Cummins UK Pension Plan

Statement of **Investment Principles**

October 2020

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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.

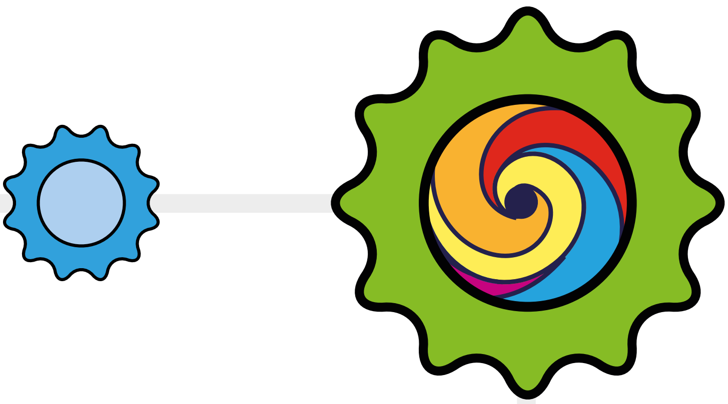
c. Minimise the long-term costs of the Plan by maximising the return on the assets whilst having regard to the objective shown under b.

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.

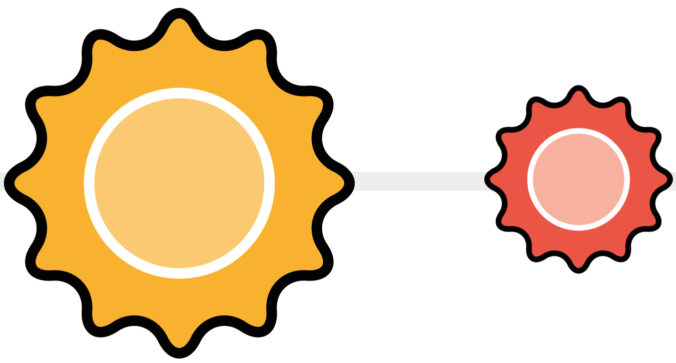
Social, environmental and ethical issues

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.