

CAPITA



Cummins UK Pension Plan

Plan Registration Number: 10244007

Trustee's Annual Report and Financial Statements
For the Year 1 January 2019 to 31 December 2019

Contents

Trustee and Advisers	2
Trustee's Report	3
Plan Constitution and Management	3
Membership and Benefits	5
Summary of Contributions	7
Investment Management	8
Additional information	19
Statement of Trustee's Responsibilities	21
Report on Actuarial Liabilities	22
Contact for further information	24
Approval of the Trustee's Report	24
Statement Regarding DC Governance	25
Actuary's Certification of the Schedule of Contributions	33
Independent Auditors' Statement about Contributions	34
Independent Auditors' Report	35
Fund Account	38
Statement of Net Assets Available for Benefits	39
Notes to the Financial Statements	40

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)
G Griesinger
P Hoskins*
DL Russon*
G Davis*
E Smith
B Daley
J Guilfoyle
SG Coughlan*
A Waller (Appointed 1 January 2019)
J Finlay* (Appointed 1 January 2019)
M Bruniges* (Appointed 10 March 2020)
N Morton* (Appointed 10 March 2020)
L Thornton (Appointed 1 June 2019)
E Kelly (Resigned 31 December 2019)
S Williams* (Resigned 31 December 2019)

* 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
3rd Floor, Eastbourne Terrace
London, W2 6LG

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 (until February 2019)
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
Waud Capital Partners (from October 2019)
AMX Magnetar (from February 2019)
AMX Systematica (from January 2019)
AMX GSA (from January 2019)
Towers Watson Investment Management
(from October 2019)

* 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 (Utmost Life and
Pensions Services Limited from 1 January 2020)
Aviva

Group Life Insurers

MetLife

Custodian

Northern Trust Company

Trustee's Report

Cummins UK Pension Plan Trustee Limited (the "Trustee") presents the Trustee's Report for the year 1 January 2019 to 31 December 2019.

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. This company was set up especially for this purpose.

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 above and on page 2. As at 31 December 2019 there were 7 member nominated, and 7 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 member nominated Trustee directors were appointed on 10 March 2020.

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.

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, except that the Trustee did not obtain the financial statements within seven months of the Plan's year end as required by pensions legislation.

Trustee's Report (continued)

Membership and Benefits

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

Defined Benefit Members	No.	No.
Active Members		
Active members at 31 December 2018	726	
Adjustment	5	
New members joining	12	
Members retiring	(24)	
Members leaving with preserved benefits and deferred retirements	(34)	
Active members at 31 December 2019		685
Pensioners		
Pensioners at 31 December 2018	4,492	
Adjustment	2	
Members retiring	82	
Spouses & dependents	32	
Pensioners who died during the year	(164)	
Pensioners who commuted their benefits	(1)	
Pensioners who became ineligible	(1)	
Pensioners who have been suspended	(13)	
Pensioners at 31 December 2019		4,429
Deferred Pensioners		
Deferred pensioners at 31 December 2018	1,466	
Adjustment	(2)	
Leavers during the year with preserved benefits and deferred retirements	34	
Deferred pensioners transferring out	(27)	
Deferred pensioners retiring	(58)	
Deferred pensioners who commuted their benefits	(1)	
Deferred pensioners who died during the year	(4)	
Deferred pensioners at 31 December 2019		1,408
Total Defined Benefit membership at 31 December 2019		6,522

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 981 dependants (2018: 980). 3 pensioners' benefits are provided by income from annuities held in the name of the Trustee (2018: 3).

Trustee's Report (continued)

Membership and Benefits (continued)

Defined Contribution Members	No.	No.
Active members		
Active members at 31 December 2018	4,060	
Adjustment	(11)	
New members joining	565	
Duplicate records created in error	(4)	
Deaths in service	(5)	
Members leaving with contribution refunds	(112)	
Members leaving with preserved benefits and deferred retirements	(647)	
	<hr/>	
Active members at 31 December 2019		3,846
Deferred pensioners		
Deferred pensioners at 31 December 2018	2,840	
Adjustments	5	
Leavers during the year with preserved benefits and deferred retirements	647	
Leavers with refunds	(45)	
Deferred pensioners transferring out	(61)	
Deferred pensioners retiring	(6)	
Deferred pensioners who commuted their benefits	(5)	
Deaths in deferment	(5)	
	<hr/>	
Deferred pensioner as 31 December 2019		3,370
Total Defined Contribution membership at 31 December 2019		7,216

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)

Pension Increases

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

Newage International Sections	3.0% on the pre 1997 benefit; 2.4% on the post 1997 benefit and 2.4% on the post 2006 benefit (GMP); 2.4% on the post 1988 GMP.
Cummins Diesel Section	3.0% on the Blackwood Hodge benefit; 3.0% on the pre 1997 benefit; 2.4% on the post 1997 benefit and 2.4% on the post 2006 benefit (GMP); 2.4% on the post 1988 GMP.
Cummins Engine Company Section	3.0% on the pre 1997 benefit; 2.4% on the post 1997 benefit and 2.4% on the post 2006 benefit (GMP); 2.4% on the post 1988 GMP.
Power Group International Section	3.3% on the pre 2006 benefit in excess of the pre 1988 Guaranteed Minimum Pension (GMP); 2.4% on the post 1988 GMP and 2.4% on the post 2006 benefit.

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

Summary of Contributions

During the year ended 31 December 2019 the contributions payable to the Plan by the employer under the schedule of contributions were as follows:

	2019 £'000
Employers:	
Normal – Defined Benefit	20,114
Normal – Defined Contribution	11,658
Normal – Salary Sacrifice – Defined Benefit	2,654
Normal – Salary Sacrifice – Defined Contribution	8,648
Employees:	
Normal – Defined Benefit	118
Normal – Defined Contribution	12
Total contributions payable under the schedule of contributions as reported on by the Plan Auditors	43,204
In addition, further contributions were payable as follows:	
Other Employer contributions	74
Augmentations	418
Employer additional voluntary contributions – salary sacrifice	3,070
Employees' additional voluntary contributions	51
Total contributions included in the financial statements (note 4)	46,817

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 the funds held in the defined contribution section and Additional Voluntary Contributions) as at 31 December 2019 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 broadened the Plan's investments in diversified assets by investing in three more strategies (Emerging Market Currency, Merger Arbitrage and Market Neutral Equity) whilst reducing the Plan's allocation to Reinsurance and Momentum. This new diversifying strategies portfolio provides further diversification to the Plan's overall portfolio.

The Trustee has subsequently agreed to switch its Merger Arbitrage manager, as well as switching the Plan's Momentum allocation for an Alternative Risk Premia allocation. This expands the Plan's exposure to multiple alternative beta strategies including Momentum, Value Premium, Volatility Premium and Carry Premium, significantly enhancing the risk and return characteristics of the Diversifying Strategies portfolio without an increase in governance for the Plan. This is expected to be implemented in 2020.

In addition, the Trustee committed to invest into three new Private Markets. These investments will help the Plan to fulfil its investment pipeline into Private Markets for 2019, enabling the Plan to continue to benefit from a diverse Alpha seeking allocation.

The Trustee also invested into Secure Income Assets. This investment provides the Plan with exposure to long-term cashflows with UK inflation linkages, helping the Plan to better match future cashflows and gain from attractive expected yields.

The Trustee switched the Plan's equity allocation to a fund that seeks to track an Environmental, Social and Governance ("ESG") tilted global equity index, thus better integrating ESG principles into the Plan's investments. The new fund also benefits from an engagement overlay provided by a third-party engagement services provider in order to enhance the Trustee's stewardship activities.

Trustee's Report (continued)

Investment Management (continued)

Investment managers (continued)

The managers' investment objectives are as follows:

<i>Manager</i>	<i>Investment Objective</i>
Legal & General Investment Management Ltd	To track the total return of the relevant benchmark indices
State Street Global Advisors (RAFI Equity)	To track the total return of the FTSE RAFI All-World 3000 Index
State Street Global Advisors (Global Adaptive Capped ESG Fund)	To track the total return of the MSCI AC World Adaptive Capped ESG Universal Index
State Street Global Advisors (LDI portfolio)	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)
State Street Global Advisors (Emerging Markets Currency Fund)	To achieve 3 month LIBOR USD + 3%
CB Richard Ellis Investors Limited	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
Alcentra	To exceed the FTSE Sterling Corporates AAA Index
Ancala	To generate an absolute return in excess of publicly quoted equity markets
Towers Watson Investment Management	To yield the FTSE Actuaries Over 15 year UK Index-Linked Gilts +2-3% over 5 year periods
AMX Systematica, AMX Magnetar, AMX GSA	To achieve 3 month LIBOR USD + 3%
Credit Suisse	To exceed the 3 month UK Treasury Bills benchmark by 3% (net of fees) per annum

Trustee's Report (continued)

Investment Management (continued)

Investment managers (continued)

<i>Manager</i>	<i>Investment Objective</i>
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, Waud Capital Partners	To generate an absolute return in excess of publicly quoted equity markets
Heitman Global Prime Property Fund (part of Legal & General holding)	To exceed the FTSE EPRA/NAREIT Global Developed Real Estate Index +0.5%
SC Management TIAA-CREF	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
Hayfin	To generate a meaningful premium over public loan markets
Brigade Credit Offshore Fund II Ltd	To generate 2% per annum (gross) performance ahead of the benchmark over a full market cycle
Franklin Templeton Investors	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 (%)
Return-seeking allocation	-	-	43.5
Passive equities	-	-	10.0
Global equities (Global Adaptive Capped ESG Fund)	State Street Global Advisors	MSCI Ac World Adaptive Capped ESG Universal Index	5.0
Global equities (economically weighted)	State Street Global Advisors	FTSE RAFI AW-3000	5.0
Other Alternatives			15.5
AAA CLO	Alcentra	FTSE Sterling Corporates AAA Index	-
Diversifying Strategies			8.0
Emerging Market Currency	State Street Global Advisors	3 month LIBOR USD =3%	-
Market-Neutral Equity	Systematica	3 month LIBOR USD =3%	-
Merger Arbitrage	Magnetar	3 month LIBOR USD =3%	-
Momentum	GSA	3 month LIBOR USD =3%	-
Reinsurance	Credit Suisse Asset Management	3 Month UK Treasury Bills	-
Multi-Strategy	Brigade Credit	50% BofA Merrill Lynch High Yield Master II Constrained Index and 50% Credit Suisse Leveraged Loan Index	4.5
Alternative Credit	Offshore Fund II Ltd	JP Morgan Global Government bond Index (hedged)	3.0
Sovereign Credit	Franklin Templeton Investors		
Secure Income Assets	Towers Watson Investment Management	FTSE Actuaries Over 15 year UL Index-Linked Gilts	5.0
Private markets ¹	-	-	13.0¹
Private Equity			10.0
	Goldman Sachs Asset Management	70% FTSE All-Share/30% FTSE World (ex UK)	-
	Morgan Stanley Investment Management	FTSE All-World	-
	American Securities VI and VII	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 (RECAP IV)	Absolute return	-
	Altas Partners I and II	Absolute return	-
	CDH Investments	Absolute return	-
	VGC Fund I and II		

Trustee's Report (continued)

Investment Management (continued)

Asset allocation (continued)

	<i>Mobeus Equity Partners</i>	<i>Absolute return</i>	-
	<i>Cabot Square Capital</i>	<i>Absolute return</i>	-
	<i>Waud Capital Partners</i>	<i>Absolute return</i>	-
<i>Private Markets</i>			3.0
<i>Property</i>	<i>Legal & General Investment Management (Heitman Global Prime Property Fund)</i>	<i>FTSE EPRA/NAREIT Global Developed Real Estate Index +0.5%</i>	-
	<i>CB Richard Ellis Investors Limited</i>	<i>Absolute return</i>	-
<i>Agriculture</i>	<i>TIAA CREF (Global Agriculture II)</i>	<i>Absolute Return</i>	
<i>Infrastructure</i>	<i>Ancala Partners</i>	<i>Absolute Return</i>	-
<i>Illiquid Credit</i>	<i>Hayfin</i>	<i>Credit Suisse Western European Leveraged Loan Index</i>	-
	Liability matching allocation		55.5¹
	<i>State Street Global Advisors</i>	<i>Liability Benchmark</i>	-
	<i>Legal & General Assurance Society</i>	<i>Deferred premium (10 years)</i>	-
Cash	-	-	1.0
Total			100.0

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 %
Legal & General Investment Management		
Heitman Global Prime Property	16,386	1.1
<hr/>		
Total Legal & General Investment Management	16,386	1.1
<hr/>		
State Street Global Advisors		
Fundamental Index Equity	77,509	5.1
Adaptive Capped Equity	79,263	5.2
Windwise Equity Fund	17,167	1.1
Liability Driven Investment	450,533	29.7
<hr/>		
Total State Street Global Advisors	624,472	41.1
<hr/>		
Alcentra	37,438	2.5
Systematica	16,417	1.1
Magnetar	25,890	1.7
GSA	27,949	1.8
Towers Watson Investment Management	72,617	4.8
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	178,989	11.8
CBREGI	146	0.0
Hayfin	887	0.1
Brigade	70,467	4.6
Franklin Templeton	40,334	2.7
Credit Suisse	22,763	1.5
Legal & General Assurance Society	360,300	23.7
Cash	23,711	1.5
<hr/>		
Total DB investment assets	1,518,766	100.0
<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
Total Plan	10.9	11.11	4.36	4.87	6.64	6.82

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 Utmost (formerly 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 Flexicycle 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 Flexicycle strategy is designed for members who are likely to have smaller pots and want to take their full pot as a lump sum. The default Flexicycle targets annuity purchase at retirement for DC members and lump sum at retirement for AVC members.

The Accelerated Fund was updated in Q1 2019 to invest 50% in FTSE RAFI All world equity, and 50% in All World Adaptive Capped ESG Index Fund. 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. The default Flexicycle targets annuity purchase at retirement for DC members and lump sum at retirement for AVC members.

The Plan will be undertaking an investment strategy review of the DC Section in Q1/Q2 2020. The key outcomes for the strategy review is for the Trustee to understand the current membership profile in the DC Section and agree the investment design of the default lifestyle accumulation and pre-retirement phases. The Trustee will also have to agree the at retirement portfolios of the drawdown, annuity and lump sum retirement options and decide if the fund range should be amended.

Trustee's Report (continued)

Investment Management (continued)

DC and AVC Performance

The DC fund range performance, compared to benchmark performance ("BM"), is as shown below:

	Value (£m)	12 Months (%)		3 years (% pa)		5 years (% pa)	
		Fund	BM	Fund	BM	Fund	BM
Lifecycle funds							
Accelerated Growth	148.9	21.0	21.0	9.2	9.4	8.7	9.0
Moderate Growth	60.1	15.0	25.3	-	-	-	-
Moderate Growth vs Libor +3.5%	-	15.0	16.4	-	-	-	-
Pre-Retirement	15.4	11.7	11.9	4.6	4.7	5.6	5.7
Cash	2.1	0.6	0.6	0.4	0.4	0.3	0.4
Self-select funds							
UK Equity	0.6	19.3	19.3	6.9	6.9	7.6	7.5
Ethical Global Equity	0.4	25.7	26.1	11.0	11.4	12.8	13.2
World Equity	0.9	23.7	23.8	10.4	10.5	12.6	12.7
World Equity (GBP Hedged)	0.7	25.9	26.1	10.8	11.0	8.6	8.8
World EM Equity	0.3	15.7	16.1	8.6	8.9	9.0	9.3
AAA-AA-A All Stock Bonds	0.2	7.8	7.8	3.4	3.4	4.1	4.1
HSBC Islamic Titans (DC)	0.0	29.1	29.7	-	--	-	-
Property	0.4	2.4	1.6	4.5	6.0	5.3	6.6

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 (£m)	12 Months (%)		3 years (% pa)		5 years (% pa)	
		Fund	BM	Fund	BM	Fund	BM
AVC funds							
Accelerated Growth	4.6	21.0	21.0	9.2	9.4	-	-
Moderate Growth	0.7	15.0	25.3	6.8	10.9	-	-
Moderate Growth vs Libor +3.5%	-	15.0	16.4	6.8	6.3	-	-
World Equity	0.1	23.7	23.8	10.4	10.5	-	-
World Equity (GBP Hedged)	1.1	25.9	26.1	10.8	11.0	-	-
AAA-AA-A All Stock Bonds	0.0	7.8	7.8	3.4	3.4	-	-
Pre-retirement	1.3	11.7	11.9	4.6	4.7	-	-
HSBC Islamic Titans (AVC)	0.0	29.0	29.7	-	-	-	-
Cash	0.5	0.6	0.6	0.4	0.4	0.3	0.4
UK Equity	0.0	19.3	19.3	6.9	6.9	-	-
Property	0.0	2.4	1.6	4.5	6.0	-	-
Ethical Global Equity	0.1	25.7	26.1	11.0	11.4	-	-
World EM Equity	0.0	15.7	16.1	8.6	8.9	-	-

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, and it is also available on the Cummins pension website.

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 56 to 60.

Self investment

There were no direct employer-related investments at 31 December 2019 (2018: nil). The Trustee recognises that indirect investment in the sponsoring employer's parent company, is possible through holdings in pooled investment vehicles. Based on information provided by the investment managers, the Trustee estimates that, at 31 December 2019, any indirect exposure to shares in companies related to the sponsoring employer was 0.3% (2018: 0.3%) of the net assets of the Scheme.

Trustee's Report (continued)

Investment Management (continued)

COVID-19

During the first quarter of 2020, global markets have experienced incredibly volatile conditions in response to the COVID-19 outbreak. In addition to the direct impact of COVID-19, we also experienced an oil price shock caused by the OPEC oil states and Russia failing to reach an agreement to cut oil production following the anticipated fall in oil demand due to COVID-19, resulting in a c30% fall in the price of Brent crude oil. These events had a severe knock on effect on global equity markets, where we saw global equity indices falling by c.16%¹ over the quarter. This had been initially accompanied by sharp fall in gilt yields as investors undertook a 'flight to quality' assets, however during the middle of March we saw extreme volatility in UK gilt yields, quickly reversing the downward trend to 2019 yield levels, before falling quickly back down to similar levels seen at the start of the year following the Bank of England's decision to cut the base rate to 0.10%. COVID-19 has the characteristics of a "black swan" event; it is unpredictable and could potentially have a very large impact on the global economy. Consequently, the Investment Sub Committee is continually reviewing the situation, maintaining operationally flexible and meeting regularly during this time.

With regards to the Plan's DB section, whilst the movements in markets have been extreme, the Plan's high liability hedge ratio has helped protect the Plan's funding level. In December 2019 the Company informed the Trustee that it was intending to make an additional contribution to the Plan during Q1 2020. This payment was made in February, boosting the funding level.

The Plan's return seeking assets will have been a drag on the funding level since 31 December 2019, albeit a high level of diversification from traditional equities in the portfolio has significantly limited the impact of equity market falls on the Plan's funding level.

Together, this has resulted in the funding level remaining broadly flat² over the quarter, albeit with increased volatility in intra-quarter funding level movements as compared with other quarterly periods. We note that the DB investment time horizon and investment strategy is long-term in nature, therefore the Trustee's intention is not to change the investment strategy in light of short-term market events (although the Investment Sub Committee adheres to a disciplined rebalancing policy where practical). Throughout this period of high volatility, the Investment Sub Committee has met regularly and has implemented appropriate measures to ensure the Plan is able to function operationally as well as carry out the investment strategy.

There has been a significant impact on the value of the Plan's DC section with pension savings hit by the volatile market movements. Most DC investors will be invested in the Plan's default lifestyle strategy. This automatically adjusts member's exposure to different asset classes over time, reducing risk in the run up to retirement. These strategies have generally been successful in reducing the losses for older members, who are less able to tolerate falls in their savings. Self-select members invested in global equities will have experienced falls in equity values equivalent to a 1 in 20 downside shock on markets with higher volatility expected to remain during the short-term.

Most diversified growth funds (DGFs) seek to achieve a volatility of between a half and two thirds of equities. Generally, we have seen so far this has been achieved by these funds during the quarter. The increased level of uncertainty means it had become increasingly difficult to price property assets. In line with FCA's guidance, this led many funds that invest in physical property to suspend trading as they could not ensure investors are buying or selling at an appropriate price. This was the case with the Plan's Managed Property fund, with LGIM confirming all dealings had been suspended, and the Trustee has acted accordingly to ensure members affected are notified and that new contributions to the fund are suspended until the situation is resolved.

Trustee's Report (continued)

Investment Management (continued)

COVID-19 (continued)

Funds seeking to mirror movements in annuity prices typically invest in a mixture of Gilts and Corporate Bonds. Falling yields have pushed the cost of annuities and the valuations of bond assets up while the increasing spreads on credit has driven costs and valuations down. Over the quarter the cost of an annuity rose. Annuity protection funds have offered some protection, but lagged annuity price rises which is likely to be due to the impact of the large increase in credit spreads.

Over the medium-term we expect returns from cash and government bonds to fall as a result of the reduction in interest rates, but they would continue to help members manage risks of capital loss or annuity conversion. Investors should seek compensation for the increased volatility in equity markets meaning we expect only modest falls in longer-term equity returns, increasing their premium over bonds.

¹Source: *FTSE All World Index (GBP)*.

²Source: *WTW Asset Liability Software (WTW's proprietary asset liability tracking software. The software uses widely available indices to track the approximate funding level changes)*.

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 is considering what actions and decisions be needed 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.

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.

Related Party Transactions

The Principal Employer has paid some of the costs of administering the Plan for the year and has invoiced the Plan during the year.

Further details of related party transactions are given in Note 25 to the financial statements.

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 Chapter 2 of part 4 of 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.

Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, Employers or Professional Advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0345 600 7060

Trustee's Report (continued)

Additional Information (continued)

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.

The Pensions Advisory Service ("TPAS")

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

TPAS can be contacted at:

120 Holborn
London
EC1N 2TD

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
1st Floor,
10 South Colonnade,
Canary Wharf
London
E14 4PU

Telephone: 0800 917 4487

Early resolution email: helpline@pensions-ombudsman.org.uk

Email: 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 ensuring that the financial statements are prepared 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)

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.

Trustee's Report (continued)

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.

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

Approval of the Trustee's Report

The Trustee's Report was approved by the Trustee on 28th September 2020 and signed on its behalf by:

Trustee Director _____

Trustee Director _____

Date _____

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 2019 in the following areas:

- the default investment arrangements;
- requirements for processing core financial transactions;
- assessment of charges and transaction costs;
- assessment of value for members; and
- the requirement for trustee knowledge and understanding.

The Trustee has agreed that the 'charges year' for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Plan year (the year to 31 December).

Default investment arrangements

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 2020.

Statement Regarding DC Governance (continued)

Default investment arrangements (continued)

The Trustee monitors the performance of all investment options on a quarterly basis. The Trustee will periodically, and on no less than a three-yearly cycle, review the appropriateness of the default arrangement for the Plan membership, and if necessary, make changes to the design. It will undertake an earlier review if there are any significant changes in investment policy or member demographics. The Trustee commenced an investment strategy review in February 2020, with further work in regard to this being undertaken in May 2020.

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

Processing of core financial transactions

With the help of the Plan administrator, Capita, the Trustee regularly monitors the Plan's core financial transactions. These include the investment of contributions, transfers of assets into and out of the Plan, fund switches, and payments out of the Plan to and in respect of members. During the review period, the Trustee considered the controls the administrator had in place to monitor and process core financial transactions and was satisfied that reporting from the Plan administrator evidenced that such financial transactions were processed promptly and accurately. Quarterly reporting demonstrated that the administrator was operating within the agreed service levels and within the statutory disclosure limits. There were no issues or breaches raised in the quarterly reports during the year.

The Trustee, having considered these reports alongside the reports received from the Plan's appointed auditor, has concluded that the Plan's core financial transactions have been processed promptly and accurately during the Plan year.

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

COVID-19

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

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			
Flexicycle options Funds						
Accelerated Growth Fund	0.19%	0.01%	0.20%	0.05%	0.25%	Yes
Moderate Growth Fund	0.18%	0.01%	0.19%	-0.04%	0.15%	Yes
Pre-retirement Fund	0.14%	0.00%	0.14%	0.00%	0.14%	Yes
Cash Fund	0.13%	0.00%	0.13%	0.00%	0.13%	Yes
Self-Select Funds						
UK Equity Fund	0.10%	0.00%	0.10%	-0.03%	0.07%	No
Ethical Global Equity Fund	0.30%	0.00%	0.30%	0.00%	0.30%	No
World Equity Fund	0.13%	0.00%	0.13%	0.00%	0.13%	No
World Equity (GBP Hedged) Fund	0.15%	0.00%	0.15%	0.04%	0.19%	No
World Emerging Market Equity	0.34%	0.01%	0.35%	0.01%	0.36%	No
AAA-AA-A All Stocks Bonds Fund	0.15%	0.00%	0.15%	-0.03%	0.12%	No
Property Fund	0.74%	0.13%	0.87%	-0.52%	0.35%	No
HSBC Islamic Titans	0.35%	0.30%	0.65%	0.03%	0.68%	No
Cash Fund	0.13%	0.00%	0.13%	0.00%	0.13%	No

Pounds and pence illustration

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustee to produce a '£ and pence illustration' showing the compounded effect of charges and transaction costs on a member's retirement savings.

The following table gives a summary of the projected fund and the impact of charges and transaction costs from current date up to a target retirement age of 65. The figures are presented against three-member examples:

- The Plan's youngest member;
- an average member; and
- a member approaching retirement.

Statement Regarding DC Governance (continued)

Assessment of charges and transaction costs (continued)

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	£2,300	£2,300	£2,200	£2,200	£2,200	£2,200
	3	£7,100	£7,100	£6,700	£6,700	£6,700	£6,600
	5	£12,300	£12,300	£11,200	£11,100	£11,000	£11,000
	10	£27,300	£27,000	£22,300	£22,100	£21,700	£21,600
	15	£45,500	£44,600	£33,300	£33,000	£32,100	£31,800
	20	£67,400	£65,700	£44,300	£43,700	£42,200	£41,600
	25	£94,100	£90,900	£55,200	£54,200	£51,900	£51,100
	30	£126,200	£121,100	£66,100	£64,600	£61,400	£60,200
	35	£161,700	£154,100	£76,900	£74,900	£70,600	£69,000
	40	£198,100	£188,000	£87,700	£85,100	£79,500	£77,500
	45	£231,000	£218,400	£98,300	£95,100	£88,100	£85,700
49	£248,100	£233,800	£106,900	£103,000	£94,800	£92,000	
Average member	1	£41,400	£41,300	£39,900	£39,800	£39,700	£39,600
	3	£54,900	£54,500	£49,600	£49,400	£48,900	£48,800
	5	£69,400	£68,700	£59,200	£58,900	£58,100	£57,800
	10	£108,800	£107,100	£83,300	£82,500	£80,500	£79,700
	15	£151,400	£148,500	£107,300	£105,700	£102,200	£100,900
	20	£193,400	£188,800	£131,200	£128,700	£123,200	£121,200
	24	£219,900	£214,100	£150,100	£146,900	£139,600	£137,000
Member approaching retirement	1	£64,400	£64,400	£63,300	£63,200	£63,000	£62,900
	3	£76,100	£75,800	£73,000	£72,700	£72,000	£71,700
	5	£86,500	£86,000	£82,600	£82,100	£80,900	£80,400

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

Statement Regarding DC Governance (continued)

Assessment of charges and transaction costs (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 0.19% to 3.92% (adjusted depending on term to retirement).*
 - *Pre-Retirement Fund – -0.11%.*
 - *Cash Fund – -0.61%.*
9. *Transactions costs have been provided by Legal and General Investment Management and cover the period 1 January 2018 to 31 December 2019. Transaction costs have been averaged by WTW using a time-based approach. The transaction costs for Blended funds were estimated by WTW based on the transaction costs for the underlying funds.*
10. *Pension scheme's normal retirement age is 65.*
11. *Example members:*
 - *Youngest member: age 16, total contribution: £2,240, starting fund value: nil, contribution rate: core + 4% matched.*
 - *Average member: age 41, total contribution: £4,900, starting fund value: £35,000, contribution rate: core + 3% matched.*
 - *Member approaching retirement: age 60, total contribution: £4,900, starting fund value: £58,500, contribution rate: core + 3% matched.*

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	Sufficient Value
5.	Communications	Trustee/Company	Not Relevant	Good Value

Key:

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

The ratings in the areas of ‘scheme governance and management’ and ‘investment’ are improved since last year’s assessment, and the Trustee considers members to receive consistent high value in all areas. Only the highest two rating categories have been applied to the Plan in this year’s assessment:

“Excellent value” – A scheme offers excellent value for members if the scheme demonstrates it offers services that are of good / excellent quality and meet the specific needs of the membership. This would typically mean that the VFM assessment demonstrates several areas of strength and has no areas of weakness.

“Good value” – A scheme offers good value for members if the scheme demonstrates it offers services that are of reasonable or good quality and broadly meet the specific needs of the membership. This would typically mean that the VFM assessment demonstrates some areas of strength with few areas of weakness.

The Trustee has concluded that overall, the Plan provides **“excellent value”** for its members because the charges borne by members are competitive, both in absolute terms (i.e. when compared to typical levels of charges in the pensions market) and in relative terms (i.e. when considered in the context of the range and quality of services and benefits associated with Plan membership for which the member does not bear the cost).

Statement Regarding DC Governance (continued)

Assessment of Value for Members (continued)

There are many other factors that contribute to the rating of “**excellent value**”, in particular:

- Charges for the Plan's default arrangements are below the 'charge cap' of 0.75% per annum (this cap applies to pension schemes where members are automatically enrolled in line with legislation);
- Members have access to various investment options, all of which have competitive fund management charges, and have been designed based on the Plan's membership demographics;
- Members do not currently pay for the Plan's administration costs, professional adviser costs or any costs (other than fund management) associated with the operation of the Plan;
- Members are provided with high quality communications;
- The high level of oversight and governance provided by the Trustee;
- The availability of salary sacrifice arrangements;
- Members have access to flexible retirement options on a basis which is in-keeping with similar schemes and the availability of an annuity broking service at retirement.

Trustee Knowledge and Understanding (TKU)

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

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

There is a training log in place which is set up to meet the needs of the Trustee to ensure its knowledge is up to date. The training log is monitored regularly to ensure that gaps in knowledge are identified and external specialist training can be arranged as necessary.

During the Plan year, the Trustee's approach to meeting the TKU requirements included:

- receiving training sessions from its advisers during quarterly meetings to ensure the Trustee maintains an appropriate level of knowledge and understanding of current and general issues affecting pensions (2019 training topics included: GMP Equalisation, Integrated Risk Management, ESG and Introduction to LDI).
- circulating to each Trustee Director 'hot topics' and general updates from its advisers about relevant matters on a quarterly basis;
- recently appointed Trustee Directors are in the process of completing the Pensions Regulator's Toolkit (two Trustee Directors appointed in March 2020) and are given a due date of six months to complete this. All other Trustee Directors have completed the relevant modules of the Toolkit;
- the Trustee Directors attend external events and webinars and provide feedback to the wider group at quarterly meetings; and
- training needs were regularly discussed during the Plan year. The Trustee's advisers continue to recommend potential training topics for the Trustee to consider. A training plan for topics has been agreed with its advisers for 2020.

Statement Regarding DC Governance (continued)

Trustee Knowledge and Understanding (TKU) (continued)

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustee is satisfied that it has met the relevant legislative requirements in this area.

As part of its commitment to maintaining an effective and engaged Trustee Board, the Trustee intends to assess its Trustee Knowledge and Understanding and effectiveness in Q3 2020. The Governance Sub-committee reviews on an annual basis what training is deemed necessary, taking into account training that has been done over recent years, market developments and forthcoming Plan activity.

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

The Trustee Directors use their combined knowledge and understanding to:

- Manage the Plan effectively, in line with its governing documents.
- Ensure that Plan specific policies and procedures continue to be appropriate.
- Operate a communications approach which positively supports member education and retirement planning.

The Trustee Directors have also taken advice from specialist pensions, legal and communications advisers, to help them to achieve their goals effectively for the year.

Additional Voluntary Contributions (AVCs)

There are a number of AVC arrangements linked to the Plan's DB Section. Most AVCs are now invested in the same funds available to the Plan's DC Section. The exceptions to this are with-profits funds with Aviva and Prudential and a Prudential Deposit fund. This is due to the complexity of these products and the potential disadvantages to members of exiting these funds prior to retirement.

The Trustee moved assets from Utmost Life and Pensions (formerly held with Equitable Life) to the AVC arrangement linked to the funds available to the Plan's DC Section in Q1 2020.

The Trustee has concluded that the AVC arrangements represent "**good value**" for money for members.

The Statement regarding DC Governance was approved by the Trustee and signed on its behalf by:

Chairman of the Trustee Company

Cummins UK Pension Plan

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 under the Schedule of Contributions for the year ended 31 December 2019 as reported in the Cummins UK Pension Plan's summary of contributions have, in all material respects, been paid in accordance with the Schedule of Contributions certified by the Plan actuary on 27 December 2018.

We have examined Cummins UK Pension Plan's summary of contributions for the Plan year ended 31 December 2019 which is set out on page 7.

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:

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 2019, 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 Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Trustee's annual report and financial statements (the "annual report"), which comprise: the statement of net assets available for benefits as at 31 December 2019; 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 other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the 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.

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.

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 in accordance with the applicable framework 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. 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 2019

		Defined benefit section 2019 £'000	Defined contribution section 2019 £'000	Total 2019 £'000	Total 2018 £'000
Contributions and benefits					
Employer contributions		24,123	22,513	46,636	35,211
Employee contributions		151	30	181	378
Total contributions	4	<u>24,274</u>	<u>22,543</u>	<u>46,817</u>	35,589
Transfers in	5	409	709	1,118	1,222
Other income	6	1	306	307	1,180
		<u>24,684</u>	<u>23,558</u>	<u>48,242</u>	<u>37,991</u>
Benefits paid or payable	7	(37,067)	(1,985)	(39,052)	(40,537)
Payments to and on account of leavers	8	(8,386)	(1,966)	(10,352)	(9,769)
Administration expenses	9	(2,750)	(300)	(3,050)	(2,468)
		<u>(48,203)</u>	<u>(4,251)</u>	<u>(52,454)</u>	<u>(52,774)</u>
Net (withdrawals)/ additions from dealings with Members		<u>(23,519)</u>	<u>19,307</u>	<u>(4,212)</u>	<u>(14,783)</u>
Returns on investments					
Investment income	10	4,572	72	4,644	3,893
Change in market value of investments	11	147,494	33,884	181,378	(42,690)
Investment management expenses	12	(732)	(75)	(807)	(708)
Net returns on investments		<u>151,334</u>	<u>33,881</u>	<u>185,215</u>	<u>(39,505)</u>
Net increase/(decrease) in the fund		<u>127,815</u>	<u>53,188</u>	<u>181,003</u>	<u>(54,288)</u>
Transfers between sections	26	(372)	372	-	-
Opening net assets of the Plan at start of year		<u>1,403,509</u>	<u>178,470</u>	<u>1,581,979</u>	<u>1,636,267</u>
Closing net assets of the Plan at end of year		<u>1,530,952</u>	<u>232,030</u>	<u>1,762,982</u>	<u>1,581,979</u>

The accompanying notes on pages 40 to 65 are an integral part of these financial statements.

Statement of Net Assets

Available for Benefits as at 31 December 2019

	Note	Defined benefit section 2019 £'000	Defined contribution section 2019 £'000	Total 2019 £'000	Total 2018 £'000
Investment assets:					
Qualifying investment fund	13	450,533	-	450,533	442,106
Pooled investment vehicles	14	684,222	229,833	914,055	776,065
Derivatives	15	-	-	-	-
Insurance policies	16	360,300	-	360,300	346,600
AVC investments	17	9,363	-	9,363	7,723
Cash	18	23,711	-	23,711	8,438
		<u>1,528,129</u>	<u>229,833</u>	<u>1,757,962</u>	<u>1,580,932</u>
Investment liabilities:					
Other investment balances	18	(7)	-	(7)	(3)
Total Net investments	11	1,528,122	229,833	1,757,955	1,580,929
Current assets	23	4,779	2,367	7,146	3,746
Current liabilities	24	(1,949)	(170)	(2,119)	(2,696)
		<u>1,530,952</u>	<u>232,030</u>	<u>1,762,982</u>	<u>1,581,979</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 22 and 23 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 40 to 65 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 28th September 2020.

Signed on behalf of the Trustee

Trustee Director

Trustee Director

Notes to the Financial Statements

The Cummins UK Pension Plan is a hybrid scheme established as a trust under English law. The Trustee's registered office is c/o Cummins Limited, Yarm Road, Darlington, Co. Durham DL1 4PW.

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 and the guidance set out in the Statement of Recommended Practice (revised 2018)

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on the financial statements. However, it has required 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 accrual's 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 accrual's 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 accrual's 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. Comparative Disclosures for the Fund Account and Statement of Net Assets

Fund Account

	Defined benefit section 2018 £'000	Defined contribution section 2018 £'000	Total 2018 £'000	Total 2017 £'000
Contributions and benefits				
Employer contributions	17,519	17,692	35,211	22,246
Employee contributions	338	40	378	482
Total contributions	17,857	17,732	35,589	22,728
Transfers in	188	1,034	1,222	372
Other income	769	411	1,180	897
	18,814	19,177	37,991	23,997
Benefits	(38,307)	(2,230)	(40,537)	(36,108)
Payments to and on account of leavers	(6,349)	(3,420)	(9,769)	(9,043)
Administration expenses	(2,202)	(266)	(2,468)	(2,000)
	(46,858)	(5,916)	(52,774)	(47,151)
Net (withdrawals)/ additions from dealings with Members	(28,044)	13,261	(14,783)	(23,154)
Returns on investments				
Investment income	3,893	-	3,893	3,780
Change in market value of investments	(30,445)	(12,245)	(42,690)	76,831
Investment management expenses	(669)	(39)	(708)	(941)
Net returns on investments	(27,221)	(12,284)	(39,505)	79,670
Net (decrease)/increase in the fund	(55,265)	977	(54,288)	56,516
Transfers between sections	(350)	350	-	-
Opening net assets of the Plan at start of year	1,459,124	177,143	1,636,267	1,579,751
Closing net assets of the Plan at end of year	1,403,509	178,470	1,581,979	1,636,267

Notes to the Financial Statements (continued)

3. Comparative Disclosures for the Fund Account and Statement of Net Assets (continued)

Statement of Net Assets available for benefits

	Note	Defined benefit section 2018 £'000	Defined contribution section 2018 £'000	Total 2018 £'000	Total 2017 £'000
Investment assets:					
Qualifying investment fund		442,106	-	442,106	458,673
Pooled investment vehicles		597,663	178,402	776,065	795,610
Derivatives		-	-	-	-
Insurance policies		346,600	-	346,600	352,900
AVC investments		7,723	-	7,723	8,484
Other investment balances		-	-	-	2
Cash		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>
Investment liabilities:					
Other investment balances		(7)	-	(7)	(3)
Total Net investments		<u>1,528,122</u>	<u>229,833</u>	<u>1,757,955</u>	<u>1,580,929</u>
Current assets		3,112	634	3,746	6,398
Current liabilities		(2,130)	(566)	(2696)	(3,294)
Total net assets available for benefits		<u>1,403,509</u>	<u>178,470</u>	<u>1,581,979</u>	<u>1,636,267</u>

Notes to the Financial Statements (continued)

4. Contributions

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Employer contributions			
Normal	20,114	11,658	31,772
Salary sacrifice	2,654	8,648	11,302
Salary sacrifice (AVC)	1,031	2,039	3,070
Augmentation	279	139	418
Other	45	29	74
	<u>24,123</u>	<u>22,513</u>	<u>46,636</u>
Employee contributions			
Normal	118	12	130
Additional voluntary contributions	33	18	51
	<u>151</u>	<u>30</u>	<u>181</u>
	<u><u>24,274</u></u>	<u><u>22,543</u></u>	<u><u>46,817</u></u>
	2018	2018	2018
Employer contributions			
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>
Employee contributions			
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>

Notes to the Financial Statements (continued)

4. Contributions (continued)

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

Other contributions of £74,000 (2018: £170,000) 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.

5. Transfers in

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Individual transfers in from other schemes	409	709	1,118
	2018	2018	2018
Individual transfers in from other schemes	188	1,034	1,222

6. Other income

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Claims on term Insurance policies	-	306	306
Other income	1	-	1
	1	306	307
	2018	2018	2018
Claims on term Insurance policies	769	411	1,180
Other income	-	-	-
	769	411	1,180

Notes to the Financial Statements (continued)

7. Benefits paid or payable

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Pensions	30,711	-	30,711
Commutations of pensions and lump sum retirement benefits	5,922	1,367	7,289
Purchase of annuities	-	128	128
Lump sum death benefits	54	381	435
Taxation	380	109	489
	<u>37,067</u>	<u>1,985</u>	<u>39,052</u>
	2018	2018	2018
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>

Notes to the Financial Statements (continued)

8. Payments to and on account of leavers

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Refunds of contributions in respect of opt-outs	17	19	36
Individual transfers out to other schemes	8,322	1,947	10,269
Pension sharing on divorce	47	-	47
	<u>8,386</u>	<u>1,966</u>	<u>10,352</u>
	£'000 2018	£'000 2018	£'000 20189
Refunds of contributions in respect of opt-outs	-	14	14
Individual transfers out to other schemes	6,181	3,406	9,587
Pension sharing on divorce	168	-	168
	<u>6,349</u>	<u>3,420</u>	<u>9,769</u>

Notes to the Financial Statements (continued)

9. Administration Expenses

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Administration and processing	663	256	919
Actuarial fees	168	-	168
Investment consultancy fees	1,282	44	1,326
Audit fees	36	-	36
Pension plan levies payable	54	-	54
Legal and other professional fees	141	-	141
Other fees and expenses (including Trustee expenses)	406	-	406
	<u>2,750</u>	<u>300</u>	<u>3,050</u>
	2018	2018	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>

Trustee expenses payments included above amounted to £45,000 (2018: £21,000).

Notes to the Financial Statements (continued)

10. Investment income

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Income on cash deposits	3	1	4
Income from pooled investment vehicles	4,770	71	4,841
Loss on currency translation	(196)	-	(196)
Annuity income	11	-	11
Other investment income	(16)	-	(16)
	<u>4,572</u>	<u>72</u>	<u>4,644</u>
	2018	2018	2018
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>

Notes to the Financial Statements (continued)

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

	Value at 1 January 2019 £'000	Purchases at cost & derivative payments £'000	Sales proceeds & derivative receipts £'000	Change in market value £'000	Value at 31 December 2019 £'000
Defined Benefit Section					
Pooled investment vehicles	597,663	306,591	(257,987)	37,955	684,222
Qualifying investment fund	442,106	22,595	(108,840)	94,672	450,533
Derivatives	-	57,205	(57,172)	(33)	-
Insurance policies	346,600	-	-	13,700	360,300
AVC investments	7,723	2,402	(1,962)	1,200	9,363
	1,394,092	388,793	(425,961)	147,494	1,504,418
Cash deposits	8,438				23,711
Other investment balances	(3)				(7)
	1,402,527				1,528,122
Defined Contribution Section					
Pooled investment vehicles	178,402	32,555	(15,008)	33,884	229,833

Transaction costs

There were £nil direct transaction costs during the year (2018: £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:

	£'000 2019	£'000 2018
Allocated to members	229,771	178,368
Not allocated to members	62	34
	229,833	178,402

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

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Administration, management and custody	732	75	807
	2018	2018	2018
Administration, management and custody	669	39	708

13. Qualifying investment fund

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

	2019 £'000	2018 £'000
Defined Benefit Section		
Bonds	400,009	401,367
Derivatives	31,891	6,475
Cash	18,743	35,856
Valuation variance	(110)	(1,592)
	450,533	442,106

Notes to the Financial Statements (continued)

13. Qualifying investment fund (continued)

The asset manager and custodian have small differences in the way they value the underlying investments. This difference is shown above and is reasonable for assets of this type and results from a very small variation in methodology.

14. Pooled investment vehicles

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

	2019 £'000	2018 £'000
Defined Benefit Section		
Equities	229,388	162,558
Bonds	165,406	148,057
Property	26,661	32,086
Private equity	168,860	144,352
Infrastructure equity	-	12,505
Equity hedge	93,020	96,206
Direct Lending	887	1,899
	<u>684,222</u>	<u>597,663</u>
	2019 £'000	2018 £'000
Defined Contribution Section		
Equities`	151,754	117,994
Bonds	192	177
Property	361	315
Cash fund	2,091	1,372
Pre-Retirement fund	15,356	11,238
Moderate fund	60,073	47,302
Amanah fund	6	4
	<u>229,833</u>	<u>178,402</u>

As a result of concerns on fund liquidity arising from ongoing uncertainties within the financial markets due to the economic impact of the Government's response to Covid-19, LGIM imposed a suspension on trading from their property funds which remains in place at the date this report and financial statements are signed. The Trustee and its advisers continue to monitor the situation closely.

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 (2018: none).

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:

	2019 £'000	2018 £'000
Deferred Premium Buy-In - LGAS	<u>360,300</u>	<u>346,600</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:

	2019 £'000	2018 £'000
Prudential Assurance Company Limited	931	1,141
Equitable Life / Utmost	40	64
Legal & General	8,387	6,513
Aviva	5	5
	<u>9,363</u>	<u>7,723</u>

18. Cash and other investment balances

	2019 £'000	2018 £'000
Defined Benefit Section		
Investment manager cash & cash instruments	23,711	8,438
Accrued Income	(7)	(3)
	<u>23,704</u>	<u>8,435</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 2019 or 31 December 2018.

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 2019.

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:

As at 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Defined Benefit Section				
Pooled investment vehicles	-	337,304	346,918	684,222
Qualifying investment fund	-	450,533	-	450,533
Insurance policies	-	-	360,300	360,300
AVC investments	-	8,386	977	9,363
Cash	23,711	-	-	23,711
Other investment balances	-	-	(7)	(7)
	23,711	796,223	708,188	1,528,122
Defined Contribution Section				
Pooled investment vehicles	-	229,833	-	229,833
	-	229,833	-	229,833
As at 31 December 2018				
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Defined Benefit Section				
Pooled investment vehicles	-	373,690	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)
	8,438	822,309	571,780	1,402,527
Defined Contribution Section				
Pooled investment vehicles	-	178,402	-	178,402
	-	178,402	-	178,402

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 2019 £'000	Value 2018 £'000
Pooled Investment Vehicles						
<i>Equities</i>	N	Y	N	Y	229,388	162,558
<i>Bonds</i>	Y	N	Y	Y	165,406	148,057
<i>Property</i>	N	N	N	Y	26,661	32,086
<i>Private Equity</i>	N	Y	N	Y	168,860	144,352
<i>Infrastructure</i>	N	N	N	Y	-	12,505
<i>Other PIVs</i>	Y	Y	Y	Y	93,907	98,105
Qualifying Investment Fund	Y	N	Y	Y	450,533	442,106
Insurance Policies	Y	N	Y	N	360,300	346,600
AVC Investments	Y	Y	Y	Y	9,363	7,723
Cash and other deposits	Y	N	Y	N	23,704	8,435
Total					1,528,122	1,402,527

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
	2019 (£'000)	2018 (£'000)
Credit Risk (<i>LDI, MSAC, CLOs, Direct Lending Fund and Cash</i>)	1,093,860	1,043,308

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
	2019 (£'000)	2018 (£'000)
Currency Risk (<i>unhedged overseas equities, property, and private equity</i>)	161,645	170,649

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, Collateralised Loan Obligations (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
	2019 (£'000)	2018 (£'000)
Interest Rate Risk (<i>LDI, MSAC, CLOs, Bonds and Buy-in</i>)	976,239	936,762

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
	2019 (£'000)	2018 (£'000)
Other Price Risk (<i>Equities, Private equity, Property, Reinsurance Direct Lending Fund and listed Infrastructure</i>)	453,517	380,109

A summary of DB pooled investment vehicles by type of arrangement is as follows:

Pooled Investment Vehicles by Type	2019 (£'000)	2018 (£'000)
Authorised Unit Trusts	146	712
Collective Investment Scheme	60,201	101,639
Qualifying Investor Alternative Investment Fund	72,617	-
Open-Ended-Investment-Companies	450,533	442,106
Segregated Portfolio Company	17,167	-
Shares of Limited Liability Partnerships	327,852	343,280
Irish Collective Asset-management Vehicle	70,256	-
Undertakings for Collective Investment in Transferable Securities	119,597	119,423
Unit Linked Insurance Contracts	16,386	32,578
	1,134,755	1,039,738

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:

2019 and 2018	Indirect Credit Risk	Foreign Exchange Risk	Interest Rate Risk	Other Price Risk
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

There were no direct employer-related investments at 31 December 2019 (2018: nil). The Trustee recognises that indirect investment in the sponsoring employer's parent company, is possible through holdings in pooled investment vehicles. Based on information provided by the investment managers, the Trustee estimates that, at 31 December 2019, any indirect exposure to shares in companies related to the sponsoring employer was 0.3% (2018: 0.3%) of the net assets of the Scheme.

22. Concentration of investments

The following investments represented more than 5% of the Plan's total net assets as at 31 December 2019.

Fund	2019 £'000	%	2018 £'000	%
SSGA Qualified Tru LDI Leveraged UK Exposure I (Qualifying Investment Fund)	450,533	25.6	442,106	27.9
Legal & General Buy-In Insurance Policy	360,300	20.4	346,600	21.9
Legal & General DBKR Cummins Accelerated	148,880	8.4	115,734	7.3
State Street MPF Fundamental Global Equity (Hedged)	77,509	4.4	84,153	5.3

Notes to the Financial Statements (continued)

23. Current assets

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Contributions due from employer in respect of:			
Employer	23	2	25
Employee	3	2	5
Prepaid pensions	2,107	-	2,107
Life insurance claim due	-	-	-
Due from defined contribution section	-	-	-
Cash and bank balances	2,646	2,363	5,009
	<u>4,779</u>	<u>2,367</u>	<u>7,146</u>
	2018	2018	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>

Contributions due under the Schedule and noted above were received on time, after the year end, on 8 January 2020.

Of the DC section cash balances £507,000 was allocated to members (2018: £314,000).

Notes to the Financial Statements (continued)

24. Current liabilities

	Defined benefit section £'000 2019	Defined contribution section £'000 2019	Total £'000 2019
Unpaid benefits	524	109	633
Accrued expenses	842	19	861
Other creditors	583	42	625
Due to defined benefit section	-	-	-
	<u>1,949</u>	<u>170</u>	<u>2,119</u>
	2018	2018	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>

25. Related party transactions

Employer

During the year the company has recharged costs of £96,020 (2018: £89,610) to the Plan representing a charge for administration services supplied by the company and carried out on behalf of the Trustee.

During the year contributions of £41,100 (2018: £39,900) were received from the company in respect of remuneration made to pensioner Directors.

Key management personnel of the Plan

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 2019 10 Trustee Directors were active members and 2 Directors were pensioner members. Comparative figures for Directors as at 31 December 2018 were 6 active members, 1 deferred member and 2 pensioner members.

Other fees and expenses of £21,178 (2018: £21,056) were paid to Trustee Directors.

Notes to the Financial Statements (continued)

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 £372,000 (2018: £350,000).

27. Capital commitments

As at 31 December 2019 the Plan had undrawn capital commitments as shown below:

Fund	2019	2018
	£'000	£'000
Advent GPE VII	747	788
Altas Partners Fund I	1,619	869
Altas Partners Fund II	11,739	-
American Securities VI	1,888	1,919
American Securities VII	3,787	7,175
Ancala Partners Infrastructure Fund II	9,278	19,683
Axiom Asia II	757	770
Cabot Square V	4,690	7,078
CDH Growth VGC Fund II	17,108	-
CDH Growth Fund III	3,080	5,136
Energy Capital III	2,121	3,952
Francisco Partners V	11,991	18,168
GSAM PEP 2002	100	101
Mobius Equity Partners IV	6,074	8,580
Morgan Stanley PMF V	2,103	2,614
SC Capital Partners RECAP IV	2,828	4,008
Sun Capital VI	2,504	4,001
TIAA-CREF GAF II	2,316	4,461
Waud Capital Partners FIF V	16,856	-
Total Undrawn Commitment	101,586	89,303

Notes to the Financial Statements (continued)

28. Contingent liabilities

GMP Equalisation

As explained on page 19 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 is considering what actions and decisions be needed 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.

29. Subsequent Events

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a global health emergency on the 30th January 2020, has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Trustee is monitoring developments relating to COVID-19 and is coordinating its operational response based on existing business continuity plans and on guidance from global health organisations, UK government and general pandemic response best practice.

The emergence and spread of COVID-19 is a non-adjusting post balance sheet event as it does not impact the valuation of the assets at the year end date. It is not possible at this time to quantify the change in investment values as the situation is fluid and unpredictable.