

Cummins UK Pension Plan

Statement of investment principles

December 2023

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1 Introduction

- 1.1 This document is the Statement of investment principles (SIP) made by the Cummins UK Pension Plan Trustee Limited (the Trustee) for the Cummins UK Pension Plan (the Plan) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it). This SIP also considers the Pension Regulator's guidance on investments.
- 1.2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy or in the demographic profile of the members invested in the DC default arrangements. Before finalising this SIP, the Trustee took written advice from the Plan's investment consultant, Lane Clark & Peacock LLP (LCP), and also consulted Cummins Inc., the parent company of the principal employer of the Plan, Cummins EMEA Holdings Limited (EMEA Holdings). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.
- 1.3 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Plan's benefits are provided on both a defined benefit (the DB Section) and defined contribution (the DC Section) basis. This SIP covers both the DB Section and DC Section of the Plan, including the additional voluntary contribution (AVC) arrangements.
- 1.4 The Plan is registered under the Finance Act 2004.
- 1.5 We have produced a separate SIP Appendix document that details further background and other matters relevant to the Plan's investments, but which are not required to be included in the SIP.



2 Third-party service providers

Plan actuary

2.1 The Plan actuary's responsibilities in relation to the DB Section include:

- a. performing the triennial valuations of the Plan (or more frequently, as required) and advising on the appropriate contribution levels for the future
- b. liaising with the investment consultant on the suitability of the Plan's investment strategy, given the financial characteristics of the Plan.

Investment consultant

2.2 The investment consultant's responsibilities include:

- a. advising the Trustee and ISC, as requested:
 - through consultation with the Plan actuary where appropriate
 - on matters concerning the investment strategy
 - on the implementation of the chosen investment strategy
 - on supporting the Trustee's aspiration for the Plan's assets to have net zero greenhouse gas emissions by 2050.
- b. undertaking project work as requested, including:
 - investment strategy reviews
 - investment implementation reviews.

Custodian

2.3 The custodian's responsibilities in relation to the DB Section include:

- a. the safekeeping of the Plan's assets
- b. regular and accurate reporting of the Plan's assets
- c. regular and accurate performance measurement of the Plan's assets.

Legal counsel

2.4 The legal counsel's responsibilities include:

- a. providing the Trustee with advice on legal matters in relation to the Plan's activities
- b. reviewing documentation in relation to the Trustee's service providers and investment managers and other associated documentation as required by the Trustee.

Platform provider (DC and AVC arrangements)

2.5 The investment platform provider's responsibilities include:

- a. providing access to a range of funds managed by various investment managers
- b. providing the Trustee with regular information concerning the management and performance of the assets.

3 Objectives

3.1 The long-term objective of the Trustee for the DB Section is to reach 103% funding on a self-sufficiency basis by the end of 2028. However, investment changes following September 2022 mean that the Trustee is considering extending the target's time horizon and reviewing other aspects of the Plan, such as the target return of the Plan's investments and employer deficit contributions. A decision is expected after the 1 January 2024 actuarial valuation. In seeking to achieve its objective, the Trustee is mindful of the need to:

- a. acquire suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with new contributions from members and the participating employers, the cost of current and future benefits that the Plan provides. The Trustee currently targets a return of around 1.0% per annum above the return on long-dated gilts.
- b. achieve appropriate diversification and limit the risk of the assets failing to meet the liabilities over the long term.
- c. minimise the long-term costs of the Plan by maximising the return on the assets while allowing for the objectives shown under a and b.

3.2 The long-term objective of the Trustee for the DC Section is to help members build up enough capital to meet their retirement objectives and support them with their AVC savings. In seeking to achieve this objective, the Trustee is mindful of the need to:

- a. provide DC Section members with access to an appropriate range of investment options with appropriate liquidity that will generate income and capital growth which, together with new contributions from members and the participating employers, will provide a fund at retirement with which to target the member's selected retirement objective.
- b. provide members with AVC savings with a range of investment options which broadly satisfies the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.
- c. provide members with access to a default investment option that the Trustee believes to be reasonable for those members who do not want to make their own investment decisions.
 - The objective of the DC Section default is to generate returns significantly above inflation while members are far from retirement, and to switch automatically and gradually to lower-risk and expected-return investments as members get closer to retirement, with the asset allocation at retirement designed to be appropriate for members taking income drawdown.

- The objective of the default for AVC savings is to generate returns significantly above inflation while members are far from retirement, and to switch automatically and gradually to lower-risk and expected-return investments as members get closer to retirement, with the asset allocation at retirement designed to be appropriate for members looking to take a cash lump sum.
 - A further objective of the cash fund is to serve as a default, providing short-term savings protection for members unwilling or unable to make a choice about where to invest their contributions and/or savings due to fund closures.
- d. understand that members' investment needs change as they progress towards retirement age.
- e. minimise long-term costs to members while allowing for the objective shown under a.




4 Investment strategy

- 4.1** The Trustee has received advice to determine an appropriate investment strategy for the Plan. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently and has therefore delegated responsibility for investment decisions to its investment sub-committee (ISC). All decisions of the ISC will be recorded in committee minutes and made available to the full Trustee board.
- 4.2** The DB Section investment strategy makes use of three key types of investments:
- instruments that provide a match to changes in liability values
 - credit assets that aim to provide an additional yield over pure matching investments, which also provide a broad match against changes in buy-out pricing
 - a diversified range of return-seeking assets, including (but not limited to) private equity, property and secure income, and diversifying assets.
- 4.3** The DB Section investment strategy makes use of a mixture of passive and actively managed portfolios.
- 4.4** The DC Section default was designed to be in the best interests of most of the members, based on analysis of the demographics of the membership. The default option for DC Section members targets income drawdown at retirement; while for AVC members, the default option targets taking cash at retirement, which the Trustee believes is appropriate based on analysis of the membership and its view of how members will want to take their benefits. The target for the cash default is short-term protection given the expected short-term nature of the holdings. The Trustee will monitor member behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.
- 4.5** The DC Section's default strategies are disclosed in Appendix B.
- 4.6** The balance within and between these investments will be determined from time to time in relation to balancing the risks and return to help achieve the Plan's investment objective.
- 4.7** For the DB Section, the Trustee, together with the Plan's administrators, will ensure that it holds sufficient cash to meet the likely benefit outgo from time to time. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in most circumstances. The Trustee has also determined a policy for meeting cashflow requirements that is consistent with the Plan's overall investment policy.
- 4.8** For the DC Section, the members' accounts are held in pooled funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement. The Plan will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

- 4.9** For the DC Section, investments in the default lifestyle arrangements include illiquid assets through one of the underlying funds in the moderate growth fund. As such, members with 20 years or fewer to retirement¹ will hold an investment in illiquid assets. The investment is held via a collective investment scheme that invests in UK physical property. Currently, these illiquid assets include UK direct physical property and private market credit; however, as the underlying fund is managed by an external manager, the allocation and type of illiquid assets may change over time. The Trustee has included these allocations within the default arrangements because it believes it will help achieve the overall investment objective for the DC Section by increasing returns and providing diversification of investments for members in the approach to retirement.
- 4.10** The cash fund, which is another default arrangement, does not hold illiquid assets. This type of fund is offered with a view to providing members with liquidity, and it would not be appropriate to invest in assets which may not be readily realisable.
- 4.11** The Trustee believes long-term net investment returns can be enhanced by investing in illiquid assets and, as such, is monitoring the market for developments for further potential inclusion in the strategies. The Trustee recognises, however, that there are a number of risks with these types of assets and will assess further illiquid investments on a fund-by-fund basis, including but not limited to fund availability on the investment platform, the expected return, the fees paid to managers and the structures in place to minimise the risks of investing in less liquid investments.
- 4.12** The Trustee monitors the existing arrangements, including illiquid assets allocation and investment funds, on a regular basis to ensure that they remain appropriate.

¹As the Plan's normal retirement age is State pension age, the age of a member within this phase of the lifestyle will depend on each individual's date of birth.



5 Investment managers

- 5.1 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policies but will delegate responsibility for the selection of specific investments to appointed investment managers, which may include insurance companies. The investment managers will provide the skill and expertise necessary to competently manage the investments of the DB and DC sections of the Plan.
- 5.2 Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.
- 5.3 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Plan's long-term objectives and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Plan's investment managers to its investment consultant.
- 5.4 The Trustee also expects the investment managers, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and environmental, social and corporate governance (ESG) issues concerning the Trustee's investments. The Trustee believes such engagement incentivises the investment managers to protect and enhance the long-term value of its investments. The Trustee seeks to select investment managers with credible net zero targets to support its own aspiration.

Alignment

- 5.5 Alignment between a manager's management of the Plan's assets and the Trustee's policies and objectives is a fundamental part of the appointment process of a new manager. When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the investment management agreement. A measurable objective has been developed for the managers that is consistent with the achievement of the Plan's longer-term objectives and this is:
 - to perform in line with the performance targets relative to the relevant benchmark indices, listed in the investment manager agreement for each of the managers.

Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment.

- 5.6** We have signed agreements with the platform providers in respect of the DC Section and the Plan's AVC arrangements, setting out the terms on which the portfolios are to be managed. The platform providers make available the range of investment options to members. There is no direct relationship between the Plan and the underlying managers of the DC and AVC investment funds.
- 5.7** For most of the Plan's investments, the Trustee expects the investment managers to invest with a medium-to-long time horizon, and to use their engagement activity, where applicable, to drive improved performance over these periods.
- 5.8** When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Fees

- 5.9** Managers are paid based on the size of the portfolio, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustee's view that fees linked to investment performance increase complexity and, in most cases, do not materially improve alignment with long-term objectives. Such fee structures are therefore only used in a limited number of cases.
- 5.10** The Trustee reviews the costs incurred in managing the Plan's assets regularly which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will look at the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

6 Social, environmental, governance and ethical issues

- 6.1** The Trustee supports good stewardship in pursuit of its fiduciary duty and recognises the UK Stewardship Code 2020 as best practice.
- 6.2** The Trustee encourages its investment managers to adhere to the principles of the Code, to document their policies on stewardship, and to disclose these publicly. This includes relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.
- 6.3** The Trustee delegates its voting rights to investment managers and expects these to be exercised where practical. The investment managers are required to provide regular reports to the Trustee detailing their voting activity (where applicable). Where investment style and resources permit, the Trustee encourages its investment managers to engage with investee companies and, where concerns arise, to promote the interests of long-term shareholders.
- 6.4** The Trustee recognises that ESG factors (including climate change) can impact investment risk and return and, where investment style and resources permit, encourages its investment managers to take such factors into account in the exercise of their delegated duties. Other non-financial matters, such as individual members' views are not considered in the selection, retention and realisation of the Plan's investments. However, within the DC Section and the Plan's AVC arrangements, the Trustee recognises that some members may wish for ethical matters to be considered in their investments and therefore has made available an ethical investment option to members, which is detailed in Appendix B.
- 6.5** The Trustee has selected some priority ESG themes to provide a focus for its monitoring of the investment managers' voting and engagement activities. This is reviewed regularly and updated as appropriate. The Trustee has chosen these priorities because they are market-wide areas of risk that are financially material for the investments and aims to address them via its stewardship activities. Therefore, the Trustee believes it is in the members' best interests that the Plan's investment managers adopt strong practices in these areas. The Trustee communicates these stewardship priorities to its investment managers as appropriate.
- 6.6** The Trustee's aspiration is to align its assets with net zero greenhouse gas emissions by 2050. As part of this, the Trustee seeks to select managers and invest in funds with credible net zero targets.
- 6.7** The investment consultant monitors the stewardship approach of the Plan's investment managers and reports on this to the Trustee at least once a year. Where appropriate, the Plan's investment consultant will engage with investment managers to encourage improvement.

7 Other matters

Derivatives

- 7.1** For the DB Section of the Plan, direct investment in derivative instruments may only be made when contributing to a reduction of risks or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.
- 7.2** For the DC Section of the Plan, no direct exposure to derivatives is taken.

Additional voluntary contributions (AVCs)

- 7.3** The Plan's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions, adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options which broadly satisfies the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

Risk management

- 7.4** The Trustee recognises risks involved in the investment of the assets of the Plan in relation to the DB Section:

Solvency risk and mismatching risk

- are measured by assessing the expected development of the liabilities compared with the current and alternative investment policies.
- are managed through assessing the progress of the actual growth of the liabilities in relation to the selected investment policy.

Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and make good any current or future deficit for the DB Section.
- is managed by assessing the interaction between the Plan and the sponsor's business, as measured by factors, including the creditworthiness of the sponsor and the size of the pension liability in relation to metrics reflecting the financial strength of the sponsor.



Interest rate and inflation risk

The Trustee understands the DB Section's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bond funds and unleveraged gilt funds.

- The Trustee believes the interest rate and inflation exposure of the Plan's assets provides protection (hedges) part of the corresponding risks associated with the Plan's liabilities.
- Given that this should reduce the volatility of the funding level, the Trustee believes that it is appropriate to manage exposures to these risks in this manner.

Valuation risk

The Trustee understands that for illiquid assets (such as private equity), prices may only be estimated relatively infrequently using one or more of a range of approximate methods, such as mathematical models or recent sales prices achieved for equivalents.

- At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for illiquid assets.
- The Trustee considers exposure to valuation risk in the context of the Plan's overall investment strategy and believes that the level of exposure to this risk is appropriate.

7.5 The Trustee recognises risks involved in the investment of the assets of the Plan relating to both the DB and DC sections, specifically including the default options.

Lack of diversification risk

- The Trustee understands that there is a risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Plan's assets.
- The Trustee believes the Plan's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Plan's investment arrangements.

Liquidity risk

- is measured by the level of cashflow required by the Plan over a specified period.
- is managed by the Plan's administrators assessing the level of cash held to limit the impact of the cashflow requirements on the investment policy.



Political risk

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments in relation to policy and through regular assessment of the levels of diversification within the existing policy.

Manager risk


- is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, in relation to the investment policy.
- is managed by monitoring the actual deviation of returns in relation to the objective and factors supporting the manager's investment process.

Currency risk

The Trustee understands that exchange rate movements could reduce the returns achieved on the Plan's overseas investments. Currency risk is:

- addressed in the DB Section through diversification of holdings, monitoring of the asset allocation and where appropriate, hedging of currency exposure(s) either externally or within the pooled fund investments.
- managed in the DC Section via the provision of currency-hedged, pooled-fund investments in the lifestyle and the self-select fund ranges.

Custodial risk

- is measured by assessing the creditworthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.
 - is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate.
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Environmental, social and governance risks (including climate-related risks)

The Trustee understands that ESG factors, including climate-related factors, are sources of risk to the Plan which could be financially material, over both the short and longer term. This risk relates to the transition to a low-carbon economy, the physical risks associated with climate change (such as extreme weather), and risks relating to unsustainable or socially harmful business practices and unsound corporate governance.

- The Trustee seeks to appoint investment managers who will manage these risks appropriately on its behalf and regularly reviews how these risks are being managed in practice.
- As part of the appointment process, the ISC considers how investment managers manage ESG risks. The Trustee encourages our managers (where practical) to set credible net zero aspirations for the funds in which we invest and to align our investments with net zero greenhouse gas emissions by 2050, to help drive real world emissions reduction and reduce systemic risks relating to climate change. We monitor and engage with our managers on their progress towards net zero alignment.

Equity risk

- The Trustee believes that equity risk is a rewarded investment risk over the long term.
- The Trustee considers exposure to equity risk in the context of the Plan's overall investment strategy and believes that the level of exposure to this risk is appropriate.

7.6 The Trustee also recognises risks involved in the investment of assets of the Plan in relation to the DC Section:

Inflation risk

The risk that the investment return over members' working lives does not keep pace with inflation.

- It is managed through investing in equity-based funds which have historically delivered returns above inflation over the long term.
- It is monitored through the investment managers' performance and reviewing the default lifestyle strategy on a regular basis.



Annuity conversion risk

The risk that relative market movements in the years just prior to retirement may lead to substantial reduction in the pension and cash lump sum secured.

- It is managed as part of the Lifestyle: annuity protection strategy which targets annuity purchase at retirement. This strategy aims to hedge against annuity price movements as members approach their target retirement age. Members can also self-select an annuity protection fund.

Capital risk

The risk that the funds in which members invest fall in absolute terms.

- It is managed through the default lifestyle strategy which looks to de-risk member assets as they approach retirement.

Opportunity cost or shortfall risk

The risk that members do not take sufficient risk at a stage in their lives when they are most able to, resulting in a smaller-than-expected pension account at retirement.

- It is managed through the default lifestyle strategy being appropriate for members' needs and through member communications on the investment options available to them.

Fee risk

The risk that the value of a member's pension account is unduly eroded due to higher investment management charges.

- It is managed through monitoring the investment managers' fees as disclosed in **section 5.9 and 5.10**.

7.7 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

7.8 The Trustee continues to monitor these risks.

Glossary

Here are some common terms that are used in pensions and investment matters, which you may find useful.

Absolute return – a fund which aims to generate a positive total return, regardless of investment conditions in a given period (often three to five years).

Actively managed – a portfolio where the investment manager decides what funds to include and aims to generate returns measured by a given index.

Active member – someone currently building up benefits in a pension scheme.

Additional voluntary contributions – extra contributions that a pension scheme member chooses to pay to boost their retirement benefits.

Alternative assets – unlike more traditional investments such as equities or bonds, alternative assets include currency, commodities, private equity, property, infrastructure and hedge funds.

Annual management charge (AMC) – the fee charged by an investment manager, which is usually relative to the size of the investment, otherwise it could be a fixed charge.

Annuity – a regular payment for a period of time, such as a pension for life.

Asset allocation – the proportion of assets invested in different asset classes.

Asset-backed security – a type of investment known as a security, the value of which is backed by a specified pool of assets.

Asset class – a type of investment, such as equities or bonds.

Basis point – one hundredth of one percent (0.01%).

Bear market – a period of sustained falls in market prices (see also bull market).

Benchmark – a comparative measure of investment performance, such as a particular market index.

Bond – a type of investment issued by companies or governments (gilts). Bonds are essentially loans for which the investor receives a series of regular interest payments over a given period, with the amount repaid at the end.

Bull market – a period of sustained rises in market prices (see also bear market).

Buy & maintain – an investment where the manager chooses a portfolio of bonds which is then maintained and only traded if there's an opportunity to improve the risk-adjusted yield.

Buy-in – an insurance policy which covers the future benefit payments of a proportion of a pension scheme's liabilities. Also called a bulk annuity (a policy which covers more than one individual), it is held by the trustee as a pension scheme asset and the responsibility of paying benefits to members remains with the trustee.

Buy-out – an insurance policy which covers the future benefit payments of a proportion or all of a pension scheme's liabilities. Also called a bulk annuity (a policy which covers more than one individual). Unlike a buy-in, a buy-out is not held as a pension scheme asset and responsibility for paying benefits to members is transferred to the insurance company.

Carbon emissions – the release of carbon dioxide, or greenhouse gasses, into the atmosphere.

Carbon footprint – the amount of carbon dioxide or greenhouse gas emissions generated by amount invested, usually in £m, by an investment fund.

Carbon offsetting – the process of paying someone else to avoid emitting or to remove from the atmosphere a specified amount of greenhouse gasses, such as by planting trees.

Cash – a very short-term liquid asset.

Commission – a fee paid to a broker for arranging the sale or purchase of an asset.

Commodities – an asset class that is made up of physical goods, such as sugar, metal, oil, etc.

Consumer Prices Index (CPI) – the UK's main measure of inflation.

Contributions – the amounts paid into a pension scheme, either by the sponsoring company and/or the members.

Corporate bond – a loan to a company. Sometimes also called a credit investment.

Corporate governance – the rules and framework used by company directors to run a business.

Default option – the investment strategy used by a DC pension arrangement if the member doesn't make a specific investment choice.

Deferred member – a member of a pension scheme who has benefits from a previous period of employment.

Defined benefit (DB) – a pension scheme where benefits are paid to members based on a defined formula depending on their salary and length of service.

Defined contribution (DC) – a pension scheme where members' benefits are based on the amount of contributions, together with investment returns, that have built up in a 'pension pot' of money.

Diversification – investing in a range of different asset classes to reduce exposure to any one source of risk, namely, not putting all your eggs in one basket.

Diversified growth fund (DGF) – pooled investment funds that invest in a range of asset classes.

Dividend – a regular payment made by companies to shareholders.

Drawdown arrangement – the option at retirement where a member keeps the bulk of their pension pot invested, gradually taking payments (drawing down) as and when required.

Emerging markets – developing nations such as China, India, Brazil, etc. Investments tend to have higher levels of risk and return.

Emerging market debt – loans to emerging markets' governments or companies.

Environmental, social and governance (ESG) – a term used to describe a wide range of ethical and responsible factors that may have been overlooked by traditional investments. They include physical issues such as climate change and resource management, social issues such as diversity, health and safety in the workplace, and governance issues such as shareholder rights and board accountability.

Equity – a share in a company that gives the holder part-ownership and a share in the profits.

Ethical investment – an approach to investing that selects investments based on ESG considerations.

Fixed interest bonds – bonds that pay a fixed amount of interest at set periods.

Funding level – the value of a DB pension scheme's liabilities that can be covered by its assets.

Gilt – a bond issued by the UK government.

Greenwashing – marketing materials that mislead consumers into thinking a company's products are more environmentally friendly than they are.

Gross – performance returns before fees are deducted.

Hedge – a way of managing the risk of a fall in the value of one asset by purchasing another that will offset it.

High yield bonds – bonds issued by companies with low credit (below investment grade). They offer investors a higher yield but carry greater investment risk.

Implementation statement – a formal document that explains how trustees of pension schemes have carried out the policies outlined in their Statement of Investment Principles (SIP).

Index – made up of securities from a given asset class, this is used as a measure of performance.

Index-linked bonds – a bond whose payments are linked to a specified index.

Inflation – the rise in the cost of living.

Infrastructure – an asset class which invests in large-scale public systems, services and facilities, like roads, power or water systems.

Integrated risk management – an investment approach for DB schemes which manages and monitors a wide range of risks that might affect the scheme's ability to meet its objectives.

Investment performance – the total return from an investment over a given period.

Investment strategy – the plan to manage a pension scheme's assets and where to invest.

Investment sub-committee (ISC) – a sub-group of the Trustee board which focuses specifically on investment matters.

Liability driven investment (LDI) – an investment approach that aims to match a pension scheme's assets with changes in its liabilities, in response to certain factors such as interest rates or inflation.

Liabilities – the promises of a DB pension scheme to pay benefits to members.

Lifestyle – an investment approach which gradually and automatically reduces investment risk as a member gets closer to their target retirement age.

Liquidity – how easily or quickly an asset can be sold for cash.

Master Trust – a DC pension arrangement which has several separate sections to which different employers can make contributions on behalf of their workforce.

Multi-asset credit – a strategy which provides investors with a low governance way to access multiple types of credit-related asset classes.

Net – the performance return after fees have been deducted.

Net zero – the situation where the total greenhouse gas emissions are equal to those that are removed.

Paris agreement – an international agreement aiming to limit global warming to less than 2°C by 2050 and keep it to 1.5°C.

Pooled – a collective investment vehicle where different investors' money is collected together (pooled) to purchase assets.

Portfolio – a collection of securities or asset classes.

Principles for responsible investment (PRI) – a United Nations-sponsored initiative which supports and encourages responsible investment.

Private equity – an asset class which invests in equities of companies that are not publicly quoted.

Property – an asset class which invests in the development and management of property, usually commercial property such as offices and shops.

Rebalancing – realigning a portfolio's asset mix back into line with a target asset allocation.

Responsible investment (RI) – the process of taking ESG issues into account when making investment decisions.

Retail Prices Index (RPI) – an historical measure of inflation, which is no longer a recognised national statistic and will be aligned with CPI by 2030.

Risk – broadly the chance that an investment outcome is not what was expected.

Securities – a general name for any financial instrument that entitles the holder to a share of cash flows, e.g. equities or bonds.

Segregated – an approach where an investor's investments are held separately from those of other investors.

Shares – equities in a company.

Statement of Investment Principles (SIP) – the formal strategy which sets out a trustee's policy for managing and investing a pension scheme's assets.

Total expense ratio (TER) – the charges made by funds, including the annual management charge, performance-related fees, custody fees and other expenses.

Total return – the return on an asset, taking account of income received and price appreciation.

Transaction costs – the fees for buying or selling a security.

Value at risk (VAR) – a statistical measure of the risk of loss on a portfolio.

Volatility – the ups and downs of the financial markets.



