Statement of Investment Principles for the Dorman Traffic Products Limited Retirement Benefits Scheme

14 December 2021

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Dorman Traffic Products Limited Retirement Benefits Scheme ("the Trustee") on various matters governing decisions about the investments of the Dorman Traffic Products Limited Retirement Benefits Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated May 2021.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act \1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment manager. It also contains a description of the basis of remuneration of the investment adviser and the investment manager.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.

2. Investment objectives and strategy

The primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due. To achieve this, the Trustee has entered into a bulk annuity contract with Aviva Life & Pensions UK Limited ("Aviva") which matches the pensions payable to all of the Scheme's deferred and pensioner members. The annuity policy is a "full buy-in" and therefore remains an asset of the Scheme.

With the exception of some residual assets held with Legal & General Investment Management Limited ("LGIM") within a cash fund, and a small cash holding in the Trustee's bank account, the annuity policy with Aviva represents the Scheme's only asset.

3. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment (including a buy-in) that could be used to closely match the Scheme's expected benefit payments, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In setting the strategy the Trustee considered:

- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs which influenced the setting of the investment arrangements are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- environmental, social and governance (ESG) factors may be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and

- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

4. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments. Details of the investment manager are set out in Appendix 3.

The Trustee has signed an agreement transferring the liability for paying member benefits to Aviva, an insurance company authorised by the Prudential Regulatory Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA"). Details of the Scheme's annuity provider are set out in Appendix 3.

The Trustee has signed an agreement with the investment manager setting out in detail the terms on which the portfolio is to be managed. The investment manager's primary role is the day-to-day investment management of the Scheme's investments. The manager is authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment manager to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over its annuity provider and investment manager's investment practices because the Scheme's assets are either held in a bulk annuity policy or a pooled fund, but it encourages them to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment manager, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice the manager cannot fully align its strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate its investment manager by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. The manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment manager. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

5. Realisation of investments

The investment manager has discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

The Trustee's annuity provider, Aviva, has liability for paying the benefits of the members of the Scheme. At present, Aviva pays the pension payroll into the Trustee bank account, with the Trustee's administrator processing the payments.

6. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment manager and annuity provider to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over its managers' investment practices where assets are held in pooled funds, but it encourages its manager to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

7. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment manager and annuity provider the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment manager and annuity provider to exercise ownership rights and undertake monitoring and engagement in line with the manager's general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

SIP signed for and on behalf of Dorman Traffic Products Pension Trustees Limited as Trustee of the Dorman Traffic Products Limited Retirement Benefits Scheme:

Signed: ____

Name: ____

Date: ____

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- developing a mutual understanding of investment and risk issues with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment manager and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

2. Investment manager

In broad terms, the investment manager will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in the agreement and/or other relevant governing documentation;

- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Annuity provider

The annuity provider’s responsibility is to pay the pensions secured under the bulk annuity contract accurately and on a timely basis.

4. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme’s benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers’ approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme’s assets.

The Trustee has agreed Terms of Business with the Scheme’s investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a “time-cost” basis.

The investment manager receives fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager’s general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee’s view as to the most appropriate arrangements for the Scheme.

However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

7. Working with the Scheme's employers

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employers' perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employers, the Trustee believes that better outcomes will generally be achieved if the Trustee and employers work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustee on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. At present, the Trustee only holds residual assets held with LGIM.

2.4. Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. This risk has been mitigated by the purchase of the bulk annuity contract with Aviva. Aviva are required to pay the Scheme an amount equal to the payments due to members.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk through its annuity policy with Aviva. The Trustee is confident that Aviva has sufficient financial security to have a very high likelihood of remaining solvent and delivering the promised benefits through the lifetimes of the Scheme's beneficiaries insured under the policy.

2.7. Currency risk

The Scheme is not subject to currency risk as none of the Scheme's investments are held directly in overseas markets.

2.8. Interest rate and inflation risk

The annuity policy with Aviva matches the pensions payable to all the Scheme's deferred and current pensioner members and as such this portion of the Scheme's assets are not directly exposed to interest rate and inflation risk.

2.9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected);
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated); and
- the risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

The Trustee has minimised these risks in respect of all of the Scheme's deferred and pensioner members by purchasing a bulk annuity contract with Aviva.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Investment manager and annuity provider arrangements

Annuity provider – Aviva Life & Pensions UK Limited ("Aviva")

The Trustee has selected Aviva as the provider for the bulk annuity policy.

The bulk annuity policy covers the pensions payable to all the Scheme's deferred and current pensioner members. The objective of the policy is to match the Scheme's benefit payments relating to those pensions covered by the policy.

Investment manager - Legal & General Investment Management ("LGIM")

The Scheme currently holds residual assets with LGIM, and invests in the Sterling Liquidity Fund.

The objective of this fund is to provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average).

The fund is priced weekly. The fund is open ended and is not listed on any stock exchange.

Custodian

For the Scheme's investments, the investment manager is responsible for custody of the assets of their respective funds. The Trustee does not have a direct relationship with any of these custodians.

Additional Voluntary Contributions

Utmost Life is the Scheme's AVC provider.