Standard Motor Products Europe Limited Retirement and Death Benefit Scheme

STATEMENT OF INVESTMENT PRINCIPLES

SEPTEMBER 2020

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, The Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

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

This Statement was prepared in September 2020 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 Investment Managers are paid a management fee on the basis of assets under management. The appropriateness of the Investment Managers’ remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives both financial and non-financial. The Investment Managers will supply the Trustees with sufficient information when requested in order to enable them to monitor financial and non-financial performance.

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 Trustees entered into a contract with Charles Stanley in April 2019.

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

Stage 1 Portfolio

Flight-Plan – Detailed Schedule

Stage	Funding Zone	Matching Assets	Diversified Growth Assets	Diversified Growth Risk Level	Expected Return Over Gilts	Approximate Liability Hedge	Approximate Investment Risk
1	<90%	20%	80%	Medium	2.4%	100%	10%
2	90%-100%	20%	80%	Lower	1.6%	100%	8%
3	100%-105%	60%	40%	Lower	0.8%	100%	5%

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 entered into a contract with Legal & General Investment Management with the first contributions being paid in March 2009. 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:

Asset Class	Period to Target Retirement Date (Years)										
	>11	10	9	8	7	6	5	4	3	2	1
Growth (%)	100	90	80	70	60	50	40	30	20	10	0
Fixed Interest (%)	0	10	20	30	40	50	60	70	71.25	73.25	75
Cash (%)	0	0	0	0	0	0	0	0	8.25	16.75	25

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:

Asset Class	Period to Target Retirement Date (Years)				
	>5	4	3	2	1
Equity	100	75	50	25	0
Cash	0	25	50	75	100

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:

Investment Manager / Fund	Objective	Annual Management Fees
LGIM Global Equity Fixed Weights (50:50) Index Fund	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.	0.165% p.a.

LGIM UK Equity Index Fund	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.	0.10% p.a.
Legal & General Multi-Asset (formerly Consensus)	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.	0.35% p.a.
LGIM Pre-retirement fund (fixed interest)	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.	0.20% p.a.
LGIM Cash Fund	To provide a stable return based on investments in cash instruments	0.125% p.a.

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 section 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.

Responsibility for monitoring the make-up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate

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 Conflicts of Interest

The Trustees maintain a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest the Trustees might have in relation to investee companies or the Investment Managers, while also setting out a process for their conflict management.

5.10 Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustees do not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustee's policies and objectives.

Neither do the Trustees directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustees expect such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

5.11 Portfolio Turnover Costs

The Trustees expect the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers when requested by the Trustees shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

5.12 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:

…… [redacted] ………………………………………… Date 30/09/2020 ……………..

(Trustee) Signed in the name and on behalf of Fairfield Pension Trustees Limited by Sarah Marshall attorney, appointed for the purpose by the board of directors of Fairfield Pension Trustees Limited under a power of attorney dated 7 December 2019