Cummins UK Pension Plan

April 2025

Investment guide - AVCs

For defined benefit members

Contents

- Putting your money to work
- What are my investment options?
- The lifestyle options
- Lifestyle fund charges
- Your target retirement age
- The self-select funds
- Self-select fund charges
- Jargon buster
- Investment risk
- Contact us

Putting your money to work

The amount of money you have in your Plan AVC account at retirement depends on three things:

- how much you pay into your account in AVCs
- how your contributions are invested to make them grow
- the age you choose to take your savings.

So, your investment choices play a key part in how much your pension fund will be worth when you retire – and therefore, how much pension income you can expect.

Even if you're new to investing, this guide gives you an overview of the investment options available in the Plan, making it easy for you to choose the one that's right for you.

Pension saving is a long-term investment, and we understand that when retirement is a long way into the future, it's hard to know exactly how you'll want to take your savings. The Plan's AVC investment options are designed to be flexible, giving you choices at retirement.

Your options at retirement

There are three main ways to take your AVC savings. You can use one or a combination of the following choices:

- **Income drawdown** – an arrangement where you keep your savings invested and withdraw money in retirement as and when you want to. You'd need to transfer your AVCs out of the Plan to do this.

- **Annuity** – you buy a product from an insurance company that gives a guaranteed income for life.

- **Cash** – the option to take your savings in a lump sum.

If you wish, instead of exchanging some of your Plan pension to take a tax-free cash lump sum at retirement, you can use your AVCs to fund all or part of this lump-sum payment. Alternatively, you can use your AVCs to boost your regular Plan pension payments.

What are my investment options?

You may know lots about pension investments or very little. Depending on your individual circumstances and needs, the Plan has an investment option to suit you.

You can:

- invest in the **lifestyle** option, where your investments are managed for you and tailored to your requirements automatically

  or

- use the **self-select** range of funds, where you manage all your investments yourself.

The lifestyle (default) option

If you prefer not to make detailed investment decisions, the lifestyle option is designed for you. It aims to maximise investment growth in your younger years and then automatically and gradually switches your money into investments like bonds and cash as you get closer to retirement.

The lifestyle option is for you if you don't want to make your own investment decisions by using the Plan's self-select funds.

The continued growth lifestyle is the Plan's default option that the majority of our members use.

The self-select option

The self-select funds are suitable for you if you're comfortable making your own investment decisions and have the time and knowledge to manage your investments. You choose which funds to invest in and when to disinvest.

Unlike the lifestyle option, there's no automatic switching of your money as you approach retirement, and you'll actively need to manage your investments.

The lifestyle options

Unless you decide to use the self-select funds, your AVCs are automatically invested in the continued growth lifestyle option. This strategy is suitable if you're planning on using an income drawdown arrangement at retirement and aims to put you in the right position so you can make a choice that works for you.

A Shairah lifestyle option is also available, giving you the choice to invest on a Shariah-compliant basis, if you wish to.

What does lifestyling do?

When you’re a long way from retirement, your AVCs are invested with the aim of maximising investment growth. Then, in the years as you get closer to your target retirement age, your money is automatically and gradually switched from growth investments (equities, also called shares) into investments like bonds and cash.

This aims to protect the value of your pension when you’re close to retirement.

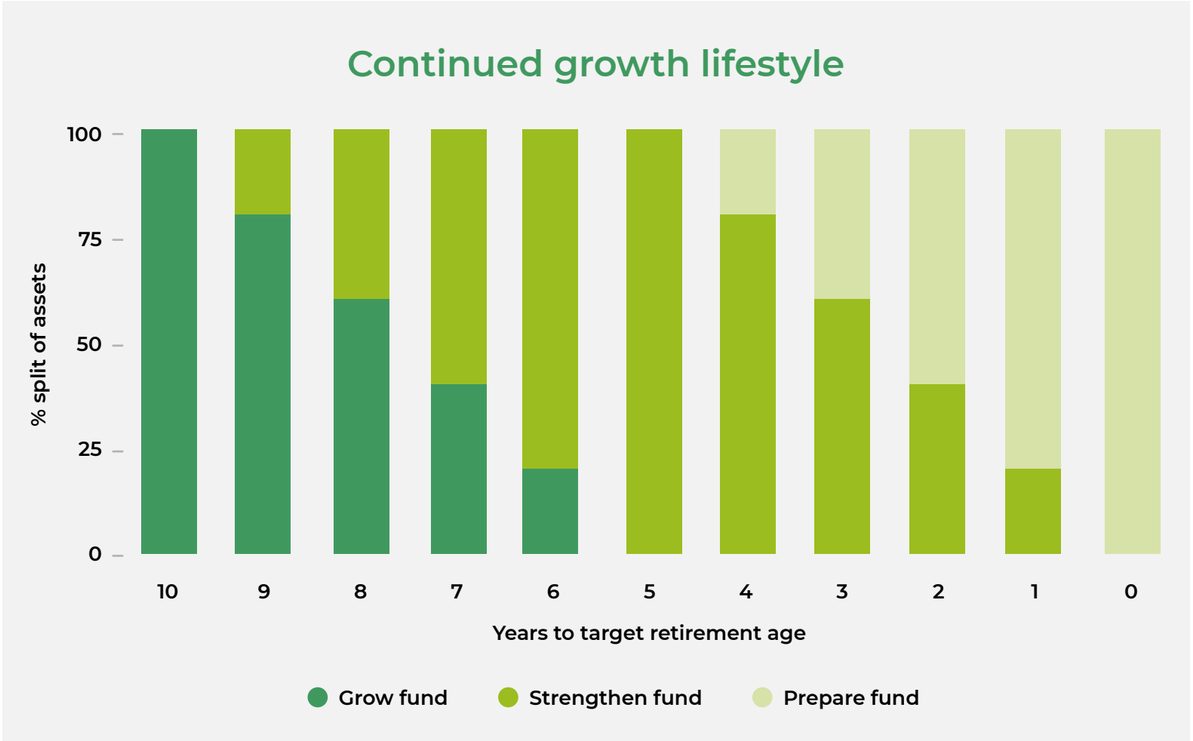
Continued growth lifestyle

Time to target retirement age	What's happening to your money?
10+ years	The continued growth lifestyle strategy starts by investing 100% of your account in the grow fund (equities).
10 to 5 years	Your savings are gradually and automatically moved until 100% of your account is invested in the strengthen fund.
5 years	Your savings are gradually and automatically moved until 100% of your account is invested in the prepare fund.

Approaching retirement

Your investments in the continued growth lifestyle strategy are managed for you, and you don't need to make any investment decisions at all. When you're approaching your target retirement age, it's time to:

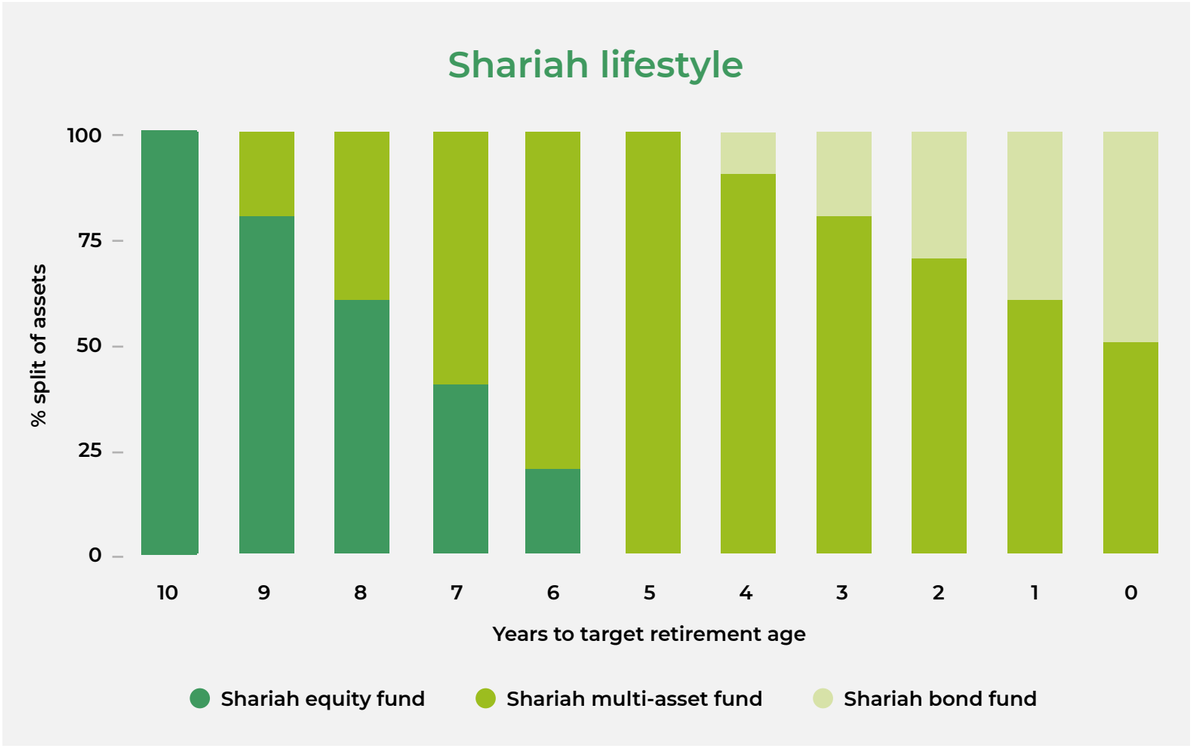
- **start thinking** about how you'd like to take your money at retirement: income drawdown, annuity or cash?
- **carry on** investing in the continued growth strategy if you think you're likely to use income drawdown or you're not ready to decide and want to keep your retirement options open.
- **choose** an alternative self-select fund if you know you'd prefer to buy an annuity or take cash.



If you don't want your savings to start moving out of the grow fund from 10 years before retirement, you'll need to use the self-select funds instead and manage your investments yourself.

Shariah lifestyle

Time to target retirement age	What's happening to your money?
10+ years	The shariah lifestyle strategy starts by investing 100% of your account in the shariah equity fund.
10 to 5 years	Your savings are gradually and automatically moved until 100% of your account is invested in the shariah multi-asset fund.
5 to 0 years	Your savings are gradually and automatically moved until 50% of your account is invested in the shariah bond fund, with 50% remaining in the shariah multi-asset fund.



Approaching retirement

Your investments in the shariah lifestyle option are managed for you, and you don't need to make any investment decisions at all. When you're approaching your target retirement age, it's time to:

- **start thinking** about how you'd like to take your money at retirement
- **review** the options available to you to see which best aligns with how you'd like to take your savings and any other beliefs which may influence your investment decision.

If you don't want your savings to start moving out of the shariah equity fund from 10 years retirement, you can pick from the self-select funds instead and manage your investments yourself.

Lifestyle fund charges

The charges associated with the funds used in the lifestyle strategies are shown below, while full details of ongoing charges are in the annual Chair's statement.

	Annual management charge	Additional expenses	Total expense ratio
Grow fund	0.12%	0.00%	0.12%
Strengthen fund	0.28%	0.02%	0.30%
Prepare fund	0.38%	0.04%	0.42%
Shariah equity fund	0.18%	0.17%	0.35%
Shariah multi-asset fund	0.17%	0.15%	0.32%
Shariah bond fund	0.12%	0.20%	0.32%

Your target retirement age

It’s really important to choose a target retirement age if you’re using the lifestyle option because the switching process begins based on when you plan to retire.

If you don’t select a target retirement age, we’ll assume that it’s age 65, your normal retirement age in the DB Section. You can change your target retirement age at any time by logging in to your account via **Manage my pension** on the Plan website.

If you’ve left your target retirement age at age 65, but you’re actually hoping to retire earlier, it could mean that your account is still invested in a growth fund too close to your retirement. If there’s a sudden downturn in the financial markets, your retirement savings might not have enough time to recover.

Similarly, if you’ve chosen an earlier retirement age, say 55, but find you want to continue working a bit longer, your savings will have started switching away from growth assets into investments like bonds and cash too soon, and you might miss out on some investment growth.

A note about State Pension age

Please note that the State Pension age is currently age 66.
The government is gradually increasing this to age 67 between 2026 and 2028, with a further increase to age 68 planned for 2037 to 2039.
When you’re considering your target retirement age from the Plan, bear in mind when you’ll be able to claim your State Pension and whether there’ll be a gap between them.

You can check your State Pension age by going to:
www.gov.uk/state-pension-age

The self-select funds

As an alternative to the lifestyle option, you may prefer to make your own investment choices using the Plan's range of self-select funds.

These are suitable if you have the time and knowledge to manage your own investments. You can make changes to your investments at any time via **Manage my pension** on the Plan website.

The self-select range

AAA-AA-A corporate bond all-stocks index fund	This fund aims to capture the returns of the iBoxx £ Non-Gilt (ex-BBB) index and invests primarily in sterling-denominated AAA, AA and A-rated corporate bonds paying a fixed rate of interest.
Annuity focused fund	This fund aims to invest in assets that reflect the investments underlying a typical non-inflation-linked pension annuity. There is no guarantee of full protection against changes to annuity prices, but investing in a similar way to annuity providers does offer some protection. This fund can only help to offset the risk arising from changes in investment conditions, not life expectancy.
Cash fund	This fund aims to provide capital protection with growth at short-term interest rates. It invests in short-term money markets such as bank deposits and Treasury Bills.
Ethical global equity index fund	This fund tracks the sterling total returns of the FTSE4Good Global Equity index (including reinvested income, less withholding tax) to within +/- 0.5% per year for two years in three.
Grow fund	This fund aims to capture the returns of equity markets through exposure to global equity markets. The allocation to the underlying stocks is weighted based on different risk factors to reduce concentration to any particular company or industry. The fund also has a higher allocation to companies with positive sustainability scores than the traditional index strategies. It offers opportunities to maximise the growth of your pension fund over the mid to long term. However, as with all investments in equity markets, the returns can be volatile, especially in times of market stress, e.g. a recession.

Fund list continues on next page

Property fund	This fund aims to get the best return from a portfolio of first-class freehold and leasehold interests in commercial and industrial property. This includes industrial warehouse buildings, shopping units and office blocks. It is also permitted to invest up to 15% in other external property funds in order to take advantage of investment opportunities in niche or specialist sections.
Shariah equity fund	This fund aims for long-term capital growth through a diversified portfolio of securities, as defined by a relevant world index, which meets Islamic investment principles as interpreted by the Shariah Committee.
Strengthen fund	This fund invests across a broad range of asset classes including equities, bonds and alternatives such as property and commodities. The exposure to a broad range of asset classes aims to reduce the risk that the fund value falls significantly. It offers opportunities to increase the value of your pension fund over the mid to long term.
UK equity fund	This fund aims to mirror the performance of the FTSE All-Share index, with income reinvested.
World emerging markets equity fund	This fund aims to capture the returns of the world's emerging markets. It tracks the FTSE Emerging index. This fund is likely to be of interest to members with mid-to long-term investment objectives.
World equity fund (hedged)	This fund aims to capture world equity market returns, tracking the FTSE World index, with an added element of currency hedging. It offers opportunities to maximise growth over the mid-to long-term.
World equity fund (unhedged)	This fund aims to capture world equity market returns, tracking the FTSE World index. It offers opportunities to maximise growth over the mid to long term.

Self-select fund charges

The charges associated with the funds in the self-select range are shown below.

	Annual management charge	Additional expenses	Total expense ratio
AAA-AA-A corporate bond all-stocks index fund	0.15%	0.00%	0.15%
Annuity focused fund	0.14%	0.00%	0.14%
Cash fund	0.13%	0.00%	0.13%
Ethical global equity fund	0.30%	0.00%	0.30%
Grow fund	0.12%	0.00%	0.12%
Property fund	0.74%	0.13%	0.87%
Shariah equity fund	0.18%	0.17%	0.35%
Strengthen fund	0.28%	0.02%	0.30%
UK equity fund	0.10%	0.00%	0.10%
World emerging markets equity fund	0.34%	0.01%	0.35%
World equity fund (hedged)	0.15%	0.00%	0.15%
World equity fund (unhedged)	0.13%	0.00%	0.13%

Further details on annual ongoing charges are available in the **Chair's statement**.

Jargon buster

Whether you're using the lifestyle or self-select options, there are various types of assets which your pension fund could be invested in. These include:

Equities – these are shares in a company. Owning shares means you own a little bit of that company and are entitled to a dividend (annual payment). Their value can rise or fall in the short term but over the long term, they're generally expected to outperform other investments. They're suitable if you're looking for long-term growth and are willing to ride out any short-term falls in value.

Corporate bonds – issued by a company to raise money, a bond is essentially a loan to a company where it pays interest before repaying the loan when it matures.

Gilts – similar to corporate bonds but issued by the UK government. Fixed-interest gilts pay a specified rate of interest. Index-linked gilts pay a variable rate of interest linked to inflation. They're not expected to produce as high a return as equities over the long term. They're suitable if you're a more cautious investor or are looking to protect the value of your investment against the price of an annuity.

Property – this is generally an investment in commercial property such as office buildings, shopping centres and factories. There is little, if any, exposure to residential property. It can be volatile over short periods but in the longer term, it's expected to outperform other asset types, apart from equities.

Cash – returns on cash investments generally vary in line with bank lending rates.

Other investment terms you might need to know

Diversification – this is a mixture of different types of assets within a portfolio. When one type of investment is doing poorly, another might be doing well. The winners help offset the losers, and the value of the overall portfolio doesn't move up and down so much.

FTSE All-Share index – the Financial Times Stock Exchange is a UK index of around 800 companies trading on the London Stock Exchange.

FTSE4Good – includes socially responsible companies.

FTSE All-World (ex-UK) index – a list of thousands of companies around the world, excluding UK companies.

Volatility – the amount of uncertainty or risk that the value of an asset will change. High volatility means that the value could change dramatically, up or down, in a short period of time.

Investment risk

All investments involve a certain level of risk and you should think about how much risk you're comfortable with. You'll have seen the warning that appears on all investment products – 'the value of your investment can go down as well as up and you may get back less than you originally invested'.

Putting all your savings into one high-risk investment until the moment you retire would be considered risky but so too would putting them all 'safely' under your mattress, where they wouldn't earn you any investment return at all. Investing is about finding the balance that's right for you and your circumstances. Here's a summary of some of the types of risk you should be aware of.

Poor long-term investment returns

While being cautious with your investment choices could mean steady growth, it also means that you're less likely to have an overall higher return that you would have achieved if you'd been less conservative. This means you'd need to greatly increase your pension contributions as you approach retirement or have a smaller fund value at retirement age.

Annuity conversion risk

The cost of buying an annuity rises if long-term interest rates are low. If interest rates fall as you approach retirement, the price of an annuity will rise, which would give you a lower income from the annuity. The annuity focused fund aims to remove some of this conversion risk by matching movements in annuity prices.

Market volatility

Your pension fund is invested in units, and the price per unit depends on how that particular market is performing. We've seen recent examples of how unit prices can be massively affected overnight (the property crash of 2008, Brexit referendum in 2016 and the coronavirus in 2020).

You risk losing out if you choose a bad time to switch your investments, either because you miss out on sudden gains or you experience sudden drops in value. However, the risks from market volatility can be reduced if you move your investments gradually over a period of time, which is what happens in the lifestyle options, rather than switching in one go.

External factors

Your attitude to the risks associated with your pension investment might also depend on how large the investment is compared with other savings you may have and with other pension benefits you expect to receive from elsewhere (including State Pension benefits). For example, if you also have a pension from a previous employer or substantial savings, you may feel more relaxed about your pension fund investment risks than you might otherwise be.

Investment switching charges

If you want to switch your investments within the Plan, a charge will be applied. Charges are also applied when your funds move automatically within the lifestyle option. The charge for switching is deducted from your pension fund and is based on a number of factors, including the value of your fund and the types of units you are switching into or out of. The Trustee has reviewed switching charges and decided that the need to offer members the opportunity to switch into lower-risk funds as they get closer to retirement outweighs the charges that are applied.

Further information and help

If you'd like more information about retirement saving and pensions in general, you may find the government's free guidance service, MoneyHelper, useful. Go to: **www.moneyhelper.org.uk**

Getting advice

Deciding how to invest your money is entirely up to you. Neither the Trustee nor the Plan's administration team can give you advice about your investments – they can only provide factual information.

If you need to speak to an independent financial adviser, you can find one in your local area at **www.unbiased.co.uk**

Contact us

If you would like to review your investments or make any changes to your investment choices, the best place to do this is via **Manage my pension** on the Plan website:

Getting advice
If you have any other queries about the Plan or your benefits, please contact Isio, the Plan administrator:

Call us:
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