Cummins UK Pension Plan

Statement of **Investment Principles**

APPENDIX

October 2020

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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.