Statement regarding DC governance

I am pleased to present this statement to the members of the Standard Motor Products Europe Limited Retirement and Death Benefits Scheme (the Scheme) for the year to 30 September 2018. This statement will be updated annually and will appear in the Scheme’s accounts and published online.

Management of the Scheme

As Trustee of the Scheme, we have reviewed and assessed our systems, processes and controls against key governance functions for consistency with those set out in the Pensions Regulator’s Code of Practice 13 (Governance and administration of occupational defined contribution trust-based schemes) and regulatory guidance for defined contribution schemes. This includes further legislative updates made in 2018 in respect of additional disclosure requirements.

Based on our assessment we believe that we maintain the standards of practice set out in the DC code and DC regulatory guidance. These standards help to demonstrate the presence of DC quality features which we believe will help to deliver beneficial outcomes for members at retirement.

In particular, the Trustee governs the Scheme using regular meetings, maintaining recommended governance documentation, such as a business plan and risk register, with at least annual reviews of these policies, making all required reports to the Pensions Regulator and by seeking training opportunities to ensure sufficient knowledge and understanding to fulfill the role. Whenever making decisions in relation to the Scheme, the Trustee considers the powers and provisions set out in the Scheme’s rules and seeks advice wherever appropriate.

The Trustee is required to have appropriate levels of trustee knowledge and understanding. This is achieved in a number of ways including by the appointment of an independent professional trustee and from experience gained from managing other occupational pension schemes.

Training throughout the year included attendance at internal and external seminars, conferences, training sessions and webinars hosted by various pension service providers and industry bodies on general current pensions issues and topics specific to the activity within the Scheme, and reading material. During the year topics included GDPR, trustee role in setting investment strategy and learning about different DB investment strategy options including LDI and fiduciary management, reviewing scheme factors and CETV basis, 21st century trusteeship, IDRP process and the change in role of TPAS and the Pensions Ombudsman. In addition, the various pension professional bodies, like the Pensions Management Institute and Institute of Actuaries, have their own CPD requirements that relevant staff adhere to. The representatives of the Trustee record their Continuous Professional Development and submit this to their governing body annually. These CPD requirements were achieved during the year to 30 September 2018.

The Trustee ensures that all members of the Trustee team have knowledge of the Scheme’s governing documents. The Trustee is supported by the Scheme’s advisers and staff at the Company who have been involved in the Scheme for a number of years.

Processing financial transactions

At each of the regular meetings we review the income received by and payments made from the Scheme as well as other actions such as information requests from members, and switches between investments, to ensure all requests and transactions are processed promptly and accurately. The Trustee has a contract with a third-party administrator who accepts responsibility for making payments accurately and promptly, within specified timescales, and notifying the Trustee if there are any issues. Disinvestments from the investment managers are processed electronically so they are actioned as quickly as possible once all information is received.

All contributions to the Scheme were received and invested in line with the agreed timeframes.
Statement regarding DC governance (continued)

Processing financial transactions (continued)

During the Scheme year, the Trustee wrote to the administrator regarding a number of issues with the quality of service which had arisen over the previous 12 months. The Trustee and the administrator entered into a dialogue and the issues were investigated internally by the administrator and steps were taken to ensure processes were improved and sufficient support was provided to the client team at the administrator.

Scheme Investments

The Trustee regularly monitors the Scheme investments. One of the documents we maintain is a "Statement of Investment Principles" (SIP) which sets out the principles by which the Trustees invest member and Scheme assets. The current copy of the SIP is appended to these accounts.

The SIP was last reviewed in March 2016 to update it to meet current reporting standards (i.e. to include more details about the funds available to members, including charges, as well as describing the default fund/strategy and how we believe it serves the members' best interests). Advice was received on the DC investments in 2017 and, following a change to the DC strategy, members' funds were switched in the last scheme year. Since then the Trustee has reviewed the responses from members to the communications in 2017 and in April 2018 discussed and confirmed the lifestyling options including the default lifestyling approach. The SIP is currently being updated to reflect the outcome of the DC investment review, the introduction of a new lifestyling option fund option which targets 100% cash at the point of retirement, and also the DB investment review that was carried out during 2018.

All of the funds available to DC members throughout the year to 30 September 2018 are provided below.

Default arrangement

The last review of the default investment strategy was carried out in 2017 with the default lifestyling strategy being agreed in April 2018. The default investment option is to invest contributions in the Legal & General Global Equity 50:50 Index Fund and to automatically enrol members into the Scheme’s Lifestyling approach which starts 10 years before a member’s target retirement date. The default Lifestyling approach gradually moves assets so that at retirement members will have 25% of their fund invested in Legal & General’s Cash Fund and the other 75% invested in Legal & General’s Pre-Retirement Fund - which aims to protect members against adverse movements in annuity prices.

Defined benefit assets

During 2018 the Trustee reviewed the defined benefit (DB) section investments, and will shortly complete a revised SIP for the outcome of both the DC and DB investment reviews. Details of the fees incurred in both the investments and general running of the Scheme are set out below.

Fees and costs incurred in running the Scheme

For information, the costs associated with the DC Section of the Scheme during the year to 30 September 2018 were:

Costs paid by members (by way of charges in the units):

Legal & General fees are set out below. Funds detailed in italics were/are the default arrangements (see section above). The fees are “annual management charges” and in practice are taken through an adjustment to the fund’s unit prices.
**Statement regarding DC governance (continued)**

**Fees and costs incurred in running the Scheme (continued)**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fees</th>
<th>Aim of fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal &amp; General Global Equity 50:50 Index</strong></td>
<td>0.165% pa of fund</td>
<td>This is an equity based fund which invests 50% in UK equities and 50% in overseas equities. The fund tracks the FTSE All Share and the FTSE World Index. The aim of the fund is to grow over the medium/long term.</td>
</tr>
<tr>
<td><strong>Legal &amp; General UK Equity</strong></td>
<td>0.10% pa of fund</td>
<td>This is an equity based fund, and it invests 100% in UK equities. The fund tracks the FTSE All Share Index. The aim of the fund is to grow over the medium/long term.</td>
</tr>
<tr>
<td><strong>Legal &amp; General Multi-Asset (formerly Consensus)</strong></td>
<td>0.35% pa of fund</td>
<td>This fund invests in many different asset classes not just equities. As such, it is expected to produce lower long term rates of return than the above equity funds, but to be less volatile in the short term. This fund has been chosen for members who might be considering drawdown after they retire as the fund has opportunity for growth but with a lower expected risk than the equity funds.</td>
</tr>
<tr>
<td><strong>Legal &amp; General Pre-Retirement</strong></td>
<td>0.20% pa of fund</td>
<td>This fund invests in Government bonds, corporate bonds and cash assets. The fund is a good investment for members approaching retirement who are anticipating purchasing an annuity because it aims to track the price of a typical non-inflation linked annuity product.</td>
</tr>
<tr>
<td><strong>Legal &amp; General Cash</strong></td>
<td>0.125% pa of fund</td>
<td>This is a cash-based fund.</td>
</tr>
</tbody>
</table>

In addition, there may be transaction costs which are only incurred when members invest in or disinvest from funds (including when switching between funds). These fees, which apply to all of the Legal & General funds listed above, range from 0% to 1% of the fund value depending on the fund and market conditions at the time of investing and/or disinvesting.

During the year to 30 September 2018 the transaction costs incurred on the Legal & General funds were as follows:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Transaction fees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal &amp; General Global Equity 50:50 Index</strong></td>
<td>0.01% of fund</td>
</tr>
<tr>
<td><strong>Legal &amp; General UK Equity</strong></td>
<td>0.01% of fund</td>
</tr>
<tr>
<td><strong>Legal &amp; General Multi-Asset (formerly Consensus)</strong></td>
<td>0.01% of fund</td>
</tr>
<tr>
<td><strong>Legal &amp; General Pre-Retirement</strong></td>
<td>0.00% of fund</td>
</tr>
<tr>
<td><strong>Legal &amp; General Cash</strong></td>
<td>0.00% of fund</td>
</tr>
</tbody>
</table>
Statement regarding DC governance (continued)

Fees and costs incurred in running the Scheme (continued)

Other costs

All other costs associated with the Scheme (including the administration costs, actuarial and legal costs, the fees of the professional trustee and regulatory levies) are either paid by the employer, or paid from Scheme funds not allocated to members, including a standing charge of £1,500 a year payable to Legal & General in addition to the investment fees detailed above.

Costs and charges borne by members

The following illustration projects the cumulative value of a pension contribution of £75 paid each month into a pension fund for the entire period under consideration. A starting fund value of £15,000 is also assumed.

These contributions are assumed to increase each year with a notional salary increase of 2.5% per annum.

Annual Management Charges (AMCs) are paid out to the investment fund manager for services involved with the management of the fund and the costs associated with running the fund. The level of these charges affects the final fund value.

Two different annual management charges have been used to provide a broad spectrum of projections demonstrating how a higher annual management charge may result in a lower final fund value at the end of the period.

A gross investment return of 5% per annum has been assumed over all illustration periods and the annual management charges applicable for each example are deducted from this.

The illustrations have been reduced to reflect the effects of anticipated inflation over the period of projection, assumed to be 2.5% per annum.

The value of the fund based on each different Annual Management Charge is shown at three separate periods 10 years, 20 years and 30 years.

It should be noted that these are only illustrations and actual fund values will depend on actual investment returns achieved on investments, the time under investment and the amounts invested.

Illustration of the effect of Annual Management Charges (AMC) on projected fund values
Statement regarding DC governance (continued)

Costs and charges borne by members (continued)

Illustration of the effect of Annual Management Charges (AMC) on projected fund values (continued)

<table>
<thead>
<tr>
<th></th>
<th>No Charges</th>
<th>0.1% Charge per annum</th>
<th>0.35% Charge per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value at 10 years</td>
<td>29,431</td>
<td>29,193</td>
<td>28,605</td>
</tr>
<tr>
<td>Value at 20 years</td>
<td>47,904</td>
<td>47,184</td>
<td>45,435</td>
</tr>
<tr>
<td>Value at 30 years</td>
<td>71,550</td>
<td>69,990</td>
<td>66,255</td>
</tr>
</tbody>
</table>

Alternative illustration 1 -

In line with the main illustration, but assuming a lower investment return of 3% p.a.

![Graph showing estimated fund values with AMC charges]
Statement regarding DC governance (continued)

Costs and charges borne by members (continued)

Illustration of the effect of Annual Management Charges (AMC) on projected fund values (continued)

Alternative illustration 2 (deferred member) –

In line with the main illustration, but, assumes that no future contributions will be paid into the Scheme. This illustration is more applicable for deferred members who have ceased paying contributions to the Scheme:

![Chart Area](image)

<table>
<thead>
<tr>
<th></th>
<th>No Charges</th>
<th>0.1% Charge per annum</th>
<th>0.35% Charge per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value at 10 years</td>
<td>19,201</td>
<td>19,015</td>
<td>18,556</td>
</tr>
<tr>
<td>Value at 20 years</td>
<td>24,579</td>
<td>24,104</td>
<td>22,954</td>
</tr>
<tr>
<td>Value at 30 years</td>
<td>31,464</td>
<td>30,556</td>
<td>26,395</td>
</tr>
</tbody>
</table>
Statement regarding DC governance (continued)

Illustration of the effect of Annual Management Charges (AMC) on projected fund values (continued)

<table>
<thead>
<tr>
<th></th>
<th>No Charges</th>
<th>0.1% Charge per annum</th>
<th>0.35% Charge per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value at 10 years</td>
<td>15,767</td>
<td>15,611</td>
<td>15,227</td>
</tr>
<tr>
<td>Value at 20 years</td>
<td>16,573</td>
<td>16,247</td>
<td>15,456</td>
</tr>
<tr>
<td>Value at 30 years</td>
<td>17,421</td>
<td>16,908</td>
<td>15,690</td>
</tr>
</tbody>
</table>

Value for money

The Trustee’s review in 2017 of the investment options for members in the defined contribution section included considering the level of fees paid by members against the services provided for those fees to ensure they provide good value. The Trustee determined that the above default arrangement was most appropriate for the majority of members.

Although the members do not directly cover the other costs associated with the Scheme, as these are met by the employer, the Trustee carefully considers the other costs incurred and monitors these and service levels to ensure the employer receives good value too.
Statement regarding DC governance (continued)

Communicating with members

The Trustee, with its advisers and the Company, carefully considers all member communications and reviews common communications periodically (such as retirement quotation packs and benefit statements). The Trustee works closely with the Company and the Scheme advisers to try to ensure member interests are understood and represented in all decision making.

Signed: [Signature]

Fairfield Pension Trustees Limited

Date: 30/4/19

Signed in the name and on behalf of Fairfield Pension Trustees Limited by JENNIFER CROXALL, attorney, appointed for the purpose by the board of directors of Fairfield Pension Trustees Limited under a power of attorney dated 7 DECEMBER 2018.
Standard Motor Products Europe Limited Retirement and Death Benefit Scheme

STATEMENT OF INVESTMENT PRINCIPLES

SEPTEMBER 2019
1 Introduction

1.1 Purpose of Statement

This Statement sets out the principles governing the investment of the assets of the Standard Motor Products Europe Limited Retirement and Death Benefit Scheme ("the Scheme"). This Statement is issued by the Trustees to comply with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

This Statement includes the ‘default arrangement’ as defined by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This Statement was prepared in September 2019 and replaces all previous such statements.

1.2 Advice & Consultation

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. The Investment Consultant also periodically monitors and reports on the performance of the pooled funds selected.

Broadstone Corporate Benefits Limited has been appointed as Investment Consultant to the Trustees on the basis that the Trustees believe them to be suitably qualified and have the appropriate knowledge and experience of the management of the investments of such Schemes.

Broadstone Corporate Benefits Limited is authorised and regulated by the Financial Conduct Authority.

The Trustees have consulted Standard Motor Products Europe Limited ("the Principal Employer"), and the Scheme Actuary on the content of this Statement.

The day to day management of the Scheme's assets has been delegated to investment / fiduciary managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment/fiduciary managers appointed and is available to the members of the Scheme on request.

1.3 Investment Powers

The investment powers of the Trustees are set out in the Trust Deed and Rules. This Statement is consistent with those powers. Neither the Statement nor the Trust Deed and Rules restrict the Trustees' investment powers by requiring the consent of the participating employers in the setting of investment strategy.

1.4 Choosing investments

The Trustees’ policy for securing compliance with Section 36 of the Pensions Act 1995 is set out in this section.

The Scheme has two sections, a Defined Benefit (‘DB’) section and a Defined Contribution (‘DC’) section. The Trustees have appointed a fiduciary manager, Charles Stanley Asset Management (‘Charles Stanley’), to manage the assets of the DB section. The assets of the DC section are held in pooled funds managed by Legal & General Investment Management Limited (‘LGIM’).
The Trustees rely on the respective fund managers for the day-to-day management of the majority of the Scheme’s assets and have delegated discretion in relation to most day-to-day decisions. The managers have been provided with a copy of this Statement and have been instructed to take into account its contents so far as is practicable, however to the extent that the assets are invested in pooled funds, it is up to the Trustees to monitor whether those pooled funds remain appropriate for the Scheme.

The Trustees’ policy is to invest assets in the best interests of the members and their beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Any powers or discretion exercised by the Trustees or the managers will be exercised with a view to the security, quality, liquidity and profitability of the portfolio as a whole.

The assets will consist predominantly of investments that are traded on regulated markets, as defined in Regulation 4(11) of the 2005 Investment Regulations. Any other assets will be kept at a prudent level.

The Trustees shall only invest in derivatives in so far as they contribute to a reduction of risks or facilitate efficient portfolio management, and even then will be such as to minimise exposure to excessive risk to a single counterparty or other derivative operations.

The Trustees’ policy is to review the investments over which they retain control (principally bank account investments) and to consider reports of the fund managers at least annually.

When deciding whether or not to make any new investments the Trustees will obtain written advice from an appropriately authorised Investment Consultant and consider whether future decisions about those investments should be delegated to the fiduciary / fund manager. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this Statement.

The provider of the advice pertaining to investments will have the knowledge and experience required under Section 36(6) of the Pensions Act 1995, and in particular will be authorised to give such advice under the Financial Services and Markets Act 2000.

The Trustees’ policy in relation to Regulation 4(4) (appropriateness in relation to Technical Provisions) and Regulation 4(7) (Diversification) of the 2005 Investment Regulations is covered below.

2 Investment – Defined Benefit Section

2.1 Objectives

The Trustees’ objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees’ primary objectives are:

- “funding objective” – to ensure that the Scheme is fully funded using assumptions that contain an appropriate margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Principal Employer;
- “stability objective” – to monitor the absolute level and stability of contributions required when setting the investment strategy of the Scheme; and
- “security objective” – to endeavour to improve the funding position of the Scheme and in turn the asset coverage of members’ benefits.
The Trustees appreciate that these objectives are not necessarily mutually exclusive.

The Trustees also recognise that it is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

The Trustees have adopted a secondary funding objective of being 100% funded on a self-sufficiency basis (see Section 2.3 for details).

The Trustees’ policy in relation to Regulation 4(4) (appropriateness in relation to Technical Provisions) and Regulation 4(7) (Diversification) of the 2005 Investment Regulations is covered below.

2.2 Technical Provisions

To the extent that the Scheme’s assets are held to cover its Technical Provisions (as defined in the 2005 Pensions Act), these assets will be held in a manner appropriate to the nature and duration of the future liabilities of the Scheme. The Scheme Actuary has advised the Trustees on this matter and, having considered this advice, the Trustees have determined the Investment Policy set out in this section.

The Trustees have taken into account the funding position and the views and strength of the Principal Employer, in determining the investment strategy below.

2.3 Balance between different types of investment

The Trustees have adopted a long-term Flight-Plan designed to move the Scheme towards its objective of being 100% funded on a self-sufficiency basis as a secondary funding objective.

The present value of the self-sufficiency liabilities is defined for the purpose of the Flight-Plan as the cash flows projected by the Scheme Actuary discounted by 0.25% above the yield on 15-year gilts.

Charles Stanley has been appointed fiduciary manager to the Scheme with discretionary responsibility for managing the Scheme’s investments according to the Flight-Plan.

The anticipated exposure to Growth and Matching assets at different Stages of the Flight-Plan is as per the table below and is subject to ongoing review by the Trustees and Charles Stanley.

### Flight-Plan

<table>
<thead>
<tr>
<th>Stage</th>
<th>Funding Zone</th>
<th>Matching Assets</th>
<th>Diversified Growth Assets</th>
<th>Expected Return Over Gilt</th>
<th>Approximate Liability Hedge</th>
<th>Approximate Investment Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>&lt;90%</td>
<td>20%</td>
<td>80%</td>
<td>Medium</td>
<td>2.4%</td>
<td>100%</td>
</tr>
<tr>
<td>2</td>
<td>90%-100%</td>
<td>20%</td>
<td>80%</td>
<td>Lower</td>
<td>1.6%</td>
<td>100%</td>
</tr>
<tr>
<td>3</td>
<td>100%-105%</td>
<td>60%</td>
<td>40%</td>
<td>Lower</td>
<td>0.8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The Trustees have given the fiduciary manager discretion to manage the overall portfolio within Charles Stanley’s Medium-Low Risk Budget.

*Risk Budget – Medium-Low*  
5%-11% volatility
Growth assets are defined as a diversified basket of equities, property, alternatives and global bonds (other than bonds used for ‘matching assets’). Asset allocation is determined by the discretion of the fiduciary manager. Underlying funds are determined by the discretion of the fiduciary manager. Expected risk (annualised standard deviation) of the investments is 10% in Stage 1 of the Flight-Plan.

The Trustees have given the fiduciary manager discretion to manage the Scheme’s matching assets according to the Flight-Plan. Matching assets are defined as bonds or Liability-Driven Investment funds. The Scheme is targeting a liability hedge equivalent to 100% of assets at all three stages of the Flight-Plan.

The Trustees have given the fiduciary manager discretion to manage the Scheme’s overall balance between Growth or Matching assets according to the Flight-Plan schedule, subject to ongoing monitoring and review by the Trustees.

2.4 Investment management Fees

Charles Stanley levy an annual management charge based on the funds under management. The charges are as follows:

First £2 million of funds under management: 0.75% p.a.
Excess over £2 million: 0.25% p.a.

The above is subject to a minimum charge of £7,500 p.a..

2.5 Investment Risk Measurement and Management

The Trustees acknowledge that there are risks associated with any investment policy. The Trustees’ policy is to review and manage these risks with the Scheme Actuary, the fiduciary manager and other advisers in relation to:

- the Scheme’s funding position;
- the nature and duration of the Scheme’s liabilities;
- the strength of the Principal Employer;
- the performance of the appointed fiduciary and fund managers, and
- the nature of the investments held.

The Trustees’ policy is to ensure that any risks relating to the members’ benefits that stem directly from their investment policy are managed by investing in assets that are consistent with the principles of this Statement.

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from strategic asset allocation. The Trustees have therefore developed a de-risking mechanism with their fiduciary manager in respect of their strategic asset allocation, having taken advice as required from their professional advisors.

The strategic asset allocation is usually assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

The Trustees are also aware of the risks presented by any change to the covenant of the Principal Employer and the Trustees will be informed of Employer-related Notifiable Events. On receipt of such notification, the Trustees will consult with Broadstone Corporate Benefits Limited, and any other advisors as appropriate, to ascertain whether the Scheme’s existing investment strategy remains appropriate.

The Trustees monitor the performance of the investments on a regular basis.
3 Investment - Defined contribution section

3.1 Objectives

The Trustees’ primary objective is to offer a range of funds with different risk characteristics sufficient to satisfy the requirements of the majority of members without introducing complexity of investment. A further objective is to ensure that the funds are provided by a reputable investment manager and that those funds provide good value for money for the members, with charges kept to a minimum.

The objectives of each investment option are set out below.

Having taken advice, the Trustees’ policy is to invest in predominantly passive pooled funds, whose objectives are to track the returns on published indices. These funds are considered to be most suitable for meeting the Trustees’ objectives as set out on this Statement.

3.2 Types of investment

The Trustees will invest in a range of separate funds, consisting of equities, bonds, cash, and other multi-asset pooled funds available which are traded in the UK and overseas. The members of the Defined Contribution (DC) element of the Scheme will be given a choice as to which of these funds to invest in.

After taking advice, the Trustees have appointed fund managers, Legal & General Investment Management Limited, who are regulated by the Financial Conduct Authority. The Trustees are responsible for ensuring that the allocation of the portfolio between the different types of investment takes account of the Trustees’ policy as set out in this Statement, and the members’ choices, by regularly monitoring the funds that the Scheme invests in. The fund manager is given absolute discretion over the selection of individual stocks within each type of investment, which are all pooled fund investments. The Trustees consider that pooled investments are most appropriate for a scheme of this size in order to achieve consistency with the principles set out in this Statement.

Within the categories of investment permitted by the Trustees, the fund managers can purchase any new investments, as long as they do not breach the provisions of the fund management agreement.

3.3 Lifestyle

The Scheme has adopted a lifestyle strategy as default which is primarily for members who wish to take 25% of their fund value as a tax free lump sum and purchase an annuity at retirement with the remainder. The default lifestyle matrix is as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Period to Target Retirement Date (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt;11</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>100</td>
</tr>
<tr>
<td>Fixed Interest (%)</td>
<td>0</td>
</tr>
<tr>
<td>Cash (%)</td>
<td>0</td>
</tr>
</tbody>
</table>
Members can choose from three growth funds to invest in (50/50 equity, UK equity or the LGIM multi-asset fund). The fixed interest fund is the LGIM ‘Pre-retirement’ fund. The Cash fund is the LGIM Cash. Details of each fund are shown below.

In addition, there is a second lifestyle strategy available under which members can target a cash sum at retirement. The lifestyle matrix for this option is as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Period to Target Retirement Date (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt;5</td>
</tr>
<tr>
<td>Growth</td>
<td>100</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
</tr>
</tbody>
</table>

Again, members can choose which growth fund to invest in (50/50 equity, UK equity or the LGIM multi-asset fund). The Cash fund is the LGIM Cash fund. Details of each fund are shown below.

3.4 Balance between different types of investment

The DC Section of the Scheme invests with LGIM.

The table below shows a summary of the funds available for members of the DC Section to invest in:

<table>
<thead>
<tr>
<th>Investment Manager / Fund</th>
<th>Objective</th>
<th>Annual Management Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGIM Global Equity Fixed Weights (50:50) Index Fund</td>
<td>The fund tracks the FTSE All Share and the FTSE World Index. The aim of the fund is to grow over the medium/long term.</td>
<td>0.165% p.a.</td>
</tr>
<tr>
<td>LGIM UK Equity Index Fund</td>
<td>The fund invests 100% in UK equities and tracks the FTSE All Share Index. The aim of the fund is to grow over the medium/long term.</td>
<td>0.10% p.a.</td>
</tr>
<tr>
<td>Legal &amp; General Multi-Asset (formerly Consensus)</td>
<td>This fund invests in many different asset classes not just equities. As such, it is expected to produce lower long term rates of return than the above equity funds, but to be less volatile in the short term. This fund has been chosen for members who might be considering drawdown after they retire as the fund has opportunity for growth but with a lower expected risk than the equity funds.</td>
<td>0.35% p.a.</td>
</tr>
<tr>
<td>LGIM Pre-retirement fund (fixed interest)</td>
<td>This fund invests in Government bonds, corporate bonds and cash assets. The fund is a good investment for members approaching retirement who are anticipating purchasing an annuity because it aims to track the price of a typical non-inflation linked annuity product.</td>
<td>0.20% p.a.</td>
</tr>
<tr>
<td>LGIM Cash Fund</td>
<td>To provide a stable return based on investments in cash instruments</td>
<td>0.125% p.a.</td>
</tr>
</tbody>
</table>

The Trustees recognise that most members will benefit from a portfolio that is expected to grow significantly in real terms during their working lifetime. This is referred to as “the growth phase”. The Trustees have chosen to offer the above equity funds and the multi-asset fund for this purpose. These funds are largely equity based and are expected to deliver higher
returns over the long term, whilst the multi-asset fund includes an element of non-equities which helps to moderate the risk and volatility of returns.

The Pre-retirement fund aims to match movements in annuity markets, so if a member is looking to secure an annuity with their assets this fund is appropriate to protect the purchasing power of those assets. The Cash Fund is aimed at members who wish to take all or part of their benefits as cash.

One of the options members have when they retire is to drawdown their defined contribution funds. Drawdown is not an option within the Scheme but members can transfer out to another scheme which does provide a drawdown facility. The Trustees have recognised a different investment approach is more suitable for members who wish to pursue drawdown and members are given the option to do so by investing across the whole range of available asset classes in whatever proportions they decide, by giving instructions to the Trustees.

All members have the option to change their investment strategy once per year, or more frequently at the discretion of the Trustees.

3.5 How default arrangement ‘best interest’ requirements are met

For members’ growth phase, the LGIM equity 50/50 fund has been chosen as the default fund if no other instruction is received from the member.

Often the most suitable use of a member’s fund is to purchase a lifetime annuity from an insurance provider to guarantee a pension for life. Although there are several other options available to members at retirement these come with a greater risk of the member running out of money before they die. The LGIM Pre-Retirement fund has been chosen for use with a lifestyling approach, to gradually move into bond assets, the value of which move in a similar way to annuity prices for members approaching retirement.

The Trustees endeavour to engage members in their retirement planning and will therefore work with members to switch to a retirement position that best suits them individually. Members will be asked to indicate the options they expect to take at retirement and the resulting portfolio at retirement can then be tailored to these options.

Members have the option to change their investment strategy once per year, or more frequently at the discretion of the Trustees.

The default arrangements take into account the ESG and stewardship policy of the Trustees (see sections 5.6 - 5.8) and also allow for the different investment management fee levels that exist for the Scheme’s investments.

4 Scheme assets not allocated to members

Within the LGIM defined contribution section there is a relatively small fund value which is not allocated to members but has arisen due to past members leaving with short service and taking a refund of member contributions, with the amount of employer contributions remaining in the Scheme. The total amount of employer contributions paid for these members makes up this surplus fund and is identified and invested separately.

In practice, it is intended that this fund will be utilised for certain members at retirement, i.e. for any defined contribution member with a defined benefit underpin, where the defined benefit value is greater than the value of the defined contribution fund at retirement. The excess defined benefit value above the defined contribution fund is then taken from this surplus fund to 'top-up' such member's defined contribution benefits.
5 Investment Generally – Both sections

5.1 Custody
Investments are in pooled funds which gives the Trustees a right to the market value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the Scheme’s Principal Employer.

5.2 Expected Return

The investment and fiduciary managers have set their own benchmarks to track the relevant indices or target asset allocations and the Trustees expect each manager to consistently meet the benchmarks and targets. The Trustees monitor performance on a regular basis.

5.3 Diversification

It is the Trustees' policy to invest in a diverse range of assets, and not to rely on any particular asset class or group. The Trustees recognise that there may be a large concentration of assets with any one fund manager or provider, however the underlying assets are suitably diverse to minimise the risks to the portfolio as a whole.

The views of members / beneficiaries are not normally sought when selecting the Scheme’s underlying investments.

5.4 Employer related investments

The Trustees do not directly hold any employer-related investments, as defined by section 40 of the Pensions Act 1995.

5.5 Investment Principles

In October 2008, the Government published the results of its consultation on revisions to the Myners’ principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six high level 'Best Practice' principles set out below, supported by best practice guidance and trustee tools that can be used to assess compliance.

1. Effective decision-making
2. Clear objectives
3. Risk and Liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and Reporting

The Trustees periodically review their compliance with the best practice Principles. The Trustees believe that they comply with the spirit of the Principles.

5.6 Engagement activities

Given the size of the Scheme’s assets it would be dis-proportionate for the Trustees to vote or engage individually in the companies in which they invest through their fund / fiduciary managers. They also recognise that by investing in pooled funds they are unable to influence the underlying assets in which their investment and fiduciary managers invest.
The Trustees therefore understand that investment rights will be exercised by the investment and fiduciary managers in line with the managers’ general policies on corporate governance. This policy applies for both sections of the Scheme, including the default strategy adopted in the DC section.

5.7 Responsible Investment

The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. Environmental concerns include climate change, energy efficiency, waste and pollution and scarcity of water and other resources. Social concerns include human rights, health & safety at work, welfare and other working conditions, and responsibility for the wider community in which a business operates. Corporate Governance concerns include audit quality, board structure, remuneration policy, shareholder and other stakeholder rights.

The Trustees expect their investment and fiduciary managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees assess the ESG integration capability of their investment and fiduciary managers.

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expects their investment and fiduciary managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in investment efficiency.

The Trustees believe that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, they must act as a responsible asset owner. The Trustees expect their investment and fiduciary managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame.

5.8 Non-financial matters

On the grounds of proportionality, members’ views are not sought on non-financial matters (including ethical views, views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme) in relation to the selection, retention and realisation of investments.

5.9 Review of this Statement

The Trustees will review this Statement at least once every three years or as soon as practical following any formal change in investment strategy. The Trustees will consult with the Principal Employer and take written advice when revising the Statement.

On reviewing this Statement, the Trustees employ Broadstone Corporate Benefits Limited to help review the investment strategy. As the Scheme’s fiduciary manager, Charles Stanley also provide input on the Scheme’s investments and strategy.

The investment and fiduciary managers will inform the Trustees immediately of any breach of this Statement, or of any breach of internal operating procedures, or any material change in the knowledge and experience of those involved in managing the Scheme’s investments.

Signed in agreement by the Trustees:

S. D. Marshall
Authorised signatory of Fairfield Pension Trustees
Date: 30/09/2019

(Trustee)