

# CAPITA



## **Cummins UK Pension Plan**

**Plan Registration Number: 10244007**

Trustee's Annual Report and Financial Statements  
For the Year 1 January 2018 to 31 December 2018

**CONFIDENTIAL**

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# Trustee and Advisers

## Trustee Company

Cummins UK Pension Plan Trustee Limited  
Yarm Road, Darlington, County Durham,  
DL1 4PW

## Directors of the Trustee Company

KN Moore (Chair)  
E Kelly  
G Griesinger  
P Hoskins\*  
DL Russon\*  
G Davis\*  
S Williams\*  
E Smith  
B Daley  
J Guilfoyle  
SG Coughlan\*  
A Waller\* (Appointed 1 January 2019)  
J Finlay\* (Appointed 1 January 2019)  
S McMillan\* (Resigned 30 June 2018)  
B O'Rourke\* (Resigned 30 June 2018)  
H Foden (Resigned 31 December 2018)

\* Member nominated Directors

## Secretary to the Trustee Company

J Rose

## Plan Actuary

A Mandley FIA  
Willis Towers Watson

## Administrators

Capita Employee Solutions

## Independent Auditors

PricewaterhouseCoopers LLP

## Bankers

The Royal Bank of Scotland plc

## Solicitors

Freshfields  
CMS Cameron McKenna

## Sponsoring Employer

Cummins Limited  
Yarm Road  
Darlington DL1 4PW

## Investment Consultants

Willis Towers Watson

## Investment Managers

Legal & General Investment Management Ltd \*  
Goldman Sachs  
CB Richard Ellis Investors Limited  
Axiom  
State Street Global Advisors  
Morgan Stanley  
Credit Suisse  
AQR Capital Management  
Alcentra  
Legal & General Assurance Society – Insurance Policy  
American Securities  
Advent International  
Sun Capital  
Brigade Credit Offshore Fund II Ltd  
Hayfin  
Energy Capital Partners  
Franklin Templeton Investors  
Cabot Square Capital  
TIAA-CREF  
SC Management  
Atlas Partners  
CDH Investments  
Mobeus Equity Partners  
Francisco Partners  
Ancala (from August 2018)

\* Act as managers on both DB and DC section

## AVC Providers

Legal & General Assurance (Pensions Management) Limited  
Prudential Assurance Company Limited  
The Equitable Life Assurance Society  
Aviva

## Group Life Insurers

MetLife

## Custodian

Northern Trust Company  
HSBC Bank plc

# Trustee's Report

Cummins UK Pension Plan Trustee Limited (the "Trustee") presents the Trustee's Report for the year 1 January 2018 to 31 December 2018.

## Plan Constitution and Management

### The Plan

The Cummins UK Pension Plan (the "Plan") is governed by a definitive Trust Deed and Rules dated 29 April 1999 and subsequent amendments. The Plan is provided for all eligible employees of the Cummins Inc Group in the UK. The Principal Company of the Plan is Cummins EMEA Holdings Limited ("the holding company").

The Plan provides a number of different levels of benefits to the different categories of members. The Plan has a Defined Benefit section and a Defined Contribution section.

### The Sponsoring Employer

The sponsoring employer ("The Company") is Cummins Limited (Registered No. 00573591) as stated on page 2 of this report.

### The Trustee and its Role

The Plan is managed by a corporate Trustee, Cummins UK Pension Plan Trustee Limited (Registered No. 03762337) as stated on page 2 of this report.

The Trustee holds the assets of the Plan on behalf of members, pensioners and other beneficiaries in a trust fund which is completely separate from the employer's assets. Its role is to administer the Plan in accordance with the Trust Deed and rules. The Trustee uses its best endeavours to manage funding and investments in the Defined Benefit section to meet the liabilities of that section. For the Defined Contribution section the Trustee aims to provide members with a range of good quality investment options.

### Appointment of Trustee Directors

The Trustee is appointed and removed in accordance with the Trust Deed.

Individual directors are appointed and removed in accordance with the Memorandum and Articles of Association of the Cummins UK Pension Plan Trustee Limited.

The Pensions Acts 1995 and 2004 and the regulations made under them set out requirements regarding the appointment and selection of Member Nominated Trustees ("MNTs"). The Trustee has written to Plan members setting out details of the process in place in respect of the appointment of member nominated directors.

Trustee Directors during the year were as shown on page 2. As at 31 December 2018 there were 5 member nominated, and 6 employer nominated Trustee Directors. It is a legal requirement that one third of the Trustee directors should be member nominated. The arrangements of the Plan are such that there will be up to 14 Trustee Directors, with up to 7 member nominated and 7 employer nominated. Two additional member nominated Trustee directors were appointed on 1 January 2019.

## Trustee's Report (continued)

### Plan Constitution and Management (continued)

#### **Plan Governance**

The Trustee has established a Governance Committee to consider the key risks affecting the Plan and to develop and monitor the effectiveness of controls implemented to mitigate these risks.

#### **Regulatory and Legislative Changes**

The Trustee Directors are required to keep up to date with changes in pension regulations and legislation and have worked to ensure that the Plan and its administration comply with the Codes of Practice and guidance material issued by The Pensions Regulator and the Department of Work and Pensions during the year.

#### **Changes to the Plan Rules**

During the year a Deed of Amendment was executed to amend the Defined Contribution Section of the Plan following the acquisition of Johnson Matthey Battery Systems Limited, along with a Deed of Participation in respect of Johnson Matthey Battery Systems Limited as a New Employer.

#### **Company Guarantee**

The Company has put in place a PPF guarantee whereby Cummins Limited and/or Cummins Generator Technologies Limited have underwritten PPF liabilities for all other participating employers in the event that they are unable to meet their liabilities.

#### **Financial Statements**

The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in accordance with regulations made under Sections 41(1) and (6) of that Act.

## Trustee's Report (continued)

### Membership and Benefits

The change in the membership of the Plan during the year is given below:

<b>Defined Benefit Members</b>	<b>No.</b>	<b>No.</b>
<b>Active Members</b>		
Active members at 31 December 2017	866	
Adjustment	(1)	
New members joining	12	
Members who died during the year	(4)	
Members retiring	(54)	
Members leaving with preserved benefits and deferred retirements	(93)	
	<hr/>	
<b>Active members at 31 December 2018</b>		<b>726</b>
<b>Pensioners</b>		
Pensioners at 31 December 2017	4,481	
Adjustment	7	
Members retiring	117	
Spouses & dependents	60	
Pensioners who died during the year	(159)	
Pensioners who commuted their benefits	(6)	
Pensioners who have been unsuspended	1	
Pensioners who have been suspended	(9)	
	<hr/>	
<b>Pensioners at 31 December 2018</b>		<b>4,492</b>
<b>Deferred Pensioners</b>		
Deferred pensioners at 31 December 2017	1,468	
Adjustment	1	
Leavers during the year with preserved benefits and deferred retirements	93	
Deferred pensioners transferring out	(26)	
Deferred pensioners retiring	(63)	
Deferred pensioners who commuted their benefits	(3)	
Deferred pensioners who died during the year	(4)	
	<hr/>	
<b>Deferred pensioners at 31 December 2018</b>		<b>1,466</b>
<b>Total Defined Benefit membership at 31 December 2018</b>		<b>6,684</b>

Adjustments take into account member movements which occurred in the prior year, but were not confirmed until after the prior year's financial statements had been completed. Included within the pensioners above are 980 dependants (2017: 979). 3 pensioners' benefits are provided by income from annuities held in the name of the Trustee (2017: 3).

## Trustee's Report (continued)

### Membership and Benefits (continued)

<b>Defined Contribution Members</b>	<b>No.</b>	<b>No.</b>
<b>Active members</b>		
Active members at 31 December 2017	3,623	
Adjustment	(5)	
New members joining	1,199	
Duplicate records created in error	(8)	
Deaths in service	(3)	
Members transferring out	(1)	
Members leaving with contribution refunds	(132)	
Members leaving with preserved benefits and deferred retirements	(613)	
	<hr/>	
<b>Active members at 31 December 2018</b>		<b>4,060</b>
<b>Deferred pensioners</b>		
Deferred pensioners at 31 December 2017	2,339	
Adjustments	20	
Leavers during the year with preserved benefits and deferred retirements	614	
Leavers (no benefits)	(32)	
Deferred pensioners transferring out	(81)	
Deferred pensioners retiring	(10)	
Deferred pensioners who commuted their benefits	(8)	
Deaths in deferment	(2)	
	<hr/>	
<b>Deferred pensioner as 31 December 2018</b>		<b>2,840</b>
<b>Total Defined Contribution membership at 31 December 2018</b>		<b>6,900</b>

Upon retirement the pensioners in the Defined Contribution section purchase an annuity. They are therefore no longer a liability of the Plan.

New entrants includes auto enrolment members and all the members who subsequently opted out and received a refund are included in members leaving with contribution refunds.

Adjustments take into account retrospective member movements which occurred in the prior year, for which no advice was received until after the prior year's financial statements had been completed.

## Trustee's Report (continued)

### Membership and Benefits (continued)

#### Transfer Values

All cash equivalent transfer values and buy outs paid by the Plan on behalf of members who have left this Plan have been calculated and verified as prescribed in Section 97 of the Pension Schemes Act 1993. Discretionary benefits are not included in the calculation of transfer values.

#### Pension Increases

The pensions in payment were increased as follows during the Plan year:

Newage International Sections	3.0% on the pre 1997 benefit; 3.0% on the post 1997 benefit and 2.5% on the post 2006 benefit (GMP); 3.0% on the post 1988 GMP.
Cummins Diesel Section	3.0% on the Blackwood Hodge benefit; 3.0% on the pre 1997 benefit; 3.0% on the post 1997 benefit and 2.5% on the post 2006 benefit (GMP); 3.0% on the post 1988 GMP.
Cummins Engine Company Section	3.0% on the pre 1997 benefit; 3.0% on the post 1997 benefit and 2.5% on the post 2006 benefit (GMP); 3.0% on the post 1988 GMP.
Power Group International Section	3.9% on the pre 2006 benefit in excess of the pre 1988 Guaranteed Minimum Pension (GMP); 3.0% on the post 1988 GMP and 2.5% on the post 2006 benefit.

None of the above were discretionary increases, all being in accordance with the Plan rules.



## Trustee's Report (continued)

### Investment Management

#### Overview

Responsibility for the administration and management of the Plan's assets is vested in the Trustee, which is responsible for the overall investment policy of the Plan. The day to day management of the Plan's investments has been delegated by the Trustee to the investment managers.

The value of the Plan's portfolio (excluding funds held in the defined contribution section and Additional Voluntary Contributions) as at 31 December 2018 is set out in Note 11 of the financial statements.

#### Investment managers (Defined Benefit)

All investment managers appointed on behalf of the Trustee to manage funds under section 34(4) of the Pensions Act 2004 are appropriately authorised under the Financial Services and Markets Act 2000 to manage investments or are specifically exempted from the requirements of the Act. All investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated to them.

The manager's duties include the consideration of social, environmental or ethical issues in the selection, retention and realisation of investments as well as voting and corporate governance in relation to the Plan's assets. The Trustee believes that the policies adopted by the managers are consistent with their own views.

The Trustee added to the Private Markets portfolio by committing to invest in Ancala Partners Private Equity fund. This strategy provides a further diversification of investment strategy to the current private markets portfolio. The Plan also considered its investments in diversified assets and in 2018 agreed to broaden the mandate to include five diversifying strategies. The new strategies are expected to be implemented early in 2019.

The managers' investment objectives are as follows:

<b><i>Manager</i></b>	<b><i>Investment Objective</i></b>
<b>Legal &amp; General Investment Management Ltd</b>	To track the total return of the relevant benchmark indices (excludes cash fund).
<b>State Street Global Advisors</b>	To track the return of the relevant benchmark indices
<b>State Street Global Advisors (LDI portfolio)</b>	To provide a leveraged return in line with each fund's individual benchmark (either a specified gilt, index-linked gilt, interest rate swap or real-rate swap)
<b>CB Richard Ellis Investors Limited</b>	To achieve a total return of between 8% - 10% per annum net of all fees and expenses by obtaining diversified exposure to Pan-European real estate (excluding the UK) through the Investment Funds and/ or Property Related Assets

## Trustee's Report (continued)

### Investment Management (continued)

#### Investment managers (continued)

<b><i>Manager</i></b>	<b><i>Investment Objective</i></b>
<b>Ancala</b>	To generate an absolute return in excess of publically quoted equity markets
<b>Alcentra</b>	To exceed the FTSE Sterling Corporates AAA Index
<b>AQR Capital Management</b>	To exceed the performance of the SG Trend Index
<b>Credit Suisse</b>	To exceed the 3 month UK Treasury Bills benchmark by 3% (net of fees) per annum
<b>Goldman Sachs, Morgan Stanley, Axiom, American Securities, Advent International, Sun Capital, Energy Capital Partners, Francisco Partners, Cabot Square Capital, Altas Partners, CDH Investments, Mobeus Equity Partners</b>	To generate an absolute return in excess of publicly quoted equity markets
<b>Heitman Global Prime Property Fund (part of Legal &amp; General holding)</b>	To exceed the FTSE EPRA/NAREIT Global Developed Real Estate Index +0.5%
<b>SC Management TIAA-CREF</b>	15% net returns through opportunistic real estate investments in Asia Pacific 6.5-10.5% net after tax returns through a globally diversified farmland investment strategy
<b>Hayfin</b>	To generate a meaningful premium over public loan markets
<b>Brigade Credit Offshore Fund II Ltd</b>	To generate 2% per annum (gross) performance ahead of the benchmark over a full market cycle
<b>Franklin Templeton Investors</b>	To maximise total return, with a combination of interest income, capital appreciation and currency gains

## Trustee's Report (continued)

### Investment Management (continued)

#### Asset allocation

The Plan's strategic asset allocation, investment managers and manager benchmarks are set out in the table below:

Asset class	Manager	Benchmark	Target allocation (%)
<b>Return-seeking allocation</b>	-	-	<b>43.5</b>
Passive equities	-	-	10.0
Global equities (adaptive capped weighted)	State Street Global Advisors	MSCI Adaptive Capped 2X Index	5.0
Global equities (economically weighted)	State Street Global Advisors	FTSE RAFI AW-3000	5.0
Other Alternatives	-	-	18.5
Reinsurance	Credit Suisse	3 Month UK Treasury Bills	5.0
Momentum	AQR Capital Management	SG Trend Index	3.0
AAA CLO	Alcentra	FTSE Sterling Corporates AAA Index	3.0
Multi-Strategy Alternative Credit	Brigade Credit Offshore Fund II Ltd	50% BofA Merrill Lynch High Yield Master II Constrained Index and 50% Credit Suisse Leveraged Loan Index	4.5
Sovereign Credit	Franklin Templeton Investors	JP Morgan Global Government bond Index (hedged)	3.0
Private markets <sup>1</sup>	-	-	15.0 <sup>1</sup>
Private equity	Goldman Sachs	70% FTSE All-Share/30% FTSE World (ex UK)	-
	Morgan Stanley	FTSE All-World	-
	American Securities	FTSE All-World	-
	Advent International	FTSE All-World	-
	Axiom	FTSE All-World Asia Pacific	-
	Sun Capital	FTSE All-World	-
	Energy Capital Partners	FTSE All-World	-
	Francisco Partners	FTSE All-World	-
	SC Management	Absolute return	-
	Altas Partners	Absolute return	-
	CDH Investments	Absolute return	-
	Mobeus Equity Partners	Absolute return	-
	Cabot Square Capital	Absolute return	-
Property	CB Richard Ellis Investors Limited	Absolute return	-
	Legal & General Investment Management (Heitman Global Prime Property Fund)	FTSE EPRA/NAREIT Global Developed Real Estate Index +0.5%	-
Infrastructure	Ancala Partners	Absolute Return	-

## Trustee's Report (continued)

### Investment Management (continued)

#### Asset allocation (continued)

<i>Infrastructure</i>	<i>Legal &amp; General Investment Management TIAA CREF (Global Agriculture II)</i>	<i>MFG Core Infrastructure Hedged Index</i>	-
<i>Illiquid Credit</i>	<i>Hayfin</i>	<i>Credit Suisse Western European Leveraged Loan Index</i>	-
<b>Liability matching allocation</b>	-	-	<b>55.5<sup>1</sup></b>
Liability Driven Investment ('LDI') <sup>2</sup>	<i>State Street Global Advisors</i>	-	-
Deferred buy-in insurance policy	<i>Legal &amp; General Assurance Society</i>	Deferred premium (10 years)	-
<b>Cash</b>	-	-	<b>1.0</b>
<b>Total</b>			<b>100.0</b>

Notes:

1. There are undefined individual manager benchmarks for Private Markets, LDI, and the deferred buy-in insurance policy.
2. The bespoke fund of one liability driven investment portfolio managed by State Street was implemented on 10 April 2017.

## Trustee's Report (continued)

### Investment Management (continued)

#### Asset distribution

Manager	Value of Portfolio £'000	Distribution %
<b>Legal &amp; General Investment Management</b>		
Heitman Global Prime Property	20,073	1.4
Listed Infrastructure	12,505	0.9
	<hr/>	<hr/>
Total Legal & General Investment Management	32,578	2.3
	<hr/>	<hr/>
<b>State Street Global Advisors</b>		
Fundamental Index Equity	84,153	6.0
Adaptive Capped Equity	78,405	5.6
Liability Driven Investment	442,106	31.7
	<hr/>	<hr/>
Total State Street Global Advisors	604,664	43.3
	<hr/>	<hr/>
AQR	35,896	2.6
Alcentra	41,329	3.0
PIMCO	18	0.0
Goldman Sachs, Axiom, Morgan Stanley, American Securities, Advent International, Sun Capital Partners, Energy Capital Partners, Francisco Partners, TIAA – CREF, Cabot Square, Private Equity Cash, Altas Partners, CDH Investments, Mobeus Equity Partners, SC Management	163,939	11.8
CBREGI	843	0.1
Hayfin	1,900	0.2
Brigade	65,709	4.7
Franklin Templeton	41,018	2.9
Credit Suisse	60,310	4.3
Legal & General Assurance Society	346,600	24.8
	<hr/>	<hr/>
<b>Total DB investment assets</b>	<b>1,394,804</b>	<b>100.0</b>
	<hr/> <hr/>	<hr/> <hr/>

## Trustee's Report (continued)

### Investment Management (continued)

#### Review of investment performance

The investment performance of the Plan relative to its benchmark is shown below:

	12 months (%)		3 years (%)		Inception to date (%)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
<b>Total Plan</b>	<b>-1.83</b>	<b>-0.15</b>	<b>8.75</b>	<b>9.21</b>	<b>6.41</b>	<b>6.58</b>

Responsibility for monitoring the performance and on-going suitability of the Plan's investment managers has been delegated by the Trustee to the Investment Sub-Committee (the "ISC"). The ISC was set up by the Trustee to provide a greater focus and appropriate level of expertise to assist and advise on investment matters for the Plan.

At any given time, the Plan is represented on the ISC by at least three Trustee Directors along with other suitably experienced individuals.

#### DC and AVC Arrangements

The DC section consists of a range of DC and AVC investments; all of the funds open to new contributions are pooled Legal & General Funds. Active (Property and Cash) and Passive funds are available to members. AVC arrangements with Equitable Life, Aviva and Prudential also exist, however, they are not open to further contributions. The DC Plan offers a number of Lifestyle strategies including a range of self-select funds and Flexicycle funds.

#### Changes to the DC and AVC strategy

The Trustee provides members with a choice of three lifestyle strategies targeting different at-retirement objectives. The first of these is designed for members looking to target annuity purchase at retirement, the second for members looking to keep assets invested and draw those down over time when they retire. The final lifestyle strategy is designed for members who are likely to have smaller pots and want to take their full pot as a lump sum. These three lifestyle strategies are outside of the default lifestyle strategy.

The Accelerated Fund will be updated in Q1 2019 to invest 50% in FTSE RAFI All world equity, and 50% in All World Adaptive Capped ESG Index Fund. The strategy at the end of December 2018 was 49% FTSE RAFI All world equity, 49% Global Equity (GBP hedged) and 2% world emerging markets. The Moderate Fund invests 100% in the LGIM Diversified Fund. The Moderate fund is part of the lifestyle strategies 20 years before retirement to reduce the level of volatility in the strategies as members get closer to retirement.

## Trustee's Report (continued)

### Investment Management (continued)

#### DC and AVC Performance

The DC fund range performance is shown below:

	Value (£m)	12 Months (%)		3 years (% pa)		5 years (% pa)	
		Fund	BM	Fund	BM	Fund	BM
<b>Lifecycle funds</b>							
Accelerated Growth	115.8	-8.1	-7.9	7.3	7.6	6.7	6.9
Moderate Growth	47.3	-3.3	-6.6	-	-	-	-
Moderate Growth vs Libor +3.5%	-	-3.3	-4.1	-	-	-	-
Pre-Retirement	11.2	-1.7	-1.7	5.7	5.8	6.7	6.8
Cash	1.4	0.4	0.5	0.3	0.3	0.3	0.3
<b>Self-select funds</b>							
UK Equity	0.5	-9.1	-9.1	6.2	6.1	4.1	4.1
Ethical Global Equity	0.3	-4.0	-3.6	11.5	11.8	10.1	10.5
World Equity	0.7	-4.3	-4.2	12.0	12.2	10.2	10.4
World Equity (GBP Hedged)	0.5	-9.0	-8.9	5.9	6.1	5.7	5.9
World EM Equity	0.2	-8.3	-8.1	14.2	14.5	7.3	7.7
AAA-AA-A All Stock Bonds	0.2	-1.1	-1.1	4.1	4.1	5.0	5.0
Property	0.3	3.2	6.5	4.2	6.4	8.0	9.6

*On 23 August 2017 the investments were migrated to a daily midday policy from daily closes prices. Returns shown are chain linked to incorporate performance from both the old pricing policy and the new.*

## Trustee's Report (continued)

### Investment Management (continued)

#### DC and AVC Performance (continued)

The AVC fund range performance is shown below:

	Value	12 Months (%)		3 years (% pa)		5 years (% pa)	
	(£m)	Fund	BM	Fund	BM	Fund	BM
<b>AVC funds</b>							
Accelerated Growth	3.3	-8.1	-7.9	7.3	7.6	-	-
Moderate Growth	0.6	-3.3	-6.6	-	-	-	-
Moderate Growth vs Libor +3.5%	-	-3.3	4.1	-	-	-	-
World Equity	0.1	-4.3	-4.2	12.0	12.2	-	-
World Equity (GBP Hedged)	1.0	-9.0	-8.9	5.9	6.1	-	-
AAA-AA-A All Stock Bonds	0.0	-1.1	-1.1	4.1	4.1	-	-
Pre-retirement	1.0	-1.7	-1.7	5.7	5.8	-	-
HSBC Islamic Global Equity (AVC)	0.0	-	-	-	-	-	-
Cash	0.5	0.4	0.5	0.3	0.3	0.3	0.3
UK Equity	0.0	-9.1	-9.1	6.2	6.1	-	-
Property	0.0	3.2	6.5	4.2	6.4	-	-
Ethical Global Equity	0.0	-4.0	-3.6	-	-	-	-
World EM Equity	0.0	-8.3	-8.1	-	-	-	-

On 23 August 2017 the investments were migrated to a daily midday policy from daily closes prices. Returns shown are chain linked to incorporate performance from both the old pricing policy and the new.

Note: The above AVC performance table excludes legacy AVCs with Prudential, Equitable Life, and Aviva

#### Statement of Investment Principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has produced a Statement of Investment Principles. A copy is available from the Secretary to the Trustee.

#### Custodial Arrangements

Custodial services in respect of the Plan's pooled fund investments are provided by the respective investment managers. For other investments, the Trustee has appointed Northern Trust Company as custodian of the investment assets.

#### Investment risk disclosures

Investment risks are disclosed in note 20 on pages 52 to 56.

#### Self investment

The investments of the Plan are invested in accordance with Section 40 of the Pensions Act 1995. The Trustee recognises that a minimal amount of employer-related investment may result from the choice of securities held by the pooled investment vehicle managers. However, the Trustee is satisfied that the proportion of the Plan's assets in employer-related investments did not exceed 5% of the market value of the Plan's assets at any time during the year, or at 31 December 2018, or during the year to 31 December 2017 and at 31 December 2017.



## Trustee's Report (continued)

### Additional Information

The purpose of this section is to disclose some additional information including that required by law.

#### **GMP Equalisation**

In October 2018, the High Court handed down a judgment, involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The Trustee of the Plan is aware that the issue will affect the Plan and will be considering this at a future meeting and decisions will be made as to next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

#### **Tax and Contracting-Out Status of the Plan**

The Plan was approved as an "exempt approved Plan" under the terms of the Income and Corporation Taxes Act 1988. From 6 April 2006 the Plan became a Registered Scheme with HM Revenue & Customs under the Finance Act 2004. To the Trustee's knowledge there is no reason why such status should be prejudiced or withdrawn. Dependent upon their membership section, members of the Plan are contracted out of, or into, the State Second Pension under a certificate issued by the Contributions Agency.

#### **Internal Disputes Resolution Procedure**

Members who have a complaint with regard to any Plan matter should contact the Pensions Manager in the first instance at the address of the Trustee Company given on page 2 of this report.

However, if the complaint is not resolved informally in this way, members may make a formal complaint under the Trustee's two stage dispute resolution procedure.

#### **Pension Tracing Service**

A pension tracing service is carried out by the Department for Work and Pensions.

The Pension Tracing Service may be contacted at:

The Pension Service 9  
Mail Handling Unit A  
Wolverhampton  
WV98 1LU

Tel: 0800 731 0193

The information provided includes details of the address at which the trustees of a pension plan may be contacted. Information about the Plan has been provided to the Pension Tracing Service.

## Trustee's Report (continued)

### Additional Information (continued)

#### **The Pensions Advisory Service ("TPAS")**

TPAS is available to assist members and beneficiaries of the Plan on pension matters.

TPAS can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB

Telephone: 0800 011 3797

#### **Pensions Ombudsman**

The Pensions Ombudsman will assist members and beneficiaries of the Plan in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Plan and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

The Pensions Ombudsman may be contacted at:

The Pensions Ombudsman  
1<sup>st</sup> Floor,  
10 South Colonnade,  
Canary Wharf  
London  
E14 4PU

Telephone: 0800 917 4487

Early resolution email: [helpline@pensions-ombudsman.org.uk](mailto:helpline@pensions-ombudsman.org.uk)

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

## Trustee's Report (continued)

### Statement of Trustee's Responsibilities

#### **Trustee's responsibilities in respect of the financial statements**

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring that those financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
- contain the information specified in Regulations 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Plan will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Plan in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

#### **Trustee's responsibilities in respect of contributions**

The Trustee is responsible under pensions legislation for preparing, maintaining, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Plan in accordance with the schedule of contributions.

Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

## Trustee's Report (continued)

### Contact for Further Information

Requests for additional information about the Plan generally, or queries relating to the members' benefits, should be made to:-

J Rose  
Secretary to the Trustee  
c/o Cummins Ltd  
Yarm Road  
Darlington  
County Durham  
DL1 4PW

Email: [Euro.employeeservice@cummins.com](mailto:Euro.employeeservice@cummins.com)

### Approval of the Trustee's Report

The Trustee's Report was approved by the Trustee on  
by:

2019 and signed on its behalf

**Trustee Director**

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**Trustee Director**

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**Date**

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# Statement Regarding DC Governance

## For the Year Ended 31 December 2019

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
- 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.

### Default investment arrangements

The Plan's Statement of Investment Principles 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.

## Statement Regarding DC Governance (continued)

### Default investment arrangements (continued)

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.

## Statement Regarding DC Governance (continued)

### Assessment of charges and transaction costs (continued)

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.

## Statement Regarding DC Governance (continued)

### Assessment of charges and transaction costs (continued)

#### Pounds and pence illustration (continued)

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 seven 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	45	£221,000	£208,700	£94,000	£90,600	£86,700	£84,200
	49	£241,900	£227,500	£103,800	£99,700	£95,000	£92,000
	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
Member approaching retirement	25	£239,100	£232,500	£165,900	£161,900	£157,400	£154,400
	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.



## Statement Regarding DC Governance (continued)

### Assessment of charges and transaction costs (continued)

#### *Pounds and pence illustration (continued)*

#### *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.*

## Statement Regarding DC Governance (continued)

### 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
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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).

## Statement Regarding DC Governance (continued)

### Assessment of Value for Members (continued)

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 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.

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.

## Statement Regarding DC Governance (continued)

### Trustee Knowledge and Understanding (TKU) (continued)

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 on  
and signed on its behalf by:

Chairman of the Trustee Company

Cummins UK Pension Plan

# Report of Actuarial Liabilities

As required by the Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its Technical Provisions. The Technical Provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed at least every 3 years using the assumptions agreed between the Trustee and the Company and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent actuarial report on the Plan was carried out as at 1 January 2018. This showed that on that date:

The value of the Technical Provisions was: £1,377.0 million

The value of the assets at that date was: £1,450.6 million

The value of the assets available to meet technical provision as a percentage is: 105.3%

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

## Method

The Trustee has agreed with the Company that the actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Credit Method.

## Significant actuarial assumptions

**Discount interest rate:** term-specific discount rates as follows:

- Non-pensioner and pensioner liabilities not covered by the buy-in policy: derived from the Willis Towers Watson Zero Coupon Gilt Nominal Yield curve at 31 December 2017. An addition of 1.5% pa is applied to this curve to the end of 2028 thereafter an addition of 0.5% pa is applied.
- Pensioner liabilities covered by the buy-in policy: derived from the Willis Towers Watson Zero Coupon Gilt Nominal Yield curve at 31 December 2017. A reduction of 0.59% pa is applied to this curve, with this margin reflecting the latest year-end valuation provided by LGAS.

**Future Retail Price inflation:** Term-specific assumptions for Retail Prices Index (RPI) inflation are based on the Willis Towers Watson Zero-Coupon Gilt-Implied Breakeven Inflation (BEI) curve.

## Report of Actuarial Liabilities (continued)

### Significant actuarial assumptions (continued)

**Future Consumer Price inflation:** term-specific Consumer Prices Index (CPI) assumptions are based on the RPI assumptions less a margin of 1.0% pa.

**Pension increases:** derived from the term-specific rates for future Retail and Consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Plan's rules.

**Pay increases:** term-specific real pay increases were set at 1.0% pa above the assumed rate of RPI price inflation.

**Mortality:** The following standard tables have been used in relation to mortality:

For non-pensioners: 83% for males and 82% for females of the SAPS "S2" tables (S2PMA and S2PFA), projected from 2007 in line with the CMI's core 2017 projection model using a long-term trend for improvements of 1.5% pa.

For pensioners not covered by the buy-in: 85% of the SAPS "S2" tables (S2PMA and S2PFA), projected from 2007 in line with the CMI's core 2017 projection model using a long-term trend for improvements of 1.5% pa.

For pensioners covered by the buy-in: 91% for males and 93% for females of the SAPS "S2" tables (S2PMA and S2PFA), projected from 2007 in line with the CMI's core 2017 projection model using a long-term trend for improvements of 1.5% pa.

# Actuary's Certification of Schedule of Contributions

## **Actuary's certification of schedule of contributions**

Name of scheme: Cummins UK Pension Plan

## **Adequacy of rates of contributions**

I hereby certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 1 January 2018 to be met at that date.

## **Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 11 December 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

Signature **ANDREW MANDLEY**

Date **27 DECEMBER 2018**

Andrew Mandley  
Fellow of the Institute and Faculty of Actuaries  
Towers Watson Limited, a Willis Towers Watson Company  
13 December 2018

5 Wellington Place  
Wellington Street  
Leeds  
LS1 4AP

Authorised and regulated by the Financial Conduct Authority

# Independent Auditors' Statement about Contributions to the Trustee of the Cummins UK Pension Plan

## Statement about contributions

### Opinion

In our opinion, the contributions payable to the Plan for the year ended 31 December 2018 as reported in the Cummins UK Pension Plan's summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Plan actuary on 9 December 2015 and 27 December 2018.

We have examined Cummins UK Pension Plan's summary of contributions for the Plan year ended 31 December 2018 which is set out on the following page.

### Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan under the Schedule of Contributions and the timing of those payments.

### Responsibilities for the Statement about Contributions

#### *Responsibilities of the Trustee in respect of contributions*

As explained more fully in the statement of Trustee's responsibilities, the Plan's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Plan by the employer in accordance with relevant requirements.

#### *Auditors' responsibilities in respect of the statement about contributions*

It is our responsibility to provide a statement about contributions and to report our opinion to you.

#### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

Leeds

Date:



# Summary of Contributions

During the year ended 31 December 2018 the contributions payable to the Plan by the employer under the schedule of contributions were as follows:

**2018**  
**£'000**

**Employers:**

Normal – Defined Benefit	13,587
Normal – Defined Contribution	8,692
Normal – Salary Sacrifice – Defined Benefit	2,586
Normal – Salary Sacrifice – Defined Contribution	6,441

**Employees:**

Normal – Defined Benefit	253
Normal – Defined Contribution	29

**Total contributions payable under the schedule of contributions as reported on by the Plan Auditors**

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31,588

**In addition, further contributions were payable as follows:**

Other Employer contributions	170
Augmentations	143
Employer additional voluntary contributions – salary sacrifice	3,592
Employees' additional voluntary contributions	96

**Total contributions included in the financial statements (note 3)**

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35,589

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**Approved by the Trustee on**

**2019 and signed on its behalf by:**

**Trustee Director**

**Trustee Director**

# Independent Auditors' Report to the Trustee of the Cummins UK Pension Plan

## Report on the audit of the financial statements

### Opinion

In our opinion, Cummins UK Pension Plan's financial statements:

- show a true and fair view of the financial transactions of the Plan during the year ended 31 December 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1996.

We have audited the financial statements, included in the annual report, which comprise: the statement of net assets available for benefits as at 31 December 2018; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remained independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Plan Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Plan Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Plan's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

# Independent Auditors' Report to the Trustee of the Cummins UK Pension Plan (continued)

## Conclusions relating to going concern (continued)

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Plan's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the scheme, its operations and other organisations on which it depends, and the wider economy.

## Reporting on other information

The other information comprises all the information in the annual report other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the Trustee for the financial statements*

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## Independent Auditors' Report to the Trustee of the Cummins UK Pension Plan (continued)

### Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
Leeds

Date:

# Fund Account

For the year ended 31 December 2018

		Defined benefit section 2018 £'000	Defined contribution section 2018 £'000	Total 2018 £'000	Total 2017 £'000
<b>Contributions and benefits</b>					
Employer contributions		17,519	17,692	35,211	22,246
Employee contributions		338	40	378	482
<b>Total contributions</b>	3	<u>17,857</u>	<u>17,732</u>	<u>35,589</u>	22,728
Transfers in	4	188	1,034	1,222	372
Other income	5	769	411	1,180	897
		<u>18,814</u>	<u>19,177</u>	<u>37,991</u>	23,997
Benefits	6	(38,307)	(2,230)	(40,537)	(36,108)
Payments to and on account of leavers	7	(168)	(14)	(182)	(150)
Transfers to other plans	8	(6,181)	(3,406)	(9,587)	(8,893)
Administration expenses	9	(2,202)	(266)	(2,468)	(2,000)
		<u>(46,858)</u>	<u>(5,916)</u>	<u>(52,774)</u>	(47,151)
<b>Net (withdrawals)/ additions from dealings with Members</b>		<u>(28,044)</u>	13,261	<u>(14,783)</u>	(23,154)
<b>Returns on investments</b>					
Investment income	10	3,893	-	3,893	3,780
Change in market value of investments	11	(30,445)	(12,245)	(42,690)	76,831
Investment management expenses	12	(669)	(39)	(708)	(941)
<b>Net returns on investments</b>		<u>(27,221)</u>	<u>(12,284)</u>	<u>(39,505)</u>	79,670
<b>Net (decrease)/increase in the fund</b>		<u>(55,265)</u>	977	<u>(54,288)</u>	56,516
<b>Transfers between sections</b>	26	(350)	350	-	-
<b>Opening net assets of the Plan at start of year</b>		1,459,124	177,143	1,636,267	1,579,751
<b>Closing net assets of the Plan at end of year</b>		<u>1,403,509</u>	<u>178,470</u>	<u>1,581,979</u>	1,636,267

The accompanying notes on pages 38 to 61 are an integral part of these financial statements.

# Statement of Net Assets

Available for Benefits as at 31 December 2018

	Note	Defined benefit section 2018 £'000	Defined contribution section 2018 £'000	Total 2018 £'000	Total 2017 £'000
<b>Investment assets:</b>					
Qualifying investment fund	13	442,106	-	442,106	458,673
Pooled investment vehicles	14	597,663	178,402	776,065	795,610
Derivatives	15	-	-	-	-
Insurance policies	16	346,600	-	346,600	352,900
AVC investments	17	7,723	-	7,723	8,484
Other investment balances	18	-	-	-	2
Cash	18	8,438	-	8,438	17,494
		<u>1,402,530</u>	<u>178,402</u>	<u>1,580,932</u>	<u>1,633,163</u>
<b>Investment liabilities:</b>					
Other investment balances	18	(3)	-	(3)	-
<b>Total Net investments</b>	<b>11</b>	<b>1,402,527</b>	<b>178,402</b>	<b>1,580,929</b>	<b>1,633,163</b>
<b>Current assets</b>	<b>23</b>	<b>3,112</b>	<b>634</b>	<b>3,746</b>	<b>6,398</b>
<b>Current liabilities</b>	<b>24</b>	<b>(2,130)</b>	<b>(566)</b>	<b>(2,696)</b>	<b>(3,294)</b>
		<u>1,403,509</u>	<u>178,470</u>	<u>1,581,979</u>	<u>1,636,267</u>

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which takes into account such obligations for the defined benefit section, is dealt with in the Report of Actuarial Liabilities on pages 28 and 29 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 38 to 61 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 2018.

Signed on behalf of the Trustee

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Trustee Director

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Trustee Director

# Notes to the Financial Statements

## 1. Basis of preparation

The individual financial statements of Cummins UK Pension Plan have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes (revised November 2014) (“the SORP”). In June 2018 a revised SORP was issued, which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee does not anticipate that the adoption of the revised SORP will have a material impact on future financial statements. However, it may require certain additions to, or amendments of, disclosures in the financial statements.

## 2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### Contributions

Normal and additional voluntary contributions, both from employees and employers are generally accounted for on an accruals basis in the payroll period to which they relate. For employees, this is when contributions are deducted from pay.

Contributions in respect of employees in the first 30 days following auto-enrolment are accounted for when their right to opt-out has expired, unless remitted to the Plan earlier. Contributions payable under salary sacrifice arrangements are classified as employer contributions.

Employers’ augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in absence of such agreement, when received.

Other contributions made by the employer to reimburse costs and levies payable by the Trustee are accounted for on the same basis as the corresponding expense.

### Payments to members

Benefits payable represent all valid benefit claims in respect of the Plan year.

Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

Pensions in payment are accounted for in the period to which they relate.

Transfer values represent the capital sums either receivable in respect of members from other pension plans of previous employers or payable to the pension plans of new employers for members who have left the Plan. They are accounted for on an accruals basis on the date the trustees of the receiving scheme accept the liability. In the case of individual transfers this is normally when the payment of the transfer value is made.

Where the Trustee agrees, or is required, to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member’s benefits receivable from the Plan, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and is shown separately within benefits.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### Expenses

Administrative expenses and premiums on term insurance policies are accounted for on an accruals basis.

#### Investment income

Income from pooled investment vehicles is accounted for on an accruals basis. Interest on cash deposits is accrued on a daily basis. Income arising from annuity policies is included in investment income, and the pensions paid are included in pension payments.

#### Foreign Currencies

The Plan functional and presentation currency is pounds sterling. Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are recorded in sterling at the exchange rate at the date of the transaction. Unrealised surpluses and deficits arising on conversion or translation are shown within change in market value. Realised surpluses and deficits are disclosed in investment income.

#### Investments

Investment management fees are accounted for on an accruals basis and are separately disclosed in the notes to the financial statements. These fees and other acquisition costs are included in the purchase cost of investments.

Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise the closing single price, single dealing price or most recent transaction price is used. Investments are included at fair value as described below:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager.

Private equity pooled funds are valued at fair value as calculated by the investment manager at the latest valuation date of December in accordance with generally accepted guidelines.

Insurance policies are included in the financial statements based on a valuation provided by the insurers. This valuation, which is updated annually, represents the actuarial valuation of the corresponding liabilities on a net premium basis based on relevant pensioner data and market conditions at the year end date.

The additional voluntary contribution investments include policies of assurance underwritten by the AVC providers. The market value of these investments has been taken as the surrender values of the policies at the year end, as advised by the provider.

The foreign exchange exposure of the Plan relates to the investment in overseas assets or liabilities as determined in the strategic asset allocation of the Plan.

The changes in investment market values are accounted for in the period in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.



## Notes to the Financial Statements (continued)

### 3. Contributions

	Defined benefit section £'000 2018	Defined contribution section £'000 2018	Total £'000 2018
<b>Employer contributions</b>			
Normal	13,587	8,692	22,279
Salary sacrifice	2,586	6,441	9,027
Salary sacrifice (AVC)	1,272	2,320	3,592
Augmentation	24	119	143
Other	50	120	170
	<u>17,519</u>	<u>17,692</u>	<u>35,211</u>
<b>Employee contributions</b>			
Normal	253	29	282
Additional voluntary contributions	85	11	96
	<u>338</u>	<u>40</u>	<u>378</u>
	<u><u>17,857</u></u>	<u><u>17,732</u></u>	<u><u>35,589</u></u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
<b>Employer contributions</b>			
Normal	4,345	7,468	11,813
Salary sacrifice	2,688	5,533	8,221
Salary sacrifice (AVC)	791	1,225	2,016
Augmentation	144	8	152
Other	44	-	44
	<u>8,012</u>	<u>14,234</u>	<u>22,246</u>
<b>Employee contributions</b>			
Normal	333	47	380
Additional voluntary contributions	80	22	102
	<u>413</u>	<u>69</u>	<u>482</u>
	<u><u>8,425</u></u>	<u><u>14,303</u></u>	<u><u>22,728</u></u>

Employer normal defined benefit contributions were lower in the prior year due to the utilisation of £10,000,000 in contributions which were paid in advance in the year ended 31 December 2015. These contributions were recognised in the fund account in 2015 in accordance with the SORP.

## Notes to the Financial Statements (continued)

### 3. Contributions (continued)

The Schedules of Contributions dated 9 December 2015 and 27 December 2018 have no requirement for deficit contributions as the Plan is in surplus.

Other contributions of £170,000 (2017: £44,000) relate to pensioner Trustee stipend payments and other sundry employer contributions.

The employer augmentation contributions are in respect of payments made by the employer in respect of certain members' retirement benefits.

### 4. Transfers in

	<b>Defined benefit section £'000 2018</b>	<b>Defined contribution section £'000 2018</b>	<b>Total £'000 2018</b>
Individual transfers in from other schemes	<u>188</u>	<u>1,034</u>	<u>1,222</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Individual transfers in from other schemes	<u>99</u>	<u>273</u>	<u>372</u>

### 5. Other income

	<b>Defined benefit section £'000 2018</b>	<b>Defined contribution section £'000 2018</b>	<b>Total £'000 2018</b>
Claims on term Insurance policies	<u>769</u>	<u>411</u>	<u>1,180</u>
Other income	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>769</b></u>	<u><b>411</b></u>	<u><b>1,180</b></u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Claims on term Insurance policies	<u>355</u>	<u>541</u>	<u>896</u>
Other income	<u>1</u>	<u>-</u>	<u>1</u>
	<u><b>356</b></u>	<u><b>541</b></u>	<u><b>897</b></u>

## Notes to the Financial Statements (continued)

### 6. Benefits paid or payable

	<b>Defined benefit section £'000 2018</b>	<b>Defined contribution section £'000 2018</b>	<b>Total £'000 2018</b>
Pensions	29,100	-	29,100
Commutations of pensions and lump sum retirement benefits	7,718	1,269	8,987
Purchase of annuities	-	398	398
Lump sum death benefits	1,050	563	1,613
Taxation	439	-	439
	<u>38,307</u>	<u>2,230</u>	<u>40,537</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Pensions	27,532	-	27,532
Commutations of pensions and lump sum retirement benefits	6,373	709	7,082
Purchase of annuities	-	91	91
Lump sum death benefits	534	840	1,374
Taxation	29	-	29
	<u>34,468</u>	<u>1,640</u>	<u>36,108</u>

Taxation represents the charge arising on benefits paid or payable in respect of members whose benefits have exceeded the lifetime or annual allowance and who elected to take lower benefits from the Plan in exchange for the Plan's settling their tax liability.

## Notes to the Financial Statements (continued)

### 7. Payments to and on account of leavers

	Defined benefit section £'000 2018	Defined contribution section £'000 2018	Total £'000 2018
Refunds of contributions in respect of opt-outs	-	14	14
Pension sharing on divorce	168	-	168
	<u>168</u>	<u>14</u>	<u>182</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Refunds of contributions in respect of non-vested leavers	-	21	21
Refunds of contributions in respect of opt-outs	-	12	12
Pension sharing on divorce	117	-	117
	<u>117</u>	<u>33</u>	<u>150</u>

### 8. Transfers to other plans

	Defined benefit section £'000 2018	Defined contribution section £'000 2018	Total £'000 2018
Individual transfers out to other schemes	<u>6,181</u>	<u>3,406</u>	<u>9,587</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Individual transfers out to other schemes	<u>7,035</u>	<u>1,858</u>	<u>8,893</u>

## Notes to the Financial Statements (continued)

### 9. Administration Expenses

	Defined benefit section £'000 2018	Defined contribution section £'000 2018	Total £'000 2018
Administration and processing	591	223	814
Actuarial fees	376	11	387
Investment consultancy fees	928	32	960
Audit fees	28	-	28
Pension plan levies payable	53	-	53
Legal and other professional fees	56	-	56
Other fees and expenses (including Trustee expenses)	170	-	170
	<u>2,202</u>	<u>266</u>	<u>2,468</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Administration and processing	457	315	772
Actuarial fees	183	2	185
Investment consultancy fees	608	56	664
Audit fees	32	-	32
Pension plan levies payable	171	-	171
Legal and other professional fees	13	-	13
Other fees and expenses (including Trustee expenses)	163	-	163
	<u>1,627</u>	<u>373</u>	<u>2,000</u>

Trustee expenses payments included above amounted to £21,000 (2017: £44,000).

## Notes to the Financial Statements (continued)

### 10. Investment income

	<b>Defined benefit section £'000 2018</b>	<b>Defined contribution section £'000 2018</b>	<b>Total £'000 2018</b>
Income on cash deposits	1	-	1
Income from pooled investment vehicles	3,652	-	3,652
Gain on currency translation	236	-	236
Annuity income	3	-	3
Other investment income	1	-	1
	<u>3,893</u>	<u>-</u>	<u>3,893</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Income from pooled investment vehicles	4,181	12	4,193
Loss on currency translation	(446)	-	(446)
Annuity income	12	-	12
Other investment income	21	-	21
	<u>3,768</u>	<u>12</u>	<u>3,780</u>

## Notes to the Financial Statements (continued)

### 11. Reconciliation of investments held at the beginning and end of the year

	Value at 1 January 2018 £'000	Purchases at cost & derivative payments £'000	Sales proceeds & derivative receipts £'000	Change in market value £'000	Value at 31 December 2018 £'000
<b>Defined Benefit Section</b>					
Pooled investment vehicles	618,231	196,461	(209,733)	(7,296)	597,663
Qualifying investment fund	458,673	-	-	(16,567)	442,106
Derivatives	-	37,065	(36,957)	(108)	-
Insurance policies	352,900	-	-	(6,300)	346,600
AVC investments	8,484	2,226	(2,813)	(174)	7,723
	<u>1,438,288</u>	<u>235,752</u>	<u>(249,503)</u>	<u>(30,445)</u>	<u>1,394,092</u>
Cash deposits	17,494				8,438
Other investment balances	2				(3)
	<u>1,455,784</u>				<u>1,402,527</u>
<b>Defined Contribution Section</b>					
Pooled investment vehicles	177,379	39,466	(26,198)	(12,245)	178,402

The change in market value for the year ended 31 December 2017 was £56,969,000 for the DB section and £19,864,000 for the DC section.

#### Transaction costs

There were £nil direct transaction costs during the year (2017: £nil). Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

## Notes to the Financial Statements (continued)

### 11. Reconciliation of investments held at the beginning and end of the year (continued)

#### Defined Contribution Section

For the Defined Contribution section, investments purchased by the Plan are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Plan administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Plan that relate to members leaving the Plan prior to vesting.

Defined contribution assets are split as allocated to members and not allocated to members and therefore available to the Trustee to apply as specified in the Plan rules, as follows:

	<b>£'000</b> <b>2018</b>	<b>£'000</b> <b>2017</b>
Allocated to members	178,368	177,356
Not allocated to members	34	23
	<u>178,402</u>	<u>177,379</u>

Defined contribution assets (including those not allocated to members in the table above) are not part of a common pool of assets available to meet defined benefit liabilities.

### 12. Investment management expenses

	<b>Defined benefit section</b> <b>£'000</b> <b>2018</b>	<b>Defined contribution section</b> <b>£'000</b> <b>2018</b>	<b>Total</b> <b>£'000</b> <b>2018</b>
Administration, management and custody	<u>669</u>	<u>39</u>	<u>708</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Administration, management and custody	<u>807</u>	<u>134</u>	<u>941</u>

### 13. Qualifying investment fund

The Plan's investments in the qualifying investment fund at the year end comprised:

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Defined Benefit Section</b>		
Bonds	401,367	396,627
Derivatives	6,475	61,989
Cash	35,856	57
	<u>443,698</u>	<u>458,673</u>



## Notes to the Financial Statements (continued)

### 13. Qualifying investment fund (continued)

The valuation of the QIF is determined using the Net Asset Value multiplied by the number of units to give a total. The valuation of the underlying asset holdings is calculated using the fair value of the underlying securities which, unlike equities, may not have a quoted price. This is the reason for valuation differences which may occur in calculation of total market value.

### 14. Pooled investment vehicles

The Plan's investments in pooled investment vehicles at the year end comprised:

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Defined Benefit Section</b>		
Equities	162,558	239,341
Bonds	148,057	130,953
Property	32,086	30,522
Private equity	144,352	93,517
Infrastructure equity	12,505	13,104
Equity hedge	96,206	104,028
Direct Lending	1,899	6,766
	<u>597,663</u>	<u>618,231</u>
	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Defined Contribution Section</b>		
Equities`	117,994	111,038
Bonds	177	123
Property	315	284
Cash fund	1,372	1,395
Pre-Retirement fund	11,238	12,446
Moderate fund	47,302	52,093
Amanah fund	4	-
	<u>178,402</u>	<u>177,379</u>

## Notes to the Financial Statements (continued)

### 15. Derivatives

#### Objectives and policies

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Plan as follows:

*Currency hedging* – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in GBP, where appropriate GBP hedged share classes have been used. These share classes may use forward FX contracts to hedge foreign currency exposure.

*Leveraged Liability Driven Investment ('LDI') portfolio* – in order to efficiently hedge the liabilities exposure to changes in interest rates and inflation, the pooled investment vehicles which form part of the Plan's LDI portfolio may invest in over the counter ("OTC") derivatives.

The Plan had no direct derivative exposure at the year end.

### 16. Insurance policies

During 2012 the Trustee purchased a deferred premium buy-in insurance policy with Legal & General Assurance Society ("LGAS") in order to address the interest rate, inflation and mortality risk associated with the pensioner liabilities in the Plan as at 31 December 2011. These liabilities will be assumed by the buy-in provider, LGAS, after a ten year deferment period ending in 2022.

The insurance policy is included as an asset of the defined benefit section at a valuation provided to the Trustee by the Plan's insurers.

The custodian for the assets held under the insurance policy is HSBC Bank plc.

The Plan held insurance policies at the year end as follows:

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Deferred Premium Buy-In - LGAS	<u><b>346,600</b></u>	<u>352,900</u>

### 17. AVC investments

AVC investments held by members of the DC section are invested with the main DC assets and are not separately distinguishable.

The Trustee holds assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movements in the year.

## Notes to the Financial Statements (continued)

### 17. AVC investments (continued)

The aggregate amounts of DB section AVC investments are as follows:

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Prudential Assurance Company Limited	1,141	1,309
The Equitable Life Assurance Society	64	26
Legal & General	6,513	7,094
Aviva	5	55
	<u>7,723</u>	<u>8,484</u>

### 18. Cash and other investment balances

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Defined Benefit Section</b>		
Investment manager cash & cash instruments	8,438	17,494
Accrued Income	(3)	2
	<u>8,435</u>	<u>17,496</u>

### 19. Fair value determination

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Pooled investment vehicles which are traded regularly are generally included in level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair value applies, valuation techniques are adopted and the vehicles are included in level 3 as appropriate.

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations at 31 December 2018 or 31 December 2017.

Insurance policies are included in the financial statements based on a valuation provided by the insurers. The pricing basis used to value the policy is Legal & General's new business pricing basis that was in force as at the accounting date of 31 December 2018.

## Notes to the Financial Statements (continued)

### 19. Fair value determination (continued)

The Plan's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

<b>As at 31 December 2018</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Defined Benefit Section</b>				
Pooled investment vehicles	41,018	332,672	223,973	597,663
Qualifying investment fund	-	442,106	-	442,106
Insurance policies	-	-	346,600	346,600
AVC investments	-	6,513	1,210	7,723
Cash	8,438	-	-	8,438
Other investment balances	-	-	(3)	(3)
	<b>49,456</b>	<b>781,291</b>	<b>571,780</b>	<b>1,402,527</b>
<b>Defined Contribution Section</b>				
Pooled investment vehicles	-	178,402	-	178,402
	-	178,402	-	178,402
<b>As at 31 December 2017</b>				
	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Defined Benefit Section</b>				
Pooled investment vehicles	41,025	399,257	177,949	618,231
Qualifying investment fund	-	458,673	-	458,673
Insurance policies	-	-	352,900	352,900
AVC investments	-	7,094	1,390	8,484
Cash	17,494	-	-	17,494
Other investment balances	-	-	2	2
	<b>58,519</b>	<b>865,024</b>	<b>532,241</b>	<b>1,455,784</b>
<b>Defined Contribution Section</b>				
Pooled investment vehicles	-	177,379	-	177,379
	-	177,379	-	177,379

## Notes to the Financial Statements (continued)

### 20. Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines their investment strategy after taking advice from a professional investment adviser. The Plan has exposure to these risks because of the investments it makes in different asset classes. The Trustee manages investment risks, including credit risk and market risk, through balancing a diversified portfolio with the Plan's strategic investment objectives.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. The detailed statements following the illustrative table below do not include the AVC investments as these are not considered significant in relation to the overall investments of the Plan.

#### Defined Benefit Section

	Credit Risk	Currency Risk	Interest Rate Risk	Other Price Risk	Value 2018 £'000	Value 2017 £'000
Pooled Investment Vehicles						
<i>Equities</i>	N	Y	N	Y	<b>162,558</b>	239,341
<i>Bonds</i>	Y	N	Y	Y	<b>148,057</b>	130,953
<i>Property</i>	N	N	N	Y	<b>32,086</b>	30,522
<i>Private Equity</i>	N	Y	N	Y	<b>144,352</b>	93,517
<i>Infrastructure</i>	N	N	N	Y	<b>12,505</b>	13,104
<i>Other PIVs</i>	Y	Y	Y	Y	<b>98,105</b>	110,794
Qualifying Investment Fund	Y	N	Y	Y	<b>442,106</b>	458,673
Insurance Policies	Y	N	Y	N	<b>346,600</b>	352,900
AVC Investments	Y	Y	Y	Y	<b>7,723</b>	8,484
Cash and other deposits	Y	N	Y	N	<b>8,435</b>	17,496
<b>Total</b>					<b>1,402,527</b>	1,455,784

## Notes to the Financial Statements (continued)

### 20. Investment risk disclosures (continued)

#### Credit risk

The Plan is subject to credit risk because the Plan invests in bonds/loans, a buy-in, over the counter (“OTC”) derivatives, collateralised loan obligations (CLOs), has cash balances, has exposure to stock lending (through State Street’s pooled equity funds) and the State Street pooled LDI funds may enter into repurchase agreements. The Plan invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Plan is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Plan is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements in the funds used by State Street to back the LDI portfolio.

Credit risk arising from stock lending is managed through strict conditions on the credit rating of counterparties and the quality and extent of collateral.

The Plan is exposed to direct credit risk arising from investing in pooled investment vehicles. This is mitigated by the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

Plan Risk Exposures	Value of assets exposed to risk	Value of assets exposed to risk
	2018 (£'000)	2017 (£'000)
Credit Risk ( <i>LDI, MSAC, CLOs, Direct Lending Fund and Cash</i> )	1,043,308	1,070,816

#### Currency risk

The Plan is subject to currency risk because some of the Plan’s investments are held in overseas markets which are denominated in non-sterling currency (via pooled investment vehicles). The Trustee reduces overseas currency exposure through a currency hedging policy which sees some of the foreign exposure hedged within some of the Plan’s pooled funds.

Plan Risk Exposures	Value of assets exposed to risk	Value of assets exposed to risk
	2018 (£'000)	2017 (£'000)
Currency Risk ( <i>unhedged overseas equities, property, and private equity</i> )	170,649	487,586

## Notes to the Financial Statements (continued)

### 20. Investment risk disclosures (continued)

#### Interest rate risk

The Plan is subject to interest rate risk because some of the Plan's investments are held in bonds, CLOs, alternative credit, a buy-in, interest rate derivatives (through pooled investment vehicles) and cash. These types of instruments are used in the Plan's liability matching portfolio held at State Street. Under this strategy, if interest rates fall, the value of liability matching assets will rise to help match the increase in actuarial liabilities from a fall in the discount rate. Similarly, if interest rates rise the investments will fall in value, as will actuarial liabilities, because of an increase in the discount rate.

Plan Risk Exposures	Value of assets exposed to risk	Value of assets exposed to risk
	2018 (£'000)	2017 (£'000)
Interest Rate Risk ( <i>LDI, MSAC, CLOs, Bonds and Buy-in</i> )	936,762	942,526

#### Other price risk

Other price risk arises principally in relation to the Plan's return seeking portfolio which includes equities credit, private equity, direct-lending, momentum, reinsurance, and infrastructure and investment property. The Plan manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

Plan Risk Exposures	Value of assets exposed to risk	Value of assets exposed to risk
	2018 (£'000)	2017 (£'000)
Other Price Risk ( <i>Equities, Private equity, Property, Reinsurance Direct Lending Fund and listed Infrastructure</i> )	380,109	405,092

## Notes to the Financial Statements (continued)

### 20. Investment risk disclosures (continued)

#### Defined Contribution Section

##### Investment Strategy

The Trustee's objective is to make available to members of the Plan an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employer, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). The Statement of Investment Principles outlines the investment objectives and strategy for the Defined Contribution assets of the Plan.

The investment funds offered to members are funds provided by Legal & General as follows:

- Legal & General Accelerated fund
- Legal & General Moderate fund
- Legal & General UK Equity Index fund
- Legal & General World Equity Index fund (unhedged)
- Legal & General World Equity Index fund (hedged)
- Legal & General World Emerging Markets Equity Index fund
- Legal & General Ethical Global Equity Index fund
- Legal & General Property fund
- Legal & General AAA-AA-A Corporate Bond All-Stocks Index fund
- Legal & General Pre-retirement fund
- Legal & General Cash fund
- Legal & General Amanah fund

The day to day management of the underlying investments of the funds is the responsibility of Legal & General Insurance Company, including the direct management of credit and market risks.

The Trustee monitors the underlying risks through regular investment reviews with Legal & General Insurance Company.



## Notes to the Financial Statements (continued)

### 20. Investment risk disclosures (continued)

#### Credit risk

The Defined Contribution Section (DC section) is subject to direct credit risk in relation to its holding in unit linked funds provided by Legal & General.

The funds held by the Plan are held under the PMC Group of Legal & General Group; PMC is a separate legal entity within Legal & General Group. As a result, the assets contained within the PMC Group are ring fenced from the rest of the Legal & General Group, including the funds of Legal & General Assurance Society Limited and Legal & General Insurance Limited.

In the event of insolvency, PMC pooled fund policyholders are further protected by a floating charge. This results in all policyholders having priority over the pooled assets for the value of their units.

As a UK insurance company Legal & General is required to maintain a minimum level of capital to protect against risks that the insurance company is subject to, and to comply with strict investment policies.

The DC section is also subject to indirect credit and market risk arising from the underlying investments held in the funds. The funds which have significant exposure to these risks are set out below:

<b>2018 and 2017</b>	<b>Indirect Credit Risk</b>	<b>Foreign Exchange Risk</b>	<b>Interest Rate Risk</b>	<b>Other Price Risk</b>
L&G Accelerated fund	N	Y	N	Y
L&G Moderate fund	Y	Y	Y	Y
L&G UK Equity Index fund	N	N	N	Y
L&G World Equity Index fund (unhedged)	N	Y	N	Y
L&G World Equity Index fund (hedged)	N	N	N	Y
L&G World Emerging Markets Equity Index fund	N	Y	N	Y
L&G Ethical Global Equity Index fund	N	Y	N	Y
L&G Property fund	N	N	N	Y
L&G 6A Corporate Bond All-Stocks Index fund	Y	N	Y	N
L&G Pre-retirement fund	Y	N	Y	N
L&G Cash fund	N	N	N	N
HSBC Islamic Global Equity Index fund	N	Y	N	Y

The analysis of these risks set out above is at Plan level. Member level risk exposures will be dependent on the funds invested in by members.

The Trustee has selected the above funds and has considered the indirect risks in the context of the investment strategy described in the Trustee's Report.

## Notes to the Financial Statements (continued)

### 21. Self investment

The investments of the Plan are invested in accordance with Section 40 of the Pensions Act 1995. The Trustee recognises that a minimal amount of employer-related investment may result from the choice of securities held by the pooled investment vehicle managers. However, the Trustee is satisfied that the proportion of the Plan's assets in employer-related investments did not exceed 5% of the market value of the Plan's assets at any time during the year, or at 31 December 2018, or during the year to 31 December 2017 and at 31 December 2017.

### 22. Concentration of investments

The following investments represented more than 5% of the Plan's total net assets as at 31 December 2018.

<b>Fund</b>	<b>2018 £'000</b>	<b>%</b>	<b>2017 £'000</b>	<b>%</b>
SSGA Qualified Tru LDI Leveraged UK Exposure I (Qualifying Investment Fund)	<b>442,106</b>	<b>27.9</b>	458,673	28.0
Legal & General Buy-In Insurance Policy	<b>346,600</b>	<b>21.9</b>	352,900	21.6
Legal & General DBKR Cummins Accelerated	<b>115,734</b>	<b>7.3</b>	108,900	6.7
State Street MPF Fundamental Global Equity (Hedged)	<b>84,153</b>	<b>5.3</b>	114,014	7.0
State Street MPF World Adaptive Capping Eqty Index Sub Fund	-	-	106,842	6.5

## Notes to the Financial Statements (continued)

### 23. Current assets

	Defined benefit section £'000 2018	Defined contribution section £'000 2018	Total £'000 2018
Contributions due from employer in respect of:			
Employer	19	1	20
Employee	4	1	5
Prepaid pensions	2,019	-	2,019
Life insurance claim due	200	310	510
Due from defined contribution section	114	-	114
Cash and bank balances	756	322	1,078
	<u>3,112</u>	<u>634</u>	<u>3,746</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Contributions due from employer in respect of:			
Employer	27	1	28
Employee	5	1	6
Prepaid pensions	1,890	-	1,890
Life insurance claim due	115	140	255
Due from defined contribution section	112	-	112
Cash and bank balances	3,786	321	4,107
	<u>5,935</u>	<u>463</u>	<u>6,398</u>

Contributions due under the Schedule and noted above were received on time, after the year end, on 8 January 2019.

Of the DC section cash balances £314,000 was allocated to members (2017: £321,000).

## Notes to the Financial Statements (continued)

### 24. Current liabilities

	Defined benefit section £'000 2018	Defined contribution section £'000 2018	Total £'000 2018
Unpaid benefits	824	371	1,195
Accrued expenses	518	6	524
Other creditors	788	75	863
Due to defined benefit section	-	114	114
	<u>2,130</u>	<u>566</u>	<u>2,696</u>
	<b>2017</b>	<b>2017</b>	<b>2017</b>
Unpaid benefits	1,605	522	2,127
Accrued expenses	526	41	567
Other creditors	464	24	488
Due to defined benefit section	-	112	112
	<u>2,595</u>	<u>699</u>	<u>3,294</u>

### 25. Related party transactions

During the year the company has recharged costs of £89,610 (2017: £87,000) to the Plan representing a charge for administration services supplied by the company and carried out on behalf of the Trustee.

Some Directors of the Trustee Company are members of the Plan, and receive benefits in accordance with the Plan's rules on the same basis as other members. As at 31 December 2018 6 Trustee Directors were active members, 1 Director was a deferred member and 2 Directors were pensioner members. Comparative figures for Directors as at 31 December 2017 were 9 active members and 2 pensioner members.

During the year contributions of £39,900 (2017: £37,867) were received from the company in respect of remuneration made to pensioner Directors.

Other fees and expenses of £21,056 (2017: £22,354) were paid to Trustee Directors.

### 26. Transfers between sections

During the year, following a Trustee decision, DC assets which were not designated to members were utilised in settling administrative expenses for the DC section of the Plan. In addition some DB section assets were transferred to the DC section in order to settle other DC section expenses, and also included are items received into or paid from the DB bank account which related to the DC section.

Net transfers from the DB to the DC Section during the year amounted to £350,000 (2017: £262,000).

## Notes to the Financial Statements (continued)

### 27. Contingent liabilities and capital commitments

As at 31 December 2018 the Plan had undrawn capital commitments as shown below:

<b>Fund</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
GSAM PEP 2002	101	100
Axiom Asia II	770	800
Morgan Stanley PMF V	2,614	3,700
American Securities VI	1,919	1,900
Advent GPE VII	788	900
Sun Capital VI	4,001	8,600
Energy Capital III	3,952	7,400
American Securities VII	7,175	9,400
Cabot Square V	7,078	12,400
CBREGI European Alpha	-	700
RECAP IV	4,008	6,500
Hayfin Direct Lending	-	18,000
TIAA-CREF GAF II	4,461	9,500
Altas Partners Fund I	869	12,500
CDH Growth Fund III	5,136	11,200
Mobius Equity Partners IV	8,580	11,100
Francisco Partners V	18,168	11,100
Ancala Partners Infrastructure Fund II	19,683	-
<b>Total Undrawn Commitment</b>	<b>89,303</b>	<b>139,100</b>

### GMP Equalisation

As explained on page 16 of the Trustee's report, on 26 October 2018, the High Court handed down a judgment, involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The Trustee of the Plan is aware that the issue will affect the Plan and will be considering this at a future meeting and decisions will be made as to next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

## Notes to the Financial Statements (continued)

### 28. Comparative information required to be disclosed by FRS 102

The disclosures below provide the split of Plan assets by section as per the requirements of FRS 102. Corresponding disclosure for the 2018 figures can be found in the Fund Account on page 36.

	<b>DB 2017 £'000</b>	<b>DC 2017 £'000</b>	<b>Total 2017 £'000</b>
Net (withdrawals)/additions from dealings with members	(34,367)	11,213	(23,154)
Change in market value of investments	56,967	19,864	76,831
Net returns on investments	59,928	19,742	79,670
Net increase in the fund	25,561	30,955	56,516
Transfers between sections	(262)	262	-
Net assets at the start of the period	1,433,825	145,926	1,579,751
Net assets at the end of the period	1,459,124	177,143	1,636,267

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