Cummins UK Pension Plan

Chair's Governance Statement for the Plan Year to 31 December 2020

Introduction

The Chair's statement is designed to provide members with key information and assurances regarding the proper running of the Plan and the value it provides. The Plan is used as a qualifying scheme for auto-enrolment purposes.

This statement has been prepared by the Plan Trustee in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It describes how the Trustee has met the statutory governance standards in relation to the Defined Contribution ('DC') arrangements during the Plan year ending 31 December 2020 in the following areas:

- the default investment arrangements;
- requirements for processing core financial transactions;
- assessment of charges and transaction costs;
- assessment of value for members; and
- the requirement for Trustee Knowledge and Understanding.

The Trustee has agreed that the 'charges year' for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Plan year (the year to 31 December).

The statement also includes information relating to charges and transaction costs and includes 'pounds and pence' illustrations demonstrating the potential impact of costs and charges on a member's DC savings over the course of their Plan membership.

COVID-19

During 2020, the Trustee Directors worked closely with their advisors and service providers to monitor the impact of COVID-19 on the Plan. This work included close monitoring of the administration service and investment performance and considering the pandemic's long-term implications on the Plan's DB and DC Sections.

Default investment arrangements

Appended to this statement is a copy of the Trustee's latest Statement of Investment Principles ('SIP'). This document governs the Trustee's investment decisions, including its aims, objectives and policies for the Plan's default investment arrangement. This document is prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. In particular, the SIP covers how the default investment arrangements are intended to ensure that assets are invested in the best interests of members and their beneficiaries.

The Plan's default investment arrangement is one of the Plan's 'Flexicycle options'. The Flexicycle options work in a similar way and provide members with a 'hands-off' way of investing their Personal Account (the individual savings account that each DC Section member has).

The main aim of the Flexicycle options is to invest in funds which have the potential to increase in value over time for an appropriate level of risk. In principle, investing in higher-risk funds (like equities) while members are a long way from retirement means that Personal Accounts have time to grow, but also have time to recover if these funds fall in value. As members approach retirement, their investments are gradually moved from higher-risk funds into more stable funds (like bonds and cash), while also targeting a specific form of retirement benefit.

The Trustee is responsible for the Plan's investment governance, which includes setting and monitoring the investment strategy for the Plan's default arrangement(s). The Trustee monitors the performance of all investment options on a quarterly basis. The Trustee will periodically, and on no less than a three-yearly cycle, review the appropriateness of the default arrangement for the Plan membership, and if necessary, make changes to the design. It will undertake an earlier review if there are any significant changes in investment policy or member demographics.

The Trustee carried out its triennial investment strategy review during 2020, discussing and agreeing the strategy at various meetings throughout the year, including ISC meetings on 19 February, 6 May and 7 August and the Trustee meeting on 9 June. The review was carried out with the help of the Trustee's investment advisor. It considered the Plan's member demographics, including member risk tolerance and expected retirement decisions based on past choices made by Plan members and wider industry experience.

The Trustee agreed the following changes to the default investment option which came into effect from 1 December 2020:

- Replace the existing annuity focussed at-retirement strategy with a 'continued growth' at-retirement strategy as the default investment option. All members except those within three years of their selected retirement date were moved to this 'continued growth' Flexicycle. The 'continued growth' Flexicycle does not target a specific retirement option, rather invests in a way that would be suitable for a member taking any retirement option. Employees who are automatically enrolled into the Plan are automatically invested in the 'Continued growth' Flexicycle, this is known as a default investment arrangement.

- Members within three years of their selected retirement date remained in the Flexicycle that targets taking a guaranteed income (by purchasing an annuity from an insurance provider at retirement) to avoid incurring transaction costs, and because moving to the 'continued growth' at-retirement strategy would have resulted in an increased exposure to higher risk assets close to retirement. This also classes as a default investment arrangement.

Details of all the Plan's investment options, including the Flexicycle options and the self-select fund range, are explained in the **Investment Guide** which was reviewed and updated in October 2020. This can be found on the Plan website: https://www.cumminsukpensions.co.uk/.

Processing of core financial transactions

With the help of the Plan administrator, Premier Pensions, the Trustee regularly monitors the Plan's core financial transactions. These include the investment of contributions, transfers of assets into and out of the Plan, fund switches, and payments out of the Plan to and in respect of members.

Premier Pensions has provided the Trustee with assurances that there were adequate internal controls in place to ensure core financial transactions were processed promptly and accurately during the Plan year. With the help of Premier, the Trustee regularly monitors the Plan's core financial transactions. Premier Pensions passed its latest AAF audit without any issues or exceptions. Disaster recovery plans are in place and no issues relating to financial transactions are outstanding at the year end.

Premier Pensions has various controls in place to ensure core financial transactions are completed in a timely and accurate fashion. These include a payment authorisation process, with payments below £75,000 being authorised by one person, and payments greater than this amount being authorised by two people. There are maximum limits on who can authorise payments by employee seniority. Suitable documentary evidence must be obtained and appended to all transactions, both payments and receipts. This is reviewed by all parties authorising the payment to ensure that the payment is genuine and processed correctly.

All payments, receipts and cash flow notices are raised, tracked and authorised through Premier Pensions' electronic workflow management system. The system enforces mandatory processes and protocols to ensure authorisations are carried out by the correct individuals. The work management system is only accessible by Premier Pensions' administration team.

During the review period, the Trustee considered the controls the administrator had in place to monitor and process core financial transactions and was satisfied that reporting from the Plan administrator evidenced that such financial transactions were processed promptly and accurately. Quarterly reporting demonstrated that the administrator was operating within the agreed service levels and within the statutory disclosure limits. There were no issues or breaches raised in the quarterly reports during the Plan year.

The Trustee, having considered these reports alongside the reports received from the Plan's appointed auditor, has concluded that the Plan's core financial transactions have been processed promptly and accurately during the Plan year.

Assessment of charges and transaction costs

The Trustee is required to set out the on-going charges borne by members in this statement, which are the annual fund management charges plus any additional fund expenses (such as custody costs, but excluding transaction costs), which in total 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. In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the Trustee is also required to separately disclose the transactions costs borne by members over the period.

The Trustee has calculated the 'charges' and the 'transaction costs', borne by members during the Plan year based on information provided to the Trustee by the Plan's investment manager taking account of the statutory guidance for the calculations and provision of information relating to charges and transaction costs.

For these purposes 'charges' means Plan administration charges excluding transaction costs, costs relating to certain court orders, charges relating to pension sharing under the Welfare Reform and Pensions Act 1999, winding up costs, or costs solely associated with the provision of death benefits. 'Transaction costs' are those incurred as a result of buying, selling, lending or borrowing investments.

The table below lists the charges and transaction costs applying to all the Plan's DC investment funds. The charges paid by members relate solely to accessing the investments. Costs associated with the provision of administration and communications services is met by the Trustee. Further details are provided in the Value for Members section below.

All charges and transaction cost information has been provided by LGIM, the Plan's investment platform provider. None of the charges or transaction cost information is missing for the year to 31 December 2020.

It should be noted that, due to the universal method used to calculate transaction costs, transaction costs reported by the investment platform provider can be negative, meaning the price of a trade when transacted was lower than when the instruction to make the trade took place.

Fund Name	Charges			Transaction Costs	Total Annual Charge	Default Arrangements
	Annual Management Charge	Additional Expenses	Total Expense Ratio			
Flexicycle options Funds						
Accelerated Growth Fund	0.19%	0.01%	0.20%	0.03%	0.23%	Yes
Moderate Growth Fund	0.18%	0.01%	0.19%	0.00%	0.19%	Yes
Pre-retirement Fund	0.14%	0.00%	0.14%	0.02%	0.16%	Yes
Cash Fund	0.12%	0.00%	0.12%	0.00%	0.12%	Yes
Self-Select Funds						
UK Equity Fund	0.10%	0.03%	0.13%	-0.03%	0.10%	No
Ethical Global Equity Fund	0.30%	0.00%	0.30%	0.00%	0.30%	No
World Equity Fund	0.13%	0.00%	0.13%	0.00%	0.13%	No
World Equity (GBP Hedged) Fund	0.15%	0.00%	0.15%	0.08%	0.23%	No
World Emerging Market Equity	0.34%	0.01%	0.35%	0.02%	0.37%	No
AAA-AA-A All Stocks Bonds Fund	0.15%	0.00%	0.15%	-0.03%	0.12%	No
Property Fund	0.74%	0.12%	0.86%	-0.20%	0.66%	No
HSBC Islamic Titans	0.36%	0.00%	0.36%	0.03%	0.39%	No
Cash Fund	0.12%	0.00%	0.12%	0.00%	0.12%	No

For the Plan’s default arrangements, the ‘continued growth’ Flexicycle and the annuity protection Flexicycle, member’s investments change automatically as they approach their selected retirement age. Depending on a member’s term to retirement, and therefore the asset allocation, the charges and transaction costs applied to a member’s investments on an annual basis will differ.

In addition to the default arrangements, members also have the option to invest in a Flexicycle targeting cash withdrawal at retirement, and a variety of self-select investments listed above.

Charges for the Plan's default arrangements are below the ‘charge cap’ of 0.75% per annum (this cap applies to pension schemes where members are automatically enrolled in line with legislation) during the Plan year.

Pounds and pence illustration

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustee to produce a ‘£ and pence illustration’ showing the compounded effect of charges and transaction costs on a member’s retirement savings. Over a period of time, the charges and transactions costs that are taken out of a member’s retirement savings can reduce the amount available to the member at retirement.

The following table gives a summary of the projected fund and the impact of charges and transaction costs from current date up to a target retirement age of 65. The figures are presented against three member examples:

- The Plan’s youngest member;
- an average member; and

- a member approaching retirement.

Additionally, the table includes the performance of the funds over different time periods depending on the age of the member. The Trustee has decided to show the impact of investing in four of the available investment options. Whilst these funds may not be the most expensive or have the highest expected return, the Trustee has selected these as they have a significant amount of assets invested or are used by a significant proportion of the membership. These investments and funds combined represent 98.5% of the Plan's total DC assets. These are the:

- **Continued growth Flexicycle** – the default investment option for all new members;
- **Guaranteed income focused Flexicycle** – the existing default investment option for members within 3 years of their selected retirement date;
- **Pre-Retirement Fund** – fund with a significant amount of assets invested; and
- **Cash Fund** – fund with the lowest expected return before costs.

The Trustee has taken account of the DWP's statutory guidance on 'Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes' when preparing these illustrations. The assumptions used to calculate the illustrations are included at the end of this statement. **It is important to note that the projected fund values are shown in today's terms. The figures are produced for illustrative purposes only and are in no way guaranteed.**

Example Member	Years	Flexicycle – Continued growth option		Flexicycle - Guaranteed income focussed option		Pre-Retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member	1	£2,300	£2,300	£2,300	£2,300	£2,300	£2,300	£2,300	£2,300
	3	£7,300	£7,200	£7,300	£7,200	£6,800	£6,800	£6,800	£6,800
	5	£12,600	£12,500	£12,600	£12,500	£11,300	£11,200	£11,200	£11,200
	10	£27,500	£27,100	£27,500	£27,100	£22,100	£22,000	£22,000	£21,900
	15	£45,200	£44,300	£45,200	£44,300	£32,600	£32,200	£32,300	£32,000
	20	£66,200	£64,600	£66,200	£64,600	£42,600	£42,000	£42,200	£41,700
	25	£91,300	£88,300	£91,300	£88,300	£52,300	£51,300	£51,600	£50,800
	30	£120,800	£116,000	£120,800	£116,000	£61,600	£60,200	£60,600	£59,600
	35	£152,100	£145,100	£152,100	£145,100	£70,500	£68,700	£69,200	£67,900
	40	£182,100	£173,000	£181,900	£172,800	£79,100	£76,900	£77,500	£75,800
	45	£208,400	£197,100	£204,200	£193,100	£87,400	£84,600	£85,400	£83,300
	49	£225,200	£212,200	£213,500	£201,200	£93,800	£90,600	£91,500	£89,000
Average member	1	£52,600	£52,500	£52,600	£52,500	£50,500	£50,500	£50,500	£50,400
	3	£67,300	£66,900	£67,300	£66,900	£60,300	£60,000	£60,100	£59,900
	5	£83,000	£82,200	£83,000	£82,200	£69,900	£69,400	£69,600	£69,200
	10	£124,400	£122,400	£124,400	£122,400	£93,200	£92,200	£92,500	£91,700
	15	£167,000	£163,600	£166,900	£163,400	£115,700	£113,900	£114,400	£113,000
	20	£207,700	£202,500	£203,600	£198,500	£137,300	£134,600	£135,400	£133,300
	24	£236,600	£229,900	£224,900	£218,500	£154,000	£150,500	£151,500	£148,800
Member approaching retirement	1	£69,200	£69,100	£68,800	£68,700	£67,900	£67,800	£67,800	£67,700
	3	£81,400	£81,000	£79,800	£79,500	£77,400	£77,000	£77,100	£76,900
	5	£93,200	£92,600	£90,000	£89,400	£86,700	£86,100	£86,300	£85,900

Before charges – represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.

After charges – represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

Assessment of Value for Members ('VFM')

The Trustee is committed to ensuring that members receive value from their Plan membership (i.e. the contributions invested, and the charges deducted from their Personal Accounts provide good value in relation to the benefits and services provided by or on behalf of the Plan). The Trustee has undertaken a VFM assessment, with support from Willis Towers Watson. In line with the requirements of the Pensions Regulator's DC Code of Practice, this assessment considers the extent to which services paid for by members offer good value relative to those costs. It also considers more generally the range and quality of services and benefits associated with Plan membership.

Whilst it is difficult to give a precise legal definition of "good value", in forming its conclusions, the Trustee considered matters including the Plan's management and governance, administration, investment governance and communications and the general characteristics of the Plan's membership.

The table below provides the high-level results of this year's assessment carried out on 7 April 2021. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits). Whilst the legal requirements of VFM assessments only focus on the benefits and services that are paid for by members, the Trustee has also considered the broader value provided to members which is not paid for by the member).

	Benefit service category and description	**Paid for by**	**Value for Members**	**Broader Value**
1.	**Charges** The competitiveness of the charges through benchmarking against both legislative and market comparators and research.	Members		
2.	**Scheme governance and management** Oversight and governance of the Trustee, ensuring the Scheme is compliant with relevant legislation, such as the charge cap, holding regular meetings to address issues that may impact members.	Trustee/ Company		
3.	**Investment** The range and appropriateness of the investment options and strategies, as well as the objectives of the funds and performance against these objectives.	Members		
4.	**Administration** Oversight of the efficiency of the administration processes and the performance of the administrator, not only in terms of cases completed but also considering any complaints received, how these were dealt with and interactions with members.	Trustee/ Company		
5.	**Communications** The quality and range of communications provided and available to members in written form, face to face and online, as well as support services available to members.	Trustee/ Company		

Key:

Excellent value		Good Value		Sufficient Value		Poor Value		Not Relevant	

The ratings are unchanged from last year's assessment. Only the highest two rating categories have been applied to the Plan in this year's assessment:

'Excellent value' – A scheme offers excellent value for members if the scheme demonstrates it offers services that are of good / excellent quality and meet the specific needs of the membership. This would typically mean that the VFM assessment demonstrates several areas of strength and has no areas of weakness.

'Good value' – A scheme offers good value for members if the scheme demonstrates it offers services that are of reasonable or good quality and broadly meet the specific needs of the membership. This would typically mean that the VFM assessment demonstrates some areas of strength with few areas of weakness.

It should be noted that when assessing value, this does not necessarily mean the lowest cost or fee, the Trustee considers the overall quality of the services members receive and considers whether the cost of this provides value for money. The Trustee's assessment included a review of the performance of the Plan's investment funds (after all charges) in the context of their investment objectives. This is carried out by the investment sub-committee at quarterly intervals. The investment returns on the funds, which are largely passive investments, were in line with their stated objectives over the Plan year.

The Trustee has concluded that overall, the Plan provides **'Excellent value'** for its members because the charges borne by members are competitive, both in absolute terms (i.e. when compared to typical levels of charges in the pensions market) and in relative terms (i.e. when considered in the context of the range and quality of services and benefits associated with Plan membership for which the member does not bear the cost).

There are many other factors that contribute to the Trustee's rating of **'Excellent value'**, in particular:

- Charges for the Plan's default arrangements are below the 'charge cap' of 0.75% per annum (this cap applies to pension schemes where members are automatically enrolled in line with legislation). The transaction costs incurred by the investments are reasonable and are a necessary result of investing members contributions.

- Members have access to various investment options, all of which have competitive fund management charges, and have been designed based on the Plan's membership demographics. These include Flexicycles that target different retirement options and provide members with a range of self-select investment options. All investment options have performed in line with the Trustee's expectations and the objectives stated in the SIP.

- Members do not currently pay for the Plan's administration costs, professional adviser costs or any costs (other than fund management) associated with the operation of the Plan.

- The Trustee's advisors have confirmed that the fund charges are competitive for the types of fund available to members. The default charges have been benchmarked against Willis Towers Watson's 2020 FTSE 350 DC survey results.

- The Trustee is pleased with the quality and efficiency of the administration processes and performance over the year. In particular, given the challenges raised by the pandemic and the forced transition to home working.

- Members are provided with high quality communications.

- The high level of oversight and governance provided by the Trustee and its sub-committees (investment, governance and communications sub-committees).

- The availability of salary sacrifice arrangements.

- Members have access to flexible retirement options and support on a basis which is in-keeping with similar schemes.

Trustee Knowledge and Understanding ('TKU')

The Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Plan effectively and are committed to completing training either at relevant meetings or by personal study. Taking into account the knowledge and experience of the Trustee Directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisors), the Trustee Directors believe they are well placed to exercise their functions as Trustee Directors of the Plan properly and effectively.

All Plan documents are reviewed by the Trustee and are available on a dedicated and secure Trustee website. At Trustee meetings, key Plan documents are referred to and reviewed if required to ensure these are being adhered to correctly when making decisions, including when deciding individual member cases. The Trustee Directors are conversant with the Plan's SIP, Trust Deed and Rules and various documents setting out the Trustee's policies and procedures. The Trustee understands when these documents require review, when and how to make changes to these documents and policies. The Trustee also believes that it has sufficient knowledge of the legal and regulatory requirements relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

There is a training log in place which is set up to meet the needs of the Trustee to ensure its knowledge is up to date. The training log is monitored regularly in line with best practice to ensure that gaps in knowledge are identified and external specialist training can be arranged as necessary. All the Trustee Directors are committed to completing training, either at relevant meetings or by personal study.

Evidence of conversance and knowledge of the key Plan documents over the reporting period included:

- reviewing and updating the SIP to ensure this accurately reflected the Trustee's aims and objectives and to make sure that the full details of the DC investment structure and strategy continued to be accurately documented following the changes to the investment strategy (the SIP is formally reviewed at least every three years, or earlier where there is any changes to the investment strategy or legislation);

- reviewing the conflicts of interest and cyber security policies.

During the Plan year, the Trustee's approach to meeting the TKU requirements included:

- receiving training sessions from its advisers during quarterly meetings to ensure the Trustee maintains an appropriate level of knowledge and understanding of current and general issues affecting pensions (2020 training topics included: 21st century trusteeship, flexible retirement option and advised /non-advised annuities, conflicts of interest and discretionary cases);

- 'hot topics' and general updates being presented to the Trustee Board during regular meetings, as well as details of forthcoming training events;

- recently appointed Trustee Directors completed or are in the process of completing the Pensions Regulator's Toolkit (two Trustees appointed in March 2020 and one in March 2021) and are given a due date of six months to complete this. New Trustee Directors are also provided training on pensions by the pensions team. All other Trustee Directors have completed the relevant modules of the Toolkit;

- the Trustee Directors attend external events and webinars and provide feedback to the wider group at quarterly meetings; and

- training needs were regularly discussed during the Plan year. The Trustee's advisers continue to recommend potential training topics for the Trustee to consider. A training plan for topics has been agreed with its advisers for 2021.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustee is satisfied that it has met the relevant legislative requirements in this area.

The Governance Sub-committee reviews on an annual basis what training is deemed necessary, taking into account training that has been done over recent years, market developments and forthcoming Plan activity.

The Trustee has worked with Willis Towers Watson to review the Plan's compliance with the Pensions Regulator's DC Code of Practice in February 2021. Based on the findings of the review, the Trustee determined that the Plan was compliant with all legal requirements and the Plan met 147 of the Pensions Regulator's 148 expectations.

The Trustee also determined that it had exceeded the expectations of the Pensions Regulator in two areas, firstly because of the effective way the Trustee operates sub-committees to assist with decision making and the governance of the Plan, and secondly because the Trustee continues to provide members with engaging communications and support.

The Trustee Directors use their combined knowledge and understanding to:

- Manage the Plan effectively, in line with its governing documents.
- Ensure that Plan specific policies and procedures continue to be appropriate.
- Operate a communications approach which positively supports member education and retirement planning.

The Trustee Directors have also taken advice from specialist pensions (Willis Towers Watson), investment (Willis Towers Watson) and legal (CMS Cameron McKenna and Hogan Lovells) advisors, to help them to achieve their goals effectively for the year. Relevant advisors are present at Trustee and sub-committee meetings. The Trustee reviews its advisors on an annual basis. The professional advisors proactively raise any changes in governance requirements and other relevant matters as they become aware of them and will typically deliver training on such matters at Trustee meetings or specific training sessions.

The Trustee Board is made up of a diverse group of Trustee Directors. There is representation from all parts of the business and the Member Nominated Director appointment process is designed to promote diversity on the Board.

Additional Voluntary Contributions (AVCs)

There are a number of AVC arrangements linked to the Plan's DB Section. Most AVCs are now invested in the same funds available to the Plan's DC Section. The exceptions to this are with-profits funds with Aviva and Prudential, and a Prudential Deposit fund. This is due to the complexity of these products and the potential disadvantages to members of exiting these funds prior to retirement.

The Trustee moved assets from Utmost Life and Pensions (formerly held with Equitable Life) to the AVC arrangement linked to the funds available to the Plan's DC Section in Q1 2020.

The Trustee has concluded that the AVC arrangements represent **'good value'** for money for members.

The Statement regarding DC Governance was approved by the Trustee and signed on its behalf by:

Chair of the Trustee Company
Cummins UK Pension Plan

Pounds and Pence Illustration – Assumptions

1. *Each member has a different amount of savings within the Plan and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be.*

2. *Projected retirement account values are shown in today's terms and do not need to be adjusted for future inflation.*

3. *The illustrations are estimates and are not guaranteed. They should not be relied upon to make investment decisions. They do not indicate the likely variances and volatility in the possible outcome from each fund. The illustrations are only for the purpose of understanding the long-term effect of charges on pension saving in the different investment fund available in the Plan fund range.*

4. *Contributions and costs/charges that are shown as a monetary amount reduction are paid halfway through the year.*

5. *Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.*

6. *Charges and costs are deducted before the application of investment returns.*

7. *Charges and transaction cost information has been provided by Legal and General Investment Management, the Plan's platform provider.*

8. *Inflation is assumed to be 2.5% each year.*

9. *Contributions are assumed from age 16 to 65 and increase in line with assumed earnings inflation of 0% per year in real terms.*

10. *The real projected annual growth rates for each fund are as follow:*

    - ***Flexicycle – continued growth option*** *– from 0.65% to 3.51% (adjusted depending on term to retirement)*
    - ***Flexicycle – Guaranteed income focused option*** *– from -0.37% to 3.51% (adjusted depending on term to retirement).*
    - ***Pre-Retirement Fund*** *– -0.77%.*
    - ***Cash Fund*** *– -0.88%.*

11. *Transactions costs have been provided by Legal and General Investment Management and cover the period 1 January 2018 to 31 December 2020. Transaction costs have been averaged by WTW using a time-based approach.*

12. *Illustrations are rounded to the nearest £100 for simplicity.*

13. *The Plan's normal retirement age is 65.*

14. *Example members:*

    - ***Youngest member****: age 16, total contribution: £2,300, starting fund value: nil, contribution rate: core + 4% matched.*
    - ***Average member****: age 41, total contribution: £5,300, starting fund value: £45,600, contribution rate: core + 3% matched.*
    - ***Member approaching retirement****: age 60, total contribution: £5,300, starting fund value: £63,100, contribution rate: core + 3% matched.*

Cummins UK Pension Plan

Statement of **Investment Principles**

October 2020

Contents

NEXT PAGE

Introduction

1.1 This document is the Statement of Investment Principles (SIP) made by the Cummins UK Pension Plan Trustee Limited (the Trustee) for the Cummins UK Pension Plan (the Plan) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

1.2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Plan's investment consultant (Willis Towers Watson) and consulted Cummins Inc., the parent company of the principal employer of the Plan, Cummins EMEA Holdings Limited (EMEA Holdings). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

1.3 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Plan's benefits are provided on both a defined benefit (the DB Section) and defined contribution (the DC Section) basis. This statement focuses on both the defined benefit and defined contribution sections of the Plan.

1.4 The Plan is registered under the Finance Act 2004.

Third-party service providers

Plan actuary

2.1 The Plan actuary's responsibilities in relation to the DB Section include:

a. Performing the triennial valuations of the Plan (or more frequently, as required) and advising on the appropriate contribution levels for the future.

b. Liaising with the investment consultant on the suitability of the Plan's investment strategy, given the financial characteristics of the Plan.

Investment consultant

2.2 The investment consultant's responsibilities include:

a. Advising the Trustee and ISC, as requested:

- through consultation with the Plan actuary where appropriate
- on matters concerning the investment strategy
- on the implementation of the chosen investment strategy.

b. Undertaking project work as requested, including:

- investment strategy reviews
- investment implementation reviews.

Custodian

2.3 The custodian's responsibilities in relation to the DB Section include:

a. The safekeeping of the Plan's assets

b. Regular and accurate reporting of the Plan's assets

c. Regular and accurate performance measurement of the Plan's assets.

Legal counsel

2.4 The legal counsel's responsibilities include:

a. Providing the Trustee with advice on legal matters in relation to the Plan's activities

b. Reviewing documentation in relation to the Trustee's service providers and investment managers and other associated documentation as required by the Trustee.

Objectives

3.1 The long-term objective of the Trustee for the DB Section is to reach 103% funding on a 'self-sufficiency' basis by the end of 2028. In seeking to achieve this objective, the Trustee is mindful of the need to:

- **a.** Acquire suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with new contributions from members and the participating employers, the cost of current and future benefits that the Plan provides. The Trustee currently targets a gilts + 1.9% per annum return.
- **b.** Limit the risk of the assets failing to meet the liabilities over the long term.
- **c.** Minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the objective shown under b.

3.2 The long-term objective of the Trustee for the DC Section is to facilitate members in accumulating enough capital to meet their retirement objectives. In seeking to achieve this objective, the Trustee is mindful of the need to:

- **a.** Acquire suitable assets of appropriate liquidity that will generate income and capital growth which, together with new contributions from members and the participating employers, will provide a fund at retirement with which to target the member's selected retirement objective.
- **b.** Understand that members' investment needs change as they progress towards retirement age.
- **c.** Minimise long-term costs to members whilst having regard to the objective shown under a.

Investment strategy

4.1 The Trustee has received advice to determine an appropriate investment strategy for the Plan. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently and has therefore delegated responsibility for investment decisions to its investment sub-committee (ISC). All decisions of the ISC will be recorded in committee minutes and made available to the full Trustee board.

4.2 The DB investment strategy makes use of three key types of investments:

a. a range of instruments that provide a better match to changes in liability values

b. a diversified range of return-seeking assets, including (but not limited to) equities, credit, real assets, insurance and diversifying strategies

c. a mixture of passive and actively managed portfolios.

4.3 The DC investment strategy is disclosed in Appendix B.

4.4 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Plan's investment objective.

4.5 For the DB Section, the Trustee, together with the Plan's administrators, will ensure that it holds sufficient cash to meet the likely benefit outgo from time to time. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of circumstances. The Trustee has also determined a policy for meeting cashflow requirements that is consistent with the Plan's overall investment policy.

4.6 For the DC Section, the members' accounts are held in pooled funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement. The Plan will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

Investment managers

5.1 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy but will delegate responsibility for selection of specific investments to appointed investment managers, which may include insurance companies. The investment managers will provide the skill and expertise necessary to competently manage the investments of the DB and DC sections of the Plan.

5.2 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Plan's long-term objectives and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Plan's investment managers to its investment consultant.

5.3 The Trustee also expects the investment managers, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and ESG issues concerning the Trustee's investments. The Trustee believes such engagement incentivises the investment managers to protect and enhance the long-term value of its investments.

Alignment

5.4 Alignment between a manager's management of the Plan's assets and the Trustee's policies and objectives is a fundamental part of the appointment process of a new manager. When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the investment management agreement. A measurable objective has been developed for the managers that is consistent with the achievement of the Plan's longer-term objectives and this is:

a. to perform in line with the performance targets relative to the relevant benchmark indices, listed in the investment manager agreement for each of the managers.

5.5 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment.

5.6 For most of the Plan's investments, the Trustee expects the investment managers to invest with a medium-to-long time horizon, and to use their engagement activity where applicable to drive improved performance over these periods.

5.7 When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Fees

5.8 Managers are paid based on the size of the portfolio, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustee's view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures are therefore only used in a limited number of cases.

5.9 The Trustee reviews the costs incurred in managing the Plan's assets regularly which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual-manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

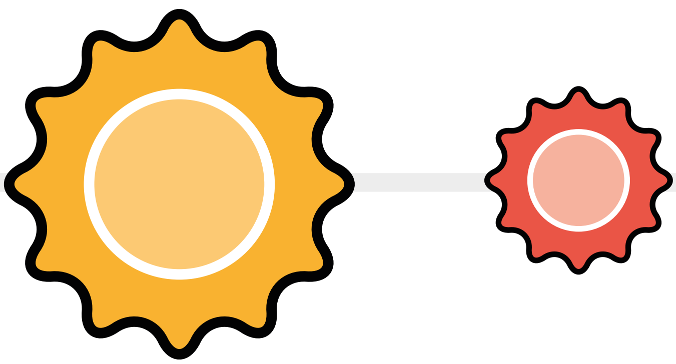
Social, environmental and ethical issues

6.1 The Trustee supports good stewardship in pursuit of its fiduciary duty and recognises the UK Stewardship Code as best practice. The Trustee encourages its investment managers to adhere to the principles of the Code, to document their policies on stewardship, and to disclose these publicly. This includes relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.

6.2 The Trustee delegates its voting rights to investment managers and expects these to be exercised where practical. The investment managers are required to provide regular reports to the Trustee detailing their voting activity (where applicable). Where investment style and resources permit, the Trustee encourages its investment managers to engage with investee companies and, where concerns arise, to promote the interests of long-term shareholders.

6.3 The Trustee recognises that environmental, social and corporate governance (ESG) factors (including climate change) can impact investment risk and return and, where investment style and resources permit, encourages its investment managers to take such factors into account in the exercise of their delegated duties. Other non-financial matters, such as individual members' views are not considered in the selection, retention and realisation of the Plan's investments.

6.4 The investment consultant monitors the stewardship approach of the Plan's investment managers and reports on this to the Trustee at least once a year. Where appropriate, the Plan's investment consultant will engage with investment managers to encourage improvement.



Other matters

Derivatives

7.1 For the DB Section of the Plan, direct investment in derivative instruments may only be made when contributing to a reduction of risks or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

7.2 For the DC Section of the Plan, no direct exposure to derivatives is taken.

Additional voluntary contributions (AVCs)

7.3 The Plan's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions, adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options which broadly satisfies the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

Risk management

7.4 The Trustee recognises a number of risks involved in the investment of the assets of the Plan in relation to the DB Section:

Solvency risk and mismatching risk

- Are measured by assessing the expected development of the liabilities compared with the current and alternative investment policies.
- Are managed through assessing the progress of the actual growth of the liabilities in relation to the selected investment policy.

Sponsor risk

- Is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and make good any current or future deficit for the DB Section.
- Is managed by assessing the interaction between the Plan and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability in relation to a number of metrics reflecting the financial strength of the sponsor.

7.5 The Trustee recognises a number of risks involved in the investment of the assets of the Plan relating to both the DB and DC sections.

Liquidity risk

- Is measured by the level of cashflow required by the Plan over a specified period.
- Is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

Political risk

- Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- Is managed by regular reviews of the actual investments in relation to policy and through regular assessment of the levels of diversification within the existing policy.

Manager risk

- Is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, in relation to the investment policy.
- Is managed by monitoring the actual deviation of returns in relation to the objective and factors supporting the manager's investment process.

Currency risk

The Trustee understands that exchange rate movements could reduce the returns achieved on the Plan's overseas investments.

- It is addressed in the DB Section through diversification of holdings, monitoring of the asset allocation and where appropriate, hedging of currency exposure(s) either externally or within the pooled fund investments.
- It is managed in the DC Section via the provision of currency-hedged, pooled-fund investments in the flexicycle and the self-select fund ranges.

Custodial risk

- Is measured by assessing the creditworthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.
- Is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate.

7.6 The Trustee also recognises a number of risks involved in the investment of assets of the Plan in relation to the DC Section:

Inflation risk

The risk that the investment return over members' working lives does not keep pace with inflation.

- It is managed through monitoring the investment managers' performance and reviewing the default flexicycle strategy on a regular basis.

Annuity conversion risk

The risk that relative market movements in the years just prior to retirement may lead to substantial reduction in the pension and cash lump sum secured.

- It is managed as part of the flexicycle: annuity protection strategy which targets annuity purchase at retirement. This strategy aims to hedge against annuity price movements as members approach their target retirement age. Members can also self-select an annuity protection fund.

Capital risk

The risk that the funds in which members invest fall in absolute terms.

- It is managed through the default flexicycle strategy which looks to de-risk member assets as they approach retirement.

Opportunity or shortfall risk

The risk that members do not take sufficient risk at a stage in their lives when they are most able to, resulting in a smaller-than-expected pension account at retirement.

- It is managed through the default flexicycle strategy being appropriate for members needs and through member communications on the investment options available to them.

Fee risk

The risk that the value of a member's pension account is unduly eroded due to higher investment management charges.

- It is managed through monitoring the investment managers' fees as disclosed in section 5.8 and 5.9.

7.7 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

7.8 The Trustee continues to monitor these risks.

Cummins UK Pension Plan

Statement of **Investment Principles**

APPENDIX

October 2020

Contents

Appendix A:
Additional voluntary contributions (AVCs)

- The Trustee provides a facility for members to pay AVCs into the Plan to enhance their benefits at retirement.
- At present for both sections of the Plan, the Trustee offers members the facility to invest in a range of funds with Legal & General.
- Historical DB AVC arrangements with the Equitable Life Assurance Society and Prudential also exist, but they are not open to further contributions. Following the transfer of Equitable Life to Utmost, the Trustee moved these assets into the L&G Cash Fund, which is the new default arrangement.
- DB members can invest their AVCs in line with the options available in the DC Section.
- The Trustee monitors the investment performance and reviews the appropriateness of the arrangements for AVCs from time to time.

Appendix B:
Defined contribution (DC) Section

The Trustee seeks to acquire suitable assets of appropriate liquidity that will generate income and capital growth which, together with new contributions from members and the employer, will provide a fund at retirement with which to target the appropriate 'at retirement' objective.

Members' investment needs change as they progress towards retirement age. Younger members, specifically those with more than 10 years to retirement, have a greater need for real growth to attempt to ensure their investment accounts keep pace with inflation and, if possible, salary escalation. Younger members will also, all other things being equal, have a greater tolerance for volatility of returns, as they have a greater time to retirement in which markets may come back in line from any temporary low. Older members, specifically those with 10 years or fewer to retirement, will require a greater level of consistency in the amount of benefits that may be secured with their investment accounts. Members will also have differing personal preferences.

The Trustee's policy is to seek to achieve the objectives by providing a range of funds which together offer a suitable mixture of growth assets (such as equities which are expected to achieve above-inflation returns over the long term) and monetary assets (that are expected to achieve returns in line with inflation). They recognise that the returns on growth assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile.

The DC Section currently offers two strategies for members: flexicycle (the Plan's default) and self-select.

Flexicycle

- The flexicycle option uses two different growth funds provided by Legal & General, both of which aim for returns higher than inflation:
    - Moderate growth fund
    - Accelerated growth fund
    - The default growth fund is the accelerated growth fund, unless you join the Plan at age 50 or over, in which case, it is the moderate growth fund.

The current growth funds are blended as follows:

Underlying investment funds	Accelerated growth fund	Moderate growth fund
MSCI All World Adaptive Capped ESG Index Fund	50%	-
Global Equity (RAFI Indexation) Fund	50%	-
Diversified Growth Fund	-	100%

- The flexicycle strategy de-risks at two points leading up to retirement. The first stage is at 20 years from retirement where the accelerated growth fund is switched into the moderate growth fund. The second stage is at 10 years from retirement, at which point members can choose a retirement outcome strategy, if they wish.
- For members who remain in the flexicycle continued growth strategy, a proportion of the growth funds are switched over the 10 years to retirement into the pre-retirement fund and the cash fund so that at target retirement age, the assets are invested 50% in the moderate growth fund, 35% in the pre-retirement fund and 15% in the cash fund. The switches are one way with no rebalancing back to growth assets during the switching period.
- Members will be asked to choose their target retirement age: between 55 to 75 years old.
- The default flexicycle option will be based on the State pension age for members who do not select a target retirement age.

The Trustees have agreed to provide members at 10 years to retirement with a choice of three flexicycle investment options targeting different at-retirement objectives:

- Flexicycle continued growth (the default)
- Flexicycle annuity protection
- Flexicycle cash focused

The default flexicycle option targets continued growth which aims to put members in the right position to make a choice that works for them as they reach their target retirement age.

Underlying funds	Continued growth	Annuity protection	Cash focused
Moderate growth fund	50%	15%	25%
Pre-retirement fund	35%	60%	-
Cash fund	15%	25%	75%

Self-select

The self-select funds are as follows:

- Cummins UK equity index fund
- Cummins World equity index fund (unhedged)
- Cummins World equity index fund (hedged)
- Cummins World emerging markets equity index fund
- Cummins Ethical global equity index fund
- Cummins Property fund
- Cummins AAA-AA-A corporate bond all-stocks index fund
- Cummins Pre-retirement fund
- Cummins Cash fund
- HSBC Islamic titans fund
- Cummins Accelerated growth fund
- Cummins Moderate growth fund

Further details of the options and funds are available to members on the pensions website: **www.cumminsukpensions.co.uk**.

The Trustee considers from time to time whether the range of funds being offered is appropriate.