumptions used by the providers for Statutory Money Purchase Illustration statements):
  - Utmost Life Multi-Asset Moderate Fund: 0.7% pa above inflation.
  - Santander Special Deposit Fund: -2.3% pa below inflation.
  - Clerical Medical With-Profits Fund: 1.0% pa above inflation.
- No allowance for active management outperformance has been made.

### 5. Value for members assessment

The Trustee is required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. Our general policy in relation to value for member considerations is set out below.

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Plan. The date of the last review was November 2021. We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's adviser has confirmed that the Plan's fund charges are competitive for the types of fund available to members.

The assessment included a review of the performance of the Plan's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this statement have generally been strongly positive, in line with or exceeding their respective sector averages and consistent with their stated investment objectives.

Consequently, no further action is required at this current time. As mentioned, the sponsoring employer is currently considering the financial circumstances of the Plan and its future, and the Trustee is awaiting the outcome of this before carrying out any further analysis.

One Plan member has AVCs with Santander held in a cash account, which credits interest. It does not deduct explicit charges, so provides a potentially valuable capital guarantee. The Standard Life policy also has only one member whose AVCs are invested in a With-Profits fund, which provides a guaranteed value at maturity.

The Clerical Medical arrangement is the second largest AVC holding by fund value and member numbers. It provides a wide range of investment options for members and has a competitive charging structure, applying a 0.505% pa Plan discount against its standard TERs.

The Trustee will work with its investment advisor to carry out a comprehensive review of the Plan's investments when this is feasible.

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In carrying out the assessment, we also consider the other benefits members receive from the Plan, which include:

- our oversight and governance, ensuring compliance with relevant legislation, and ongoing review with timely action to address any material issues that may impact members;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, we are comfortable with the quality and efficiency of the administration processes.

We believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expect this to lead to greater investment returns net of costs over time.

Overall, we believe that members of the Plan are receiving reasonable value for money for the charges and cost that they incur, for the reasons set out in this section. The Trustee aims to improve value for members in future by taking the following steps:

- continuing to monitor the costs borne by members, with a comprehensive review of the Plan's investments to be carried out once the Plan's financial future is determined;
- ongoing review of the member experience with the Plan's administrator to ensure its service levels remain at current high levels; and
- continuing to ensure that Trustee training is kept up to date, including developments in both DB and DC matters.

### 6. Financial security of pension assets

This section describes our understanding of the protections that generally apply to members' assets, should the DC fund managers experience financial difficulties. This a complex area which is untested in practice. Whilst the wording below represents our understanding, we are not legal experts and a future situation may lead to an unexpected outcome.

There are several safeguards designed to prevent default by a DC fund manager and potential protections that apply should this happen:

- To prevent default, there is internal oversight carried out by the fund managers. This comprises several elements such as independent internal audits, as well as the work conducted by compliance and risk functions.
- There is external oversight, carried out by the relevant regulatory bodies, whose role it is to ensure that the provider and fund managers discharge their financial liabilities in a responsible manner.
- A custodian will normally be appointed to each of the investment funds offered by the provider. The custodian's primary function is the safekeeping of assets. In practice this means keeping investors' funds legally separate from the provider's / fund manager's own monies, so they may not be used for meeting creditors' demands not relating to the investment funds.

Thus, the only circumstances in which a default could occur would appear to be in the event of dishonesty, fraud or negligence. If a valid claim arose, in the first instance, we would expect the manager and/or provider to make good any shortfall. The Financial Services Compensation Scheme may be able to pay compensation if a firm is unable to pay claims against it. Our understanding is that this would cover 100% of the claim in the event of the provider defaulting, but would not apply in relation to externally managed investment funds.

### 7. Trustee knowledge and understanding

The Plan's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. We have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material. During the period covered by this Statement, the Trustee received training on a number of topics including:

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- CMA requirements and implementation statements (November 2020) – delivered by the Plan's then fiduciary manager, SEI;
- TPR's new single code of practice (September 2021) – delivered by LCP.

Additionally, we receive quarterly updates on topical pension issues from our investment advisers.

We are familiar with and have access to copies of the Plan's governing documentation and documentation setting out our policies, including the Trust Deed and Rules and SIP (which sets out the policies on investment matters). In particular, we refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Plan, and the SIP is formally reviewed annually and as part of making any change to the Plan's investments. Further, we believe that we have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil our duties.

We are required to commit to completing the training, either at the relevant meetings or by personal study. Four out of five of the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law). Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration during the Plan year.

A trustee training log is maintained in line with best practice and a training programme is reviewed annually, to ensure it is up to date. Additionally, the Plan has a structured induction process for new Trustee Directors including relevant training from the Chair of Trustee and support from advisers. The Plan has a strong and effective leadership, with a wealth of experience to oversee the governance of the Plan, as follows:

- Quentin Woodley, Chair of Trustee: professional independent trustee 8+ years as a trustee and 35+ years in financial services (he is an accountant and former director and senior partner at McKinsey and Company. During the Statement period he passed the PMI exam to achieve its Professional Trustee Award);
- Julian Baldwin: 9+ years as a Trustee and 35+ years' finance experience (he was the Plan's sponsoring employer's Managing Director until his retirement in 2013);
- Terry Fell: 22+ years as a Trustee (with pensions experience in his former union role);
- John Cash: 23+ years as a Trustee (with pension experience in his former HR manager role at the Plan's sponsoring employer); and
- Toni Hulbert: 11+ years as a Trustee.

Regular evaluations of the Trustee's knowledge to help to identify training needs are undertaken. The Trustee carries out an evaluation of the performance and effectiveness of the Trustee Board as a whole, measured against the objectives for the Plan, normally every three years. Trustee Board effectiveness reviews are carried out by the Trustee's pension advisors using interactive questionnaires. The output helps inform future training needs and business plans.

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the Plan's appointed professional advisors (eg investment consultants, legal and pension advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Plan properly and effectively.

Q. L. Woodley

____________________________ Date: 28 March 2022

**Signed by Quentin Woodley, representative for Woodley Pension Trustees Ltd**

**Chairman of the Cooper-Avon Tyres Limited Pension Plan**