

## Chair's Governance Statement

### 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.

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 2018 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.

This year's statement includes new 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.

### 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 arrangement is 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 three '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 it also has 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 default investment option for the Plan targets taking a guaranteed income (by purchasing an annuity from an insurance provider) at retirement.

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 January 2019.

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 changes agreed during the 2017 investment strategy review were implemented in early 2018.

If members are unsure of how they are invested, they can check this by logging onto <https://orbit.cummins.com>. Members can also download the Cummins UK Pension Plan App from the Apple App Store.

### **Processing of core financial transactions**

With the help of the Plan administrator, Capita, 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. 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 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**

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the Trustee calculated the charges and, so far as it was able to do so, the transaction costs, borne by members during the Plan year.

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 applying to all of the Plan's DC investment funds.

Fund Name	Charges			Transaction Costs	Total Annual Charge	Default Arrangement
	Annual Management Charge	Additional Expenses	Total Expense Ratio			
<b>Flexicycle options Funds</b>						
Accelerated Growth Fund	0.20%	0.00%	0.20%	0.04%	0.24%	Yes
Moderate Growth Fund	0.18%	0.02%	0.20%	-0.06%	0.14%	Yes
Pre-retirement Fund	0.14%	0.00%	0.14%	0.02%	0.16%	Yes
Cash Fund	0.13%	0.00%	0.13%	0.00%	0.13%	Yes
<b>Self-Select Funds</b>						
UK Equity Fund	0.10%	0.03%	0.13%	-0.01%	0.12%	No
Ethical Global Equity Fund	0.30%	0.00%	0.30%	0.01%	0.31%	No
World Equity Fund	0.13%	0.00%	0.13%	-0.01%	0.12%	No
World Equity (GBP Hedged) Fund	0.15%	0.00%	0.15%	0.07%	0.22%	No
World Emerging Market Equity	0.34%	0.01%	0.35%	0.03%	0.38%	No
AAA-AA-A All Stocks Bonds Fund	0.15%	0.00%	0.15%	-0.04%	0.11%	No
Property Fund	0.74%	0.31%	1.04%	-0.07%	0.97%	No
HSBC Islamic Titans	0.35%	0.01%	0.36%	0.03%	0.39%	No
Cash Fund	0.13%	0.00%	0.13%	0.00%	0.13%	No

### 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.

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 three of the available investment options. These are the:

- Guaranteed income focused Flexicycle
- Pre-Retirement Fund; and
- Cash Fund.

Example Member	Years	Flexicycle - Guaranteed income focussed option		Pre-Retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member	1	£1,800	£1,800	£1,800	£1,800	£1,800	£1,800
	3	£5,800	£5,800	£5,500	£5,400	£5,400	£5,400
	5	£10,100	£10,000	£9,100	£9,100	£9,100	£9,000
	10	£22,800	£22,500	£18,600	£18,400	£18,300	£18,200
	15	£38,800	£38,000	£28,400	£28,000	£27,600	£27,300
	20	£58,800	£57,300	£38,400	£37,800	£37,100	£36,600
	25	£84,000	£81,200	£48,800	£47,900	£46,700	£46,000
	30	£115,500	£110,700	£59,600	£58,200	£56,500	£55,400
	35	£150,700	£143,600	£70,700	£68,700	£66,400	£64,900
	40	£186,700	£177,100	£82,200	£79,500	£76,500	£74,500
Average member	1	£34,300	£34,200	£33,100	£33,000	£33,000	£33,000
	3	£47,900	£47,600	£43,400	£43,200	£43,000	£42,900
	5	£62,700	£62,100	£53,800	£53,500	£53,100	£52,800
	10	£104,100	£102,500	£80,500	£79,600	£78,600	£77,900
	15	£149,800	£146,900	£108,000	£106,400	£104,500	£103,200
	20	£197,000	£192,400	£136,500	£133,800	£130,700	£128,700
	25	£239,100	£232,500	£165,900	£161,900	£157,400	£154,400
Member approaching retirement	1	£56,100	£56,000	£55,200	£55,200	£55,100	£55,000
	3	£68,200	£67,900	£65,800	£65,500	£65,200	£65,000
	5	£79,600	£79,100	£76,500	£76,000	£75,400	£75,000

The Trustee has taken account of the statutory guidance when preparing these illustrations. The assumptions used to calculate the illustrations are included at the end of this statement.

### 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.

In forming its conclusions the Trustee considered matters including the Plan's management and governance, administration, investment governance and communications and also the general characteristics of the Plan's membership. The table below provides the high-level results of this year's assessment (noting that the legal requirements of VFM assessments only focus on the benefits and services that are paid for by members).

	Benefit service category	Paid for by	Value for Members	Broader Value
1.	Charges	Members	Excellent value	Not Relevant
2.	Scheme governance and management	Trustee/Company	Not Relevant	Good Value
3.	Investment	Members	Good Value	Good Value
4.	Administration	Trustee/Company	Not Relevant	Good Value
5.	Communications	Trustee/Company	Not Relevant	Excellent value

**Key:**

Excellent value	Good Value	Sufficient Value	Poor Value	Not Relevant
-----------------	------------	------------------	------------	--------------

The rating for the 'Communications' service element has improved from 'Good' to 'Excellent' value since last year. 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.

The Trustee has concluded that overall, the Plan provides **'good 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 rating of **'good 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).
- 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.
- Members do not currently pay for Plan's administration costs, professional adviser costs or any costs (other than fund management) associated with the operation of the Plan.
- Members are provided with high quality communications.
- The high level of oversight and governance provided by the Trustee.
- The availability of salary sacrifice arrangements.
- Members have access to flexible retirement options on a basis which is in-keeping with similar schemes and the availability of an annuity broking service at retirement.

## **Trustee Knowledge and Understanding ('TKU')**

The Trustee has a strong TKU process in place, which, together with the advice available to them, enables the Trustee Directors to properly exercise their functions as Plan Trustees.

The Trustee has a good working knowledge of key Plan documents, including the Trust Deed and Rules, the SIP and various documents setting out the Trustee's policies and procedures. The Trustee also believes that it has sufficient knowledge of the law relating to pensions and trusts.

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 (2018 training topics included: Annual Allowance and Lifetime Allowance, DC Code of Practice and GDPR);
- training received by the Trustee was recorded in a training log;
- circulating to each Trustee Director 'hot topics' and general updates from its advisers about relevant matters on a quarterly basis;
- recently appointed Trustee Directors are in the process of completing the Pensions Regulator's Toolkit. 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.

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.

As part of its commitment to maintaining an effective and engaged Trustee Board, the Trustee last formally assessed the level of TKU around pensions administration, investment and legislation in 2015. Carrying out a similar process again is currently being considered as part of a 2019 training review. 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.

## **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, Equitable Life 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 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:**

**Chairman of the Trustee Company**

**Cummins UK Pension Plan**

## **Pounds and Pence Illustration – Assumptions**

1. *Projected retirement account values are shown in today's terms.*
2. *Contributions and costs/charges that are shown as a monetary amount reduction are paid halfway through the year.*
3. *Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.*
4. *Charges and costs are deducted before the application of investment returns.*
5. *Inflation is assumed to be 2.5% each year.*
6. *Contributions are assumed from age 16 to 65 and increase in line with assumed earnings inflation of 0% per year in real terms.*
7. *Values shown are estimates and not guaranteed.*
8. *The real projected annual growth rates for each fund are as follow:*
  - *Flexicycle – Guaranteed income focused option – from 0.93% to 4.67% (adjusted depending on term to retirement).*
  - *Pre-Retirement Fund – 0.65%.*
  - *Cash Fund – 0.30%.*
9. *Transactions costs have been provided by Legal and General Investment Management and cover the period 1 January 2018 to 31 December 2018.*
10. *Pension scheme's normal retirement age is 65.*
11. *Example members:*
  - *Youngest member: age 16, total contribution: £1,800, starting fund value: nil, contribution rate: core + 4% matched.*
  - *Average member: age 40, total contribution: £4,900, starting fund value: £28,000, contribution rate: core + 3% matched.*
  - *Member approaching retirement: age 60, total contribution: £4,900, starting fund value: £50,000, contribution rate: core + 3% matched.*