

**THE HEXCEL
COMPOSITES LIMITED
PENSION SCHEME
(The “Scheme”)**

Chair’s Statement

The annual statement regarding
Defined Contribution
governance

Year ended 5 April 2020

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1. CHAIR'S ANNUAL REPORT

This Statement reports on how the Trustee has complied with the defined contribution ("DC") governance standards that were introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 1996 (the "Regulations"), The Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended) and the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 ("the 2018 Regulations").

It describes how the Trustee has met the statutory governance standards in relation to:

- the default funds/arrangement(s);
- the self-select funds/arrangement(s);
- requirements for processing financial transactions borne by members;
- assessment of charges and transaction costs;
- disclosure of charges and transaction costs for default funds;
- disclosure of charges and transaction costs for funds selected by individual members;
- provision of examples of the cumulative effect of scheme specific charges and transaction costs on the value of a member's benefits;
- the requirement for trustee knowledge and understanding,

between 6 April 2019 and 5 April 2020, the 2019/2020 Scheme year ("the Scheme Year").

This report is available to review under:

https://www.hexcel.com/user_area/uploads/2020HexcelChairsStatementFinalincApp1SIP.pdf



2. DEFAULT FUNDS

2.1 Auto-enrolment

The Scheme is used as a Qualifying Scheme for auto-enrolment.

2.2 Default – Annuity Purchase Life Style strategy

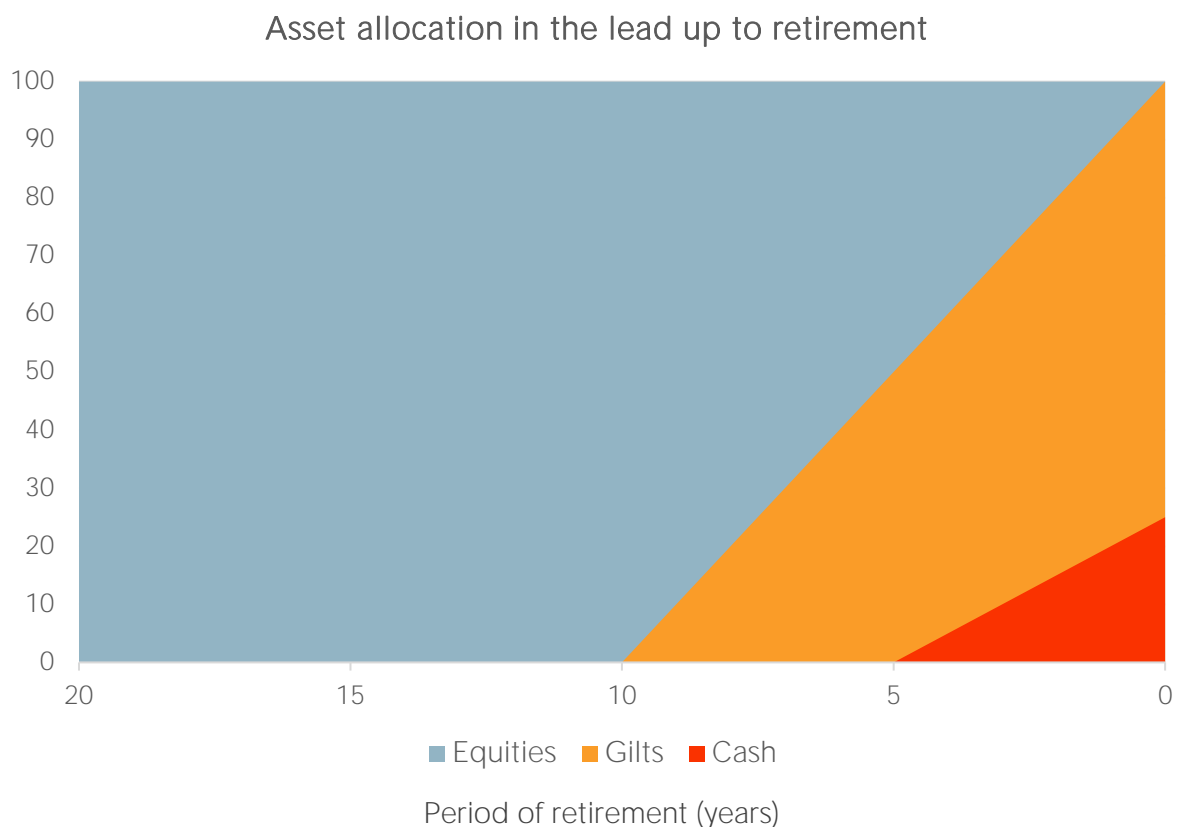
This is the Scheme’s default option – if the member makes no election in terms of where they want their contributions to be invested, they will be invested into this arrangement.

The funds will be invested within the LGIM Global Equity 50:50 Index Fund before gradually switching into Bonds/Gilts (75%) and a Cash fund (25%) at the members target retirement age. The automatic switching period will change 10 years before the members retirement age to reduce the volatility within the fund as the member nears retirement. This option may be suited for members who prefer the “traditional” route of taking a 25% tax-free cash lump sum and securing a guaranteed income by purchasing an annuity.

The table below shows the underlying funds in the Annuity Purchase Life Style strategy:

Fund Name	Type
LGIM Global Equity Fixed weights (50:50) Index Fund	Index-tracking/passively managed
LGIM Over 15 years Gilts Fund Index	Index-tracking/passively managed
LGIM Cash Fund	Passive

The chart below illustrates the change in the asset allocation for the default strategy over the period before a member’s retirement.



2.3 Default Cash Fund

In the event that any of the Trustee chosen asset classes (either default funds or self- select funds) become illiquid, difficult to buy or sell, or price accurately, or dealings with that fund are either temporarily suspended ('gated') by the fund manager, particularly when financial market conditions are stressed or volatile, the Trustee shall, without the individual member explicit consent, automatically divert the members future contribution allocations in respect of that particular fund to the:

LGIM Cash Fund

The strategy for doing this is that the charges on this fund are below the Charge Cap of 0.75%. Holding funds in cash is a safe short-term investment and when stock markets are volatile, and cash can deliver more steady returns.

The performance of the cash fund is reviewed by the Trustee on a quarterly basis.

The members are advised that this is the default fund the Trustee will automatically divert funds to it in the event of an investment fund being suspended, but members are advised immediately to consider switching to an alternative fund of their choice.

In the event that a particular suspension of a fund is lifted, funds will automatically be re-directed to the previously expressly chosen fund, unless in the interim, the member has chosen an alternative to (the default cash fund), the LGIM Cash Fund.

In the event that a fund is suspended for more than a year a new alternative fund will be substituted.

In March 2020 the Trustee were advised by LGIM that:

"in light of extreme market volatility and the current exceptional circumstances in the UK property market, we have taken the difficult decision to suspend all dealings in the Legal and General Assurance (Pensions Management) Limited ("PMC") Managed Property Fund (PF Section C, AABA, AABB, KJ)."

Please note that this does not currently affect any of the other investment funds available to members of the Hexcel Composites Limited Pension Scheme".

The Trustees took the decision, in respect of all members who had elected to have their monthly contributions invested part or wholly in the Managed Property Fund, to divert their future contribution allocation into the LGIM Cash Fund until such a time as the Managed Property Fund is reinstated by Legal & General.

There were 52 Active members whose monthly contributions were invested in the LGIM Cash Fund. The Trustee sought and obtained the advice of the Scheme's advisers, and all members were advised that their funds were going to be diverted. Members were advised that if they did not wish to invest in the LGIM Cash Fund (the default cash fund) they could immediately redirect their future contributions to alternative fund/s.



2.4 Alternative Life Style investment strategy options

The Trustee offers two alternative Life Style investment strategy options to give the members' more choice and which reflect the increased range of pension flexibilities now available.

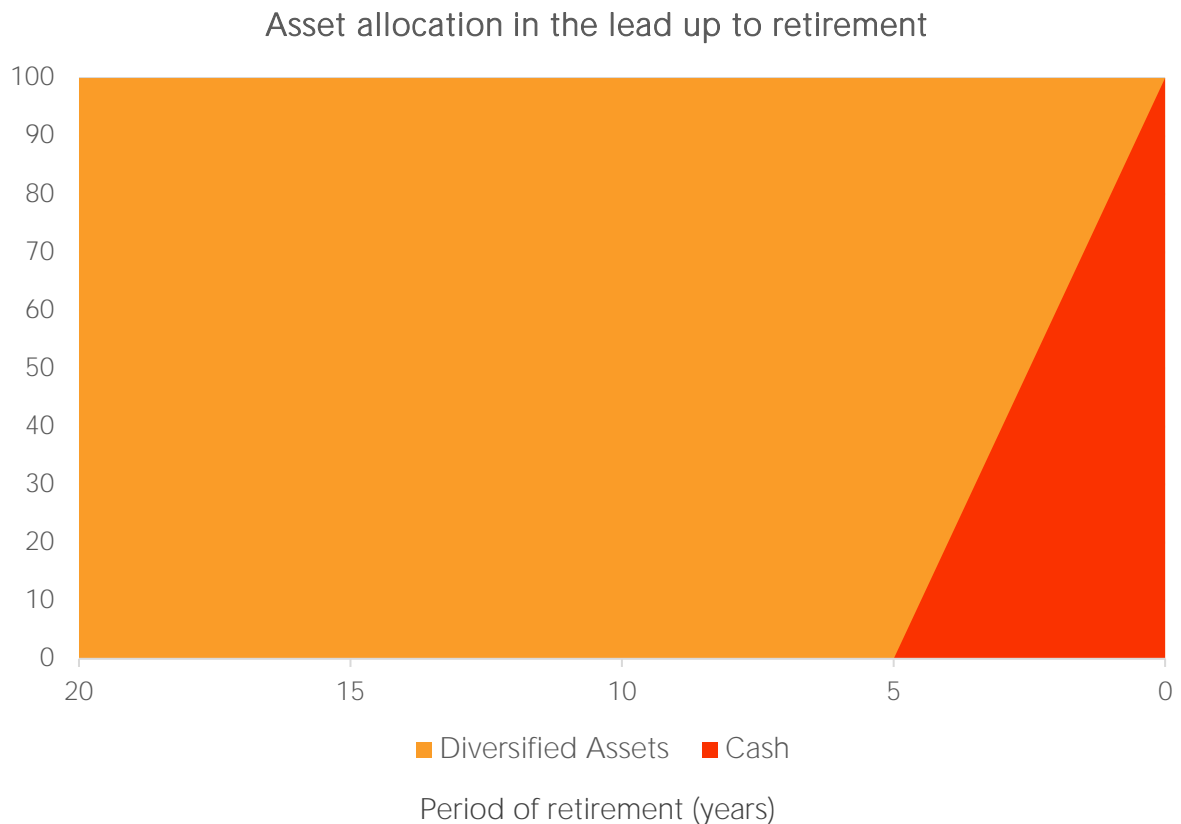
Flexible Option 1 – 100% Cash Lifestyle strategy – 5 years to retirement

This option may be suited to members who plan to take their entire fund as a cash lump sum at retirement. 5 years before retirement the funds will start to switch from the LGIM Diversified Growth Fund into the LGIM Cash fund so that at retirement 100% of the fund will be invested in cash.

The table below shows the underlying funds in the 100% Cash Life Style strategy:

Fund Name	Type
Diversified Growth Fund	Index tracking/passive
LGIM Cash Fund	Passive

The chart below illustrates the change in the asset allocation over the 5 year period before a member's retirement.



Flexible Option 2 – Continued Investment Lifestyle strategy

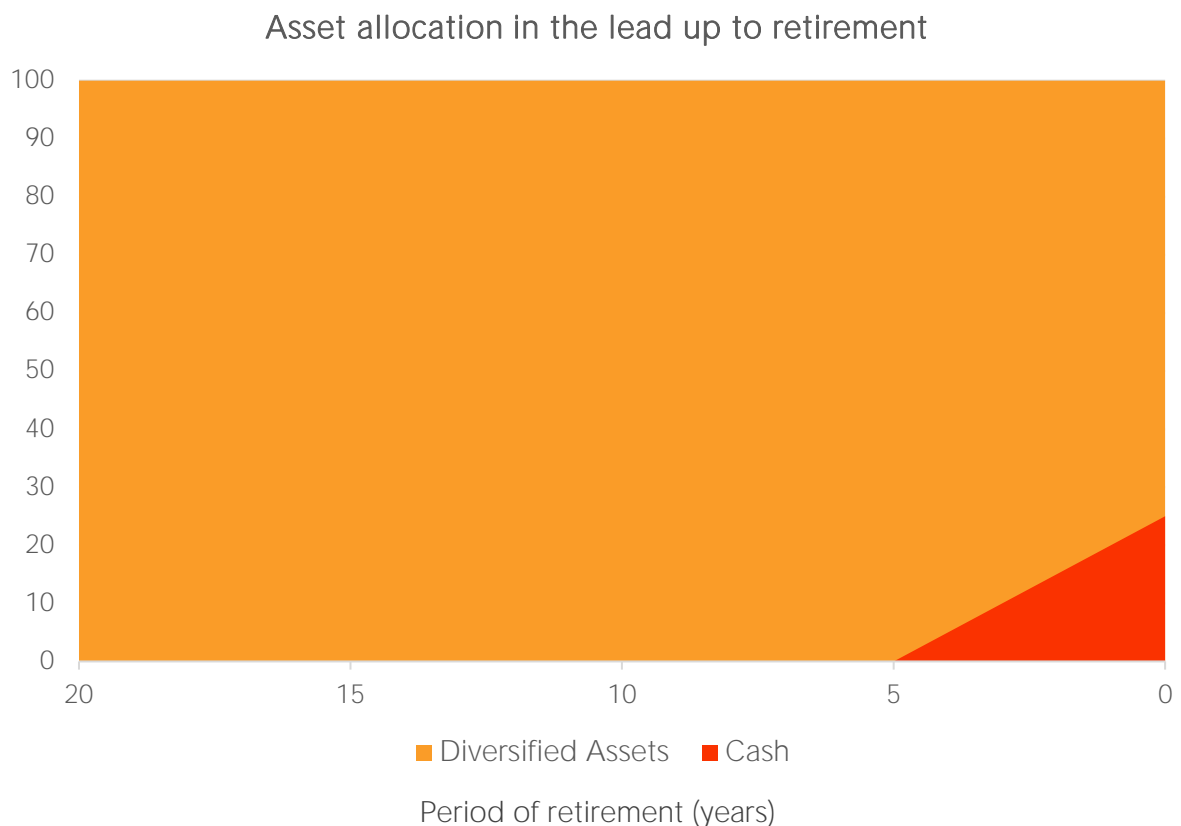
This option is for members that would look to take lump sums out of their fund when they need them, but continue to invest the rest of their pension in equities until their NRD or a later date.

The members fund will start to switch from the LGIM Diversified Fund into the LGIM Cash fund 10 years from retirement age so that at retirement age 25% of the fund will be invested in cash. The remaining 75% will remain invested in the LGIM Diversified Fund.

The table below shows the underlying funds in the Equity Investment Lifestyle strategy:

Fund Name	Type
Diversified Growth Fund	Index tracking/passive
LGIM Cash Fund	Passive

The chart below illustrates the change in the asset allocation over the 10 year period before a member's retirement.



3. STATEMENT OF INVESTMENT PRINCIPLES

The Trustee is responsible for the Scheme's investment governance which includes setting and monitoring the investment strategy for the Scheme's default funds/arrangements.

Details and objectives of the Trustee policies regarding the default funds/arrangements can be found in a document called the 'Statement of Investment Principles' ("SIP").

Appended to this statement is a copy of the Scheme's latest Statement of Investment Principles, which has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Statement of Investment Principles"). The SIP also includes the Trustee policy on Environmental, Social and Corporate Governance (ESG).



4. MEMBER SELECTED FUNDS

The Trustee also offers a range of self-select funds to provide members who wish to decide for themselves how to invest some flexibility to do so. The self-select funds offered are listed below:

L&G – Self-Select Funds (Member choice) (free style)

	Fund	Type
1	L&G Global Equity Fixed Weights (50:50) Index	Index tracking/passive
2	L&G UK Equity Index	Index tracking/passive
3	L&G UK Smaller Companies Index	Index tracking/passive
4	L&G Ethical Global Equity Index	Index tracking/passive
5	L&G North America Index	Index tracking/passive
6	L&G Europe (ex UK) Index	Index tracking/passive
7	L&G Japan Equity Index	Index tracking/passive
8	L&G Asia Pacific (ex. Japan) Equity Index	Index tracking/passive
9	L&G World Emerging Markets Equity Index	Index tracking/passive
10	L&G Over 15 Year Gilts Index	Index tracking/passive
11	L&G Active Corporate Bond - All Stocks	Active
12	L&G Over 5 Year Index-Linked Gilts Fund Index	Index tracking/passive
13	L&G Overseas Bond Index	Index tracking/passive
14	L&G Managed Property	Active
15	L&G Cash Fund	Passive
16	L&G Diversified Growth Fund	Index tracking/passive

The Cash Fund is to be used as the default investment option by the Trustee should there be illiquidity or other issues with the funds listed above.

In the event that a particular suspension of a fund is lifted, funds will automatically be re-directed to the previously expressly chosen fund, unless in the interim, the member has chosen an alternative to (the default cash fund), the LGIM Cash Fund.



5. REVIEW OF INVESTMENT STRATEGY

During the 2019/20 Scheme Year the Trustee has reviewed the performance of the Scheme's investment options on a quarterly basis and reviewed the funds on an ongoing basis.

The reviews revealed that the investment returns are consistent with the aims and objectives of the current investment strategy and took into account the impact of the investment performance on different groups of membership.

The Trustee has also carried out a formal more detailed review of the investment strategy and performance of the default funds/arrangement(s) and the other member self-select funds they offer to ascertain that the design of the investment strategy continues to meet the needs of the members in the light of pension freedoms, the current regulatory landscape and the experience of the Scheme.

A summary of the key observations, conclusions and proposed recommendations of that review were presented to the Trustee by their external investment advisers at the Trustee meeting on 25 November 2019.

The review included but was not limited to the following:

- The current structure of investment options and the funds and strategies;
- Analysis of the membership profile and experience of member investment options;
- Scheme experience and member choices at retirement;
- Planned versus actual member retirement ages;
- Trends and industry experience;
- Continued suitability of the funds and investment strategies on offer.

Subsequent separate meetings took place to discuss the proposals and consider the advice in January 2020 and also at the Trustee meeting on 23 March 2020.

Following the review the Trustee confirmed its agreement in principle to changes to the default fund(s) and other funds, but the final detail is still under consideration due to the impact of Covid19 and upgrades to IT infrastructures.

Information regarding any changes will be formally communicated to the Scheme membership in quarter four of 2020.

The Trustee regularly reviews the performance of the default arrangement/s and will formally review both these and the investment strategy at least every three years. The next review will take place on 5 April 2023.



6. REQUIREMENTS FOR PROCESSING FINANCIAL TRANSACTIONS

The Trustee employs an external specialist company of pension administrators and the principal/participating employers to provide the core financial transactions for the Scheme.

“Core financial transactions” include (but are not limited to):

- investment of employee/employer contributions in the Scheme; (Employer contributions, Salary Sacrifice contributions, AVC Salary Sacrifice contributions, Employee contributions and AVC contributions);
- transfers of assets relating to members into and out of the Scheme;
- transfers of assets relating to members between different investments within the Scheme (switching investments);
- payments from the Scheme to, or in respect of, members (refunds, PCLS, UFPLS, purchase of annuities).

There is a dedicated pension administration team for the Scheme.

The Scheme’s administration team has internal service level standards (“SLAs”) in place, which cover the accuracy, timeliness and volume of all core financial transactions, which are monitored and reported to the Trustee on a quarterly basis.

The service level standards cover, for example, when all contribution data is clean, the investment instructions are authorised and contributions are invested within 5 working days, the switch and allocation of investments on a members record is processed within 4 working days, a member retirement quotation is processed within 10 working days.

All contributions have been paid to the Scheme by 19th of the month following the collection of contributions and details the date the contributions are received and sent to the investment manager is reported to the Trustee.

Two administrators are involved in the processing of all financial transactions; to ensure each fund holding agrees, unit reconciliations between the member units held on the member’s record on the administration system and those held by the investment managers are undertaken on a monthly basis.

Ongoing, to verify and satisfy themselves that the administrative services are of a high standard, that the administrator is operating good procedures and controls within the service levels and that all core financial transactions have been processed promptly and accurately during the Scheme year, a quarterly administration report is provided to the Trustee.

The report details:

- Membership movement and statistics.
- Type of processing activity.
- Service levels and work volumes for each activity type, the number of activities processed and the service level met in relation to each activity.
- The service levels achieved in that particular quarter for each activity compared to the previous three quarters.
- Members’ feedback on their experience of the service they have received, together with any comments.
- Details of the date the contributions are received and the date they are invested every month.



Additionally, all underlying administrator processes are subject to annual audit by an external independent auditor, based on the framework set out in the technical release AAF 01/06, issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales.

The latest AAF 01/06 report issued to the Trustee covered the period 1 July 2018 to 30 June 2019; the independent auditors tested 131 control procedures and identified no exceptions during this period.



7. TRUSTEE ASSESSMENT OF MEMBER-BORNE CHARGES AND TRANSACTION COSTS

Level of member-borne charges and transaction costs

In accordance with regulation 25(1)(a) of the Administration Regulations, and “the 2018 Regulations” the Trustee is required to set out the “charges” and the “transaction costs”, borne by members of the Scheme.

For these purposes,

- “charges” means “administration” charges other than:
 - “transaction costs”
 - where an order of the court provides for the recovery by the trustee or managers of costs incurred in complying with the order, the amount of those costs
 - charges permitted by regulations made under section 24 or 41 (charges in respect of pension sharing costs) of the Welfare Reform and Pensions Act 1999
 - “winding up costs”
 - costs solely associated with the provision of death benefits.
- “transaction costs” means the costs incurred when the Scheme’s fund managers buy and sell assets within investment funds
- “Winding up costs” means the costs of winding up a pension scheme including (but not limited to) the cost of:
 - legal advice
 - tracing, consulting and communicating with members
 - advice on exiting investments
 - selection of an alternative scheme or investments.

During the year the Scheme’s assets with LGIM were re-registered on to Mobius Life’s institutional investment platform which meant that there was a reduction in investment management fees, which are reflected in this report and in the unit price of the funds. Lower underlying manager charges are possible because the investment platform aggregates assets across many pension schemes. Mobius Life is not a fund manager but a leading execution only investment platform.

When preparing this section of the statement the Trustees have taken account of the relevant statutory guidance.

Annual Management Charge (AMC)

The ongoing charges borne by members, which comprise the annual fund management charges plus any additional fund expenses, such as custody costs, but excluding any transaction costs, is known as the total expense ratio (“TER”). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges also include a Mobius Platform charge which is an investment management charge paid by members and reflected in the unit price of the funds.



Performance related fees (where applicable), periodic charges (where applicable) and any other running costs of the funds the underlying managers charge to the funds are payable in addition to the Annual Management Charge (AMC), and are taken out of the underlying assets directly.

Transaction costs

The transaction costs disclosed in this statement are the costs incurred as a result of the buying and selling of assets within investment funds.

The transaction costs have been supplied by Mobius Life, the Scheme's platform provider. Assets were transferred to Mobius Life on 7 May 2019, and transaction cost data has been provided for the period from 7 May 2019 to 5 April 2020. This has been adjusted to make allowance for the period from 6 April to 6 May 2019.

Due to the way in which transaction costs have been calculated, it is possible for overall transaction costs to be negative; since transaction costs are unlikely to be negative over the long term, the Trustees have shown any negative figure as zero.

Default Arrangements

The default arrangement is Annuity/Cash Lifestyle arrangement. The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested.

For the period covered by this statement, annualised charges and transaction costs are set out in the table below. The member-borne charges for the Scheme's default arrangement complied with the charge cap.

Default arrangement: charges and transaction costs

Years to target retirement date	TER, including Mobius platform costs	Transaction costs
10 or more years to retirement	0.12%	0.01%
5 years to retirement	0.10%	0.03%
At retirement	0.08%	0.04%

Self-select options

In addition to the default arrangement, members also have the option to invest in two other lifestyles, targeting cash withdrawal and ongoing growth investment, plus several other self-select funds. The annual charges for these lifestyles during the period covered by this statement are set out in the tables below.



Flexible Option 1 – 100% Cash Lifestyle strategy: charges and transaction costs

Years to target retirement date	TER, including Mobius platform costs	Transaction costs
10 or more years to retirement	0.35%	0.00%
5 years to retirement	0.35%	0.00%
At retirement	0.09%	0.00%

Flexible Option 2 – Continued Investment Lifestyle strategy: charges and transaction costs

Years to target retirement date	TER, including Mobius platform costs	Transaction costs
10 or more years to retirement	0.35%	0.00%
5 years to retirement	0.35%	0.00%
At retirement	0.29%	0.00%

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

Self-select fund charges and transaction costs

Years to target retirement date	TER, including Mobius platform costs	Transaction costs
L&G Global Equity Fixed Weights (50:50) Index	0.120%	0.01%
L&G UK Equity Index	0.070%	0.00%
L&G UK Smaller Companies Index	0.240%	0.03%
L&G Ethical Global Equity Index	0.340%	0.00%
L&G North America Index	0.120%	0.00%
L&G Europe (ex UK) Index	0.120%	0.01%
L&G Japan Equity Index	0.120%	0.00%
L&G Asia Pacific (ex. Japan) Equity Index	0.120%	0.01%
L&G World Emerging Markets Equity Index	0.340%	0.01%
L&G Over 15 Year Gilts Index	0.080%	0.05%
L&G Active Corporate Bond - All Stocks	0.250%	0.00%
L&G Over 5 Year Index-Linked Gilts Fund Index	0.080%	0.12%
L&G Overseas Bond Index	0.100%	0.00%



L&G Managed Property	0.660%	0.00%
L&G Cash Fund	0.090%	0.00%
L&G Diversified Fund	0.350%	0.00%

Charges and any associated transaction costs (where applicable) are subject to change



8. VALUE ASSESSMENT

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustee has assessed the extent to which the charges and transaction costs paid by the members represent good value for members.

The Trustee assessment included reviewing the Scheme's investment funds in the context of their investment charges, a review of the non-financial benefits of the Scheme and a comparison of the level of charges with the benefits delivered to members. On the basis of its assessment, the Trustee concluded that the charges and transaction costs remain good value for members for the following reasons:

- Members have access to most pension flexibilities (excluding Flexible Drawdown) directly, without needing to transfer out.
- Members can flexibly access their Defined Contribution funds by taking a single or multiple UFPLS, the first transaction is free of charge, subsequent transactions incur a charge of £50.
- Annuity broking is automatically offered free of charge to members.
- Communications from the Trustee are frequent and detailed.
- There is a wide range of investments at low investment charges.
- Members meet the costs of investment and transaction charges only, the company meet the cost of scheme administration charges.
- During the Scheme year, the investment funds have transitioned to the Mobius Life Investment Platform resulting in a reduction in the Annual Management charges and other charges met by members.



9. ILLUSTRATIVE EXAMPLES

The cumulative effect of scheme specific charges and transaction costs on the value of the **member's** Defined Contribution benefits to the funds underlying the default lifestyle strategy

In order to comply with "the 2018 Regulations" the Trustee has provided below an illustrative example of the effect over time of the application of charges and transaction costs borne by the Scheme membership on the value of their accrued rights to defined contribution benefits:

Fund		LGIM Over 15 Years Gilts Index Fund		LGIM Cash Fund		LGIM Global Equity Fixed Weights 50:50 Fund	
		Before charges	After all charges and transactio n costs	Before charges	After all charges and transactio n costs	Before charges	After all charges and transactio n costs
Years to retirement	25	£135,757	£134,373	£135,757	£134,201	£235,331	£231,243
	20	£116,307	£115,321	£116,307	£115,198	£182,221	£179,671
	15	£95,161	£94,525	£95,161	£94,445	£134,688	£133,250
	10	£72,171	£71,824	£72,171	£71,781	£92,147	£91,466
	5	£47,175	£47,046	£47,175	£47,030	£54,075	£53,854

Notes

1. Projected pension fund values are shown in today's terms, and have not been adjusted for the effect of future inflation.
2. The starting fund size is assumed to be £20,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed to be £500 per month and increase in line with assumed earnings inflation of 2.5% each year.
5. Values shown are estimates and are not guaranteed.
6. Transaction costs are based on an average of the previous 5 years' transaction costs.
7. Charges take into account all of those which can be expected to be taken after investment.
8. The projected investment growth rate for each fund is as follows:
 - Gilts Fund 0.8% p.a.
 - Cash Fund 0.8% p.a.
 - Global Equity Fund 4.8% p.a.



10. POOLED FUNDS

The Scheme invests in pooled investment vehicles with Legal & General. Charges are reflected in the fund unit price and transaction costs are as detailed below.

The investment funds are provided through an insurance policy with Legal & General and there is no UK statutory or regulatory requirement for Legal & General to register their funds. The pooled funds are managed by Legal & General internally and are not listed on any publicly traded exchange. Therefore, unique fund identifiers (e.g. International Securities Identification Number (ISIN/SEDOL codes (unique seven-character alphanumeric identifiers assigned to securities that trade on the London Stock Exchange and other smaller exchanges in the UK) for these funds do not exist.

10.1 Default – Annuity Purchase Life Style strategy

Fund Name	Fund Manager TER	Mobius Platform Charge	Annual Management Charge	Transaction Costs
LGIM Global Equity Fixed weights (50:50) Index Fund	0.08%	0.04%	0.12%	0.01%
LGIM Over 15 years Gilts Fund Index	0.04%	0.04%	0.08%	0.05%
LGIM Cash Fund	0.05%	0.04%	0.09%	0.00%

Default Cash Fund:

Fund Name	Fund Manager TER	Mobius Platform Charge	Annual Management Charge	Transaction Costs
LGIM Cash Fund	0.05%	0.04%	0.09%	0.00%

Flexible Option 1 – 100% Cash Lifestyle strategy – 5 years to retirement

Fund Name	Fund Manager TER	Mobius Platform Charge	Annual Management Charge	Transaction Costs
LGIM Diversified Growth Fund	0.31%	0.04%	0.35%	0.00%
LGIM Cash Fund	0.05%	0.04%	0.09%	0.00%

Flexible Option 2 – Continued Investment Lifestyle strategy

Fund Name	Fund Manager TER	Mobius Platform Charge	Annual Management Charge	Transaction Costs
LGIM Diversified Growth Fund	0.31%	0.04%	0.35%	0.00%
LGIM Cash Fund	0.05%	0.04%	0.09%	0.00%



10.2 MEMBER SELECTED FUNDS

	Fund	Fund Manager TER	Mobius Platform Charge	Annual Management Charge	Transaction Costs
1	L&G Global Equity Fixed Weights (50:50) Index	0.08%	0.04%	0.12%	0.01%
2	L&G UK Equity Index	0.03%	0.04%	0.07%	0.00%*
3	L&G UK Smaller Companies Index	0.20%	0.04%	0.24%	0.03%
4	L&G Ethical Global Equity Index	0.30%	0.04%	0.34%	0.00%
5	L&G North America Index	0.08%	0.04%	0.12%	0.00%*
6	L&G Europe (ex UK) Index	0.08%	0.04%	0.12%	0.01%
7	L&G Japan Equity Index	0.08%	0.04%	0.12%	0.00%*
8	L&G Asia Pacific (ex. Japan) Equity Index	0.08%	0.04%	0.12%	0.01%
9	L&G World Emerging Markets Equity Index	0.30%	0.04%	0.34%	0.01%
10	L&G Over 15 Year Gilts Index	0.04%	0.04%	0.08%	0.05%
11	L&G Active Corporate Bond - All Stocks	0.21%	0.04%	0.25%	0.00%
12	L&G Over 5 Year Index-Linked Gilts Fund Index	0.04%	0.04%	0.08%	0.12%
13	L&G Overseas Bond Index	0.06%	0.04%	0.10%	0.00%
14	L&G Managed Property	0.62%	0.04%	0.66%	0.00%*
15	L&G Cash Fund	0.05%	0.04%	0.09%	0.00%
16	L&G Diversified Fund	0.31%	0.04%	0.35%	0.00%*

*transaction costs reported by LGIM were negative so we have assumed a value of zero as a prudent approach



11. TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trust Directors' own combined knowledge and understanding, together with the advice, which is available to it, enables it to properly exercise its functions as Trust Directors of the Scheme. In addition, the Trust Directors receive advice and recommendations on investment and legal and other issues from its professional advisers.

The Trust Directors have completed TPR's Skills Evaluation matrix, a gap analysis and have completed the TPR's trustee toolkit modules. A Scheme training plan has been established which is reviewed and updated. In addition, all the Trust Directors are participating in an ongoing training programme and individual training is recorded on a Scheme training log. This is designed to ensure knowledge is kept up-to-date, and during the period covered by this statement wide training topics included an outline of the DC regulatory landscape and significant changes in wider industry experience following the introduction of "Pension Freedoms" in 2015.

During the Scheme Year, the Trust Directors have met the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding) by receiving training from its advisors as part of the normal course of business of trustee meetings. As a result, the Trust Directors consider they have a good working knowledge of all of the Scheme's Trust Deed and Rules, SIP and documentation setting out the Scheme's policies. The Trust Directors are also kept up-to-date with developments in pensions through briefings from its professional advisers.

The Trust Directors believe they have met the Pension Regulator's trustee knowledge and understanding requirements (as set out under Code of Practice No 7) during the Scheme Year.



Chair: Mr P Mackenzie
The Hexcel Composites Limited Pension Scheme

20 August 2020
Date:



APPENDIX 1 – STATEMENT OF INVESTMENT PRINCIPLES

HEXCEL COMPOSITES LIMITED PENSION SCHEME – MONEY PURCHASE SECTION

STATEMENT OF INVESTMENT PRINCIPLES – JULY 2020

1. INTRODUCTION

The Directors of Hexcel Composites Pension Trustee Limited, the Trustee of the Hexcel Composites Limited Pension Scheme (the 'Scheme') have adopted this Statement of Investment Principles (the 'Statement') to comply with the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. This Statement replaces all previous Statements.

When making their investment decisions and reviewing this Statement, the Trustee obtained and considered the written advice of Cartwright Benefit Solutions Limited, whom the Trustee reasonably believes to be qualified by its ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. Cartwright Benefit Solutions Limited is also authorised under the Financial Services and Markets Act 2000 to provide investment advice to the Trustee.

Whilst the Trustee is solely responsible for the Scheme's investment strategy, the Trustee consulted Hexcel Composites Limited (the 'Employer') on both the investment decisions taken by the Trustee and this Statement's content.

The Scheme has a Final Salary Section, a Money Purchase Section, and legacy Additional Voluntary Contribution facilities. The Money Purchase Section is discussed in this Statement. The Final Salary Section and the legacy Additional Voluntary Contribution arrangements are discussed in a separate Statement. Members are able to pay additional contributions through the Money Purchase Section if they wish to do so.

2. INVESTMENT OBJECTIVES

The primary investment objective of the Trustee is to help to ensure that the Money Purchase Section members of the Scheme are able to retire on a reasonable level of pension taking into account the contributions paid into their individual accounts and the timescale over which those contributions were invested. The Trustee has in place investment options that it believes can achieve this objective.

3. INVESTMENT STRATEGY

The Trustee will offer a sufficient fund range to satisfy the risk and return combinations reasonable for most members.

The Trustee has in place a range of investment options that it believes can allow members to strike an appropriate balance between long-term needs for capital growth and shorter-term volatility of returns, especially in the period approaching retirement.

The Trustee has designed three lifestyle strategy options. A lifestyle strategy automatically switches assets from higher risk/return investment into lower risk/return investments as retirement approaches. Further details are in the Appendix.

The lifestyle strategy which switches assets into a combination of cash and bonds as retirement approaches is used as the default investment option for members who do not actively make an investment decision.

The Trustee will formally review the fund range offered and the lifestyle strategy options from time-to-time to take into account changes in various considerations such as: the membership profile, legislation and regulations, and developments in investment products.



4. RISK MEASUREMENT AND MANAGEMENT

The Trustee is aware of a range of risks inherent in investing the assets of the Money Purchase Section. The Trustee believes that the investment options offered to members provide adequate choice and diversification both within and across different asset classes.

The Trustee's policies on the key investment-related risks are as follows:

- **Active manager risk:** the Trustee recognises that the use of active management involves a risk that the assets do not achieve the expected return and potentially increases the governance requirements. For these reasons, and to reduce costs for members, investments are predominantly index-tracking funds. However, for some asset classes (eg corporate bonds and property) the Trustee believes this risk may be outweighed by the potential gains from successful active management. Therefore, the Scheme offers a mixture of index-tracking and active management which may be adjusted from time to time.
- **Diversification:** the Trustee has designed the lifestyle strategies, and provides members with various self-select options, to diversify across asset classes, counter-parties, and geographically. This helps to avoid excessive concentrations of risk. To achieve cost-effective diversification, the Scheme's assets are all invested in pooled funds.
- **Illiquidity:** some asset classes can become difficult to buy or sell, or price accurately, particularly when financial market conditions are stressed. This can lead to pooled fund transactions being suspended by the fund manager. In these scenarios, the Trustee may consider an alternative fund as a temporary or permanent default investment option for those contributions and may communicate with members where relevant.
- **Security of assets:** the safe custody of the invested assets is delegated to professional custodians.
- **Regulatory:** the Scheme's assets are invested on regulated markets.

5. FEE STRUCTURES

The investment manager is paid a percentage of the market value of the assets within each fund. The investment platform provider is paid a percentage of the assets on its platform. No additional performance fees are payable. Some operational expenses are also incurred by each fund to cover administration, audit, legal and custodial costs, along with the transaction costs associated with the buying and selling of the underlying securities as the investment manager changes the constituents of the fund over time.

The investment adviser is paid on a time-cost, fixed fee or other basis, as agreed from time-to-time between the Trustee and the investment adviser.

6. ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ('ESG')

The Trustee believes that its primary responsibility is to invest the Scheme's assets for the longer-term financial best interests of the Scheme's beneficiaries, as reflected by the Trustee's strategic investment objectives (including the Scheme's investment time horizon). The Trustee believes that ESG factors (including climate change risks) can potentially have a material positive or negative financial impact on the Scheme.



The Scheme's investment funds are chosen to aim to achieve the Scheme's strategic investment objectives, with consideration given to ESG factors over the Scheme's investment time horizon when these fund choices are both made and reviewed from time-to-time. The Trustee is aware of and regularly monitors the Scheme's investment time horizon – this is expected to be at least 10 years given the average age of members who are yet to retire. The Trustee is able to take a long-term view of the Scheme's investments when assessing managers' performance and/or asset allocation.

The Scheme's investment funds are deliberately and consciously chosen to align with the Scheme's strategic investment policies and objectives, in particular the investment funds' asset class exposure(s), the balance between different asset classes (where appropriate) and expected return and risk. In addition, the fees applicable to the Scheme's investment funds are taken into account to ensure that these are also consistent with the Scheme's investment policies and objectives, as well as being compatible with the asset class(es) that the fund invests in and returns it is seeking to achieve.

A key element of the selection of the Scheme's investment funds is the Trustees' assessment of the likelihood of each investment fund achieving its performance target on a medium/long term and sustainable basis, which is in part based on each investment fund's ability to select investee companies, for both debt and equity, that are sustainable and will produce good medium/long term performance on financial measures.

The Trustee also believes that, in general, good long term performance on non-financial measures will support and contribute to good long term performance on financial measures.

An important part of each investment fund's ability to invest sustainably in this way is to use the fund's position as a stakeholder, either unilaterally or in concert with other stakeholders, to engage with investee companies to look to improve their financial and non-financial performance.

The Trustee measures and monitors the performance versus target of all their investment funds on an after fees basis where practical to do so. Part of this monitoring process includes the consideration of the portfolio turnover costs of each investment fund and whether (or not) the twelve-month turnover is consistent with the investment philosophy and process of the investment fund. Any inconsistencies will be considered. The portfolio turnover costs will be part of the after fees fund performance and are therefore reflected in that figure.

The Trustee's intention is to appoint investment managers for the long term and avoid switching between investment funds based solely on short term performance, thus incurring transaction costs which may or may not be offset by future returns. However, if the Trustee believes that an investment fund can no longer achieve its performance target, and believes that it is in the Scheme's best interests to make a change, it will do so.

Due to the Trustee's use of pooled investment funds, the application of ESG factors and the stewardship of the assets (including the exercising of voting and other rights attached to investments), are delegated to each investment manager and may differ depending on the objectives of each investment fund and the manager's own policies in this regard.



The Trustee periodically obtains and reviews the relevant ESG and Stewardship policy documents for each pooled investment fund in which they are invested. When relevant, the Trustee will challenge the investment manager on its policies. Should the Trustee be unsatisfied with the response, they will take the approach that is believed to be in the best interests of the Scheme's beneficiaries, which could involve further engagement with the investment manager or disinvesting in favour of a more appropriate investment fund. This creates an incentive for the investment manager to ensure that they are aware of, and as far as possible, meet the Trustee's expectations with regard to ESG and Stewardship policy.

The Trustee does not explicitly take into account the views of the Scheme's beneficiaries, including (but not limited to) ethical views and views in relation to social and environmental impact and present and future quality of life of the Scheme's beneficiaries.

7. FUTURE REVIEW

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy.

Any such review will be based on written investment advice from someone whom the Trustee reasonably believes to be qualified by his or her ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. The Employer will also be consulted.

Signed PD Mach Date 6.02.20
For and on behalf of the Directors of Hexcel Composites Pension Trustee Limited, the Trustee of the Hexcel Composites Limited Pension Scheme



APPENDIX - MONEY PURCHASE SECTION INVESTMENT ARRANGEMENTS

The Trustee has chosen Mobius Life Limited as the Scheme's execution only investment provider to hold the funds referred to in this Appendix. Mobius Life is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority.

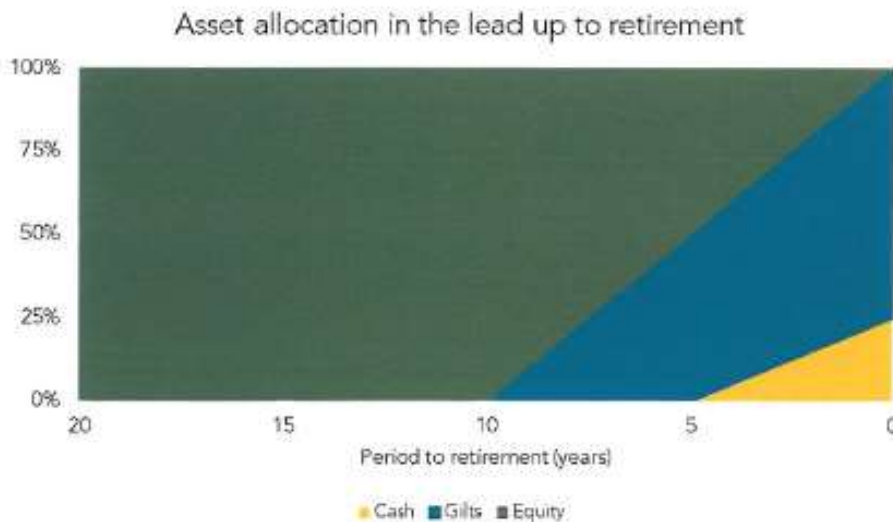
All of the funds used by the Money Purchase Section are managed by Legal & General Investment Management Limited, via Mobius Life Limited. Legal & General Investment Management Limited is regulated under the Financial Services and Markets Act 2000.

Lifestyle Strategy Options

The three lifestyle strategy options have been designed to meet the perceived needs and characteristics of the average members who are likely to use each of them. The purpose of having three different lifestyle strategy options is to allow members to more easily reflect the increased flexibilities following the UK government's 2014 Freedom and Choice in Pensions reforms.

The default lifestyle strategy invests in a diversified range of global equities through the Global Equity Fixed Weights (50:50) Index Fund during the accumulation period, with the investments being gradually switched into UK government bonds (Over 15 Year Gilts Index Fund) and cash (Cash Fund) over the ten year period prior to a member's target retirement age.

The chart below illustrates the change in the asset allocation over the period before a member's retirement:



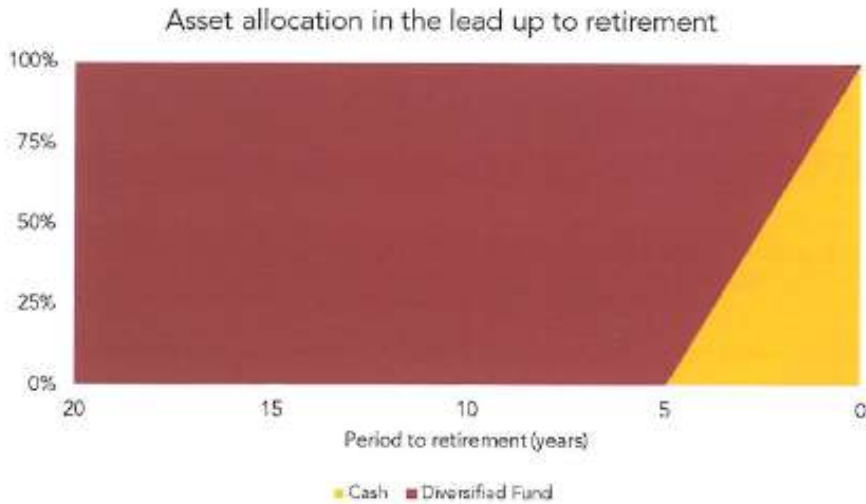
The primary objective during the accumulation period is to target higher long-term expected returns at what is considered by the Trustee to be an acceptable level of investment risk. The primary purpose of switching the assets into bonds and cash is to more closely match the retirement benefits of a member who takes 25% of their Scheme savings as a cash sum plus uses 75% of their Scheme savings to purchase an insured annuity. This target asset allocation was chosen for the default lifestyle strategy as there currently appears to be insufficient evidence to support a change from the status quo.

The charts below show the change in the asset allocation for the two alternative lifestyle strategy options. Both alternative lifestyle strategies invest in the Diversified Fund during the

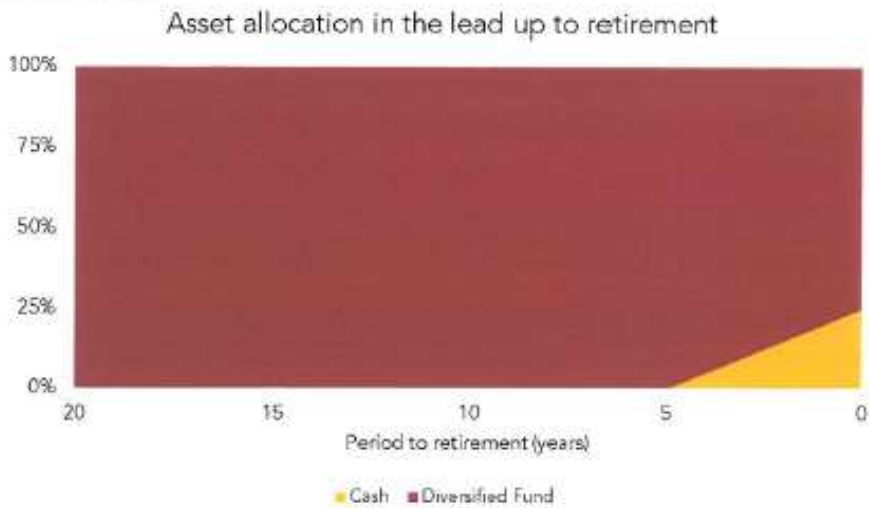


accumulation period, with (some of) the assets being gradually switched into the Cash Fund over the 5 year period prior to a member's target retirement age.

Alternative lifestyle strategy, targeting 100% cash at target retirement age:



Alternative lifestyle strategy, targeting 25% cash and 75% "continued investment" at target retirement age:



Self-Select Funds

The range of self-select funds has been chosen to provide members who wish to decide for themselves how to invest some flexibility to do so. The self-select funds offered are listed below:

Asset class	Management style
Equities	
Global Equity Fixed Weights 50:50 Index Fund	Index-tracking
UK Equity Index Fund	Index-tracking
UK Smaller Companies Index Fund	Index-tracking
Ethical Global Equity Index Fund	Index-tracking
North America Equity Index Fund	Index-tracking
Europe (ex UK) Equity Index Fund	Index-tracking
Japan Equity Index Fund	Index-tracking
Asia Pacific (ex Japan) Equity Index Fund	Index-tracking
World Emerging Markets Equity Index Fund	Index-tracking
Alternatives	
Property Fund	Active
Diversified Fund	Primarily Index-tracking
Bonds and cash	
Over 15 Year Gilts Index Fund	Index-tracking
Active Corporate Bond All Stocks Fund	Active
Over 5 Year Index-Linked Gilts Index Fund	Index-tracking
Overseas Bond Index Fund	Index-tracking
Cash Fund	Active

The Cash Fund will be used as the temporary default investment option by the Trustee should there be illiquidity or other issues with any of the funds listed above. The Cash Fund aims to offer access to liquidity whilst maintaining capital and to provide a return in line with money market rates. The fund is actively managed and primarily holds GBP Sterling short term deposits with a range of high quality financial institutions. The Trustee believes that the objective of the Cash Fund aligns with the best interests of the members whilst liquidity or other issues persist and is therefore suitable to use as a default fund for this purpose.

