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 2019 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).

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 2020.

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 commenced an investment strategy review in February 2020, with further work in regard to this being undertaken in May 2020.

During the Plan year, the Trustee reviewed the underlying assets in the Accelerated Growth Fund, which is used as the initial growth fund in all the Flexicycle designs. The Trustee implemented a change which saw 50% of the asset allocation move to an investment fund with an ESG (Environmental, Social and Governance) focus in February 2019. The Trustee believes that the change to asset allocation approach should impact positively on long term investment returns.

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.

The Plan administrator changed with effect from 1 January 2020 to Premier Pensions Administration ('Premier'). The Trustee will be working with Premier to ensure that core financial transactions continue to be processed in line with expectations for the Plan year to 31 December 2020.

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.

COVID-19

At the time of drafting, the Trustee Directors are working closely with their advisers and service providers to assess the impact of COVID-19 on the Plan. This work has included ensuring that core financial transactions continue to be processed promptly, monitoring the Plan's investment situation, and communicating appropriate messages to DC members to help them understand how this impacts on their retirement planning.

Fund Name	Charges			Transaction Costs	Total Annual Charge	Default Arrangement
	Annual Management Charge	Additional Expenses	Total Expense Ratio			
Flexicycle options Funds						
Accelerated Growth Fund	0.19%	0.01%	0.20%	0.05%	0.25%	Yes
Moderate Growth Fund	0.18%	0.01%	0.19%	-0.04%	0.15%	Yes
Pre-retirement Fund	0.14%	0.00%	0.14%	0.00%	0.14%	Yes
Cash Fund	0.13%	0.00%	0.13%	0.00%	0.13%	Yes
Self-Select Funds						
UK Equity Fund	0.10%	0.00%	0.10%	-0.03%	0.07%	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%	0.04%	0.19%	No
World Emerging Market Equity	0.34%	0.01%	0.35%	0.01%	0.36%	No
AAA-AA-A All Stocks Bonds Fund	0.15%	0.00%	0.15%	-0.03%	0.12%	No
Property Fund	0.74%	0.13%	0.87%	-0.52%	0.35%	No
HSBC Islamic Titans	0.35%	0.30%	0.65%	0.03%	0.68%	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	£2,300	£2,300	£2,200	£2,200	£2,200	£2,200
	3	£7,100	£7,100	£6,700	£6,700	£6,700	£6,600
	5	£12,300	£12,300	£11,200	£11,100	£11,000	£11,000
	10	£27,300	£27,000	£22,300	£22,100	£21,700	£21,600
	15	£45,500	£44,600	£33,300	£33,000	£32,100	£31,800
	20	£67,400	£65,700	£44,300	£43,700	£42,200	£41,600
	25	£94,100	£90,900	£55,200	£54,200	£51,900	£51,100
	30	£126,200	£121,100	£66,100	£64,600	£61,400	£60,200
	35	£161,700	£154,100	£76,900	£74,900	£70,600	£69,000
	40	£198,100	£188,000	£87,700	£85,100	£79,500	£77,500
	45	£231,000	£218,400	£98,300	£95,100	£88,100	£85,700
	49	£248,100	£233,800	£106,900	£103,000	£94,800	£92,000
Average member	1	£41,400	£41,300	£39,900	£39,800	£39,700	£39,600
	3	£54,900	£54,500	£49,600	£49,400	£48,900	£48,800
	5	£69,400	£68,700	£59,200	£58,900	£58,100	£57,800
	10	£108,800	£107,100	£83,300	£82,500	£80,500	£79,700
	15	£151,400	£148,500	£107,300	£105,700	£102,200	£100,900
	20	£193,400	£188,800	£131,200	£128,700	£123,200	£121,200
	24	£219,900	£214,100	£150,100	£146,900	£139,600	£137,000
Member approaching retirement	1	£64,400	£64,400	£63,300	£63,200	£63,000	£62,900
	3	£76,100	£75,800	£73,000	£72,700	£72,000	£71,700
	5	£86,500	£86,000	£82,600	£82,100	£80,900	£80,400

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		
2.	Scheme governance and management	Trustee/Company		
3.	Investment	Members		
4.	Administration	Trustee/Company		
5.	Communications	Trustee/Company		

Key:

Excellent value		Good Value		Sufficient Value		Poor Value		Not Relevant	

The ratings in the areas of 'scheme governance and management' and 'investment' are improved since last year's assessment, and the Trustee considers members to receive consistent high value in all areas. 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 **'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 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).
- 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 the 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.

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 to ensure that gaps in knowledge are identified and external specialist training can be arranged as necessary.

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 (2019 training topics included: GMP Equalisation, Integrated Risk Management, ESG and Introduction to LDI);

- 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 (two Trustees appointed in March 2020) and are given a due date of six months to complete this. 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 2020.

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 intends to assess its Trustee Knowledge and Understanding and effectiveness in Q3 2020. 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.

During the review period the Trustee also assessed the Plan’s position against the Pensions Regulator’s DC Code of Practice no 13 (July 2016). The assessment confirmed that the Trustee is compliant with the legal requirements and the Regulator’s expectations in the area of TKU.

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, legal and communications advisers, to help them to achieve their goals effectively for the year.

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:

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 0.19% to 3.92% (adjusted depending on term to retirement).*

    - *Pre-Retirement Fund – -0.11%.*

    - *Cash Fund – -0.61%.*

9. *Transactions costs have been provided by Legal and General Investment Management and cover the period 1 January 2018 to 31 December 2019. Transaction costs have been averaged by WTW using a time-based approach. The transaction costs for Blended funds were estimated by WTW based on the transaction costs for the underlying funds.*

10. *Pension scheme's normal retirement age is 65.*

11. *Example members:*

    - *Youngest member: age 16, total contribution: £2,240, starting fund value: nil, contribution rate: core + 4% matched.*

    - *Average member: age 41, total contribution: £4,900, starting fund value: £35,000, contribution rate: core + 3% matched.*

    - *Member approaching retirement: age 60, total contribution: £4,900, starting fund value: £58,500, contribution rate: core + 3% matched.*