ENGINEERING YOUR FUTURE

THE CATERPILLAR

DEFINED CONTRIBUTION PENSION PLAN

INVESTMENT GUIDE

WELCOME TO THE CATERPILLAR DEFINED CONTRIBUTION PENSION PLAN

Introduction

The money that goes into your pension pot is invested. The objective is for these investments to grow, in order to provide you with money in retirement.

This booklet provides more detail about how this money can be invested and the decisions that you may wish to make. The Plan offers you support with selecting the investments which you believe are right for you, but also gives you freedom to make your own investment decisions.

The right investment options will differ from person to person. How you choose to save for your future retirement benefits will depend on things like your view of the various options available, how much risk you want to take and your personal circumstances. The investments that may be right for someone just starting work may be different to those for someone close to retirement.

As a general rule, investments that could eventually return the most money also have a higher risk of falling in value in the short term. Likewise, investments that are less risky tend to have lower potential returns.

INDEPENDENT FINANCIAL ADVICE

Before making any decisions about your investment choices within the Plan you are strongly recommended to obtain independent financial advice. IFA Promotion is an organisation that promotes the use of independent financial advisers (IFAs) and can provide contact details for a number of IFAs in your area. You can contact IFA Promotion by using their website at www.unbiased.co.uk

This investment guide is only intended to provide you with general information. Neither the Trustees nor the Company is legally permitted to provide you with investment advice or be held responsible for the performance of the investment funds. If you are in any doubt about your investment decisions it is recommended that you seek independent financial advice.

The value of your investments can go down as well as up and past performance is not necessarily a guide to the future.

You should read this investment guide along with the main Plan booklet (including the Important Legal Notes in that booklet).

ABOUT INVESTING YOUR MONEY

Why investing matters

The income in retirement that you will be able to generate with your Fund at retirement will depend on several factors:

- the contributions you and the Company make;
- the investment returns achieved;
- your age at retirement; and
- the way in which you choose to withdraw your retirement benefits.

Your choice of investment could make a significant difference to your benefits.

WHAT YOU NEED TO KNOW

The choice is yours

Everyone has their own level of comfort when it comes to making investment decisions. That's why the Trustee of the Plan and its advisers have designed three different approaches you can take to investing:

Leave me to it gives you the ultimate control, with the option to invest in a wide variety of funds that the Plan makes available, including the 'core' and 'freestyle' funds, each offering different levels of potential risk and reward.

Help me to do it lets you choose from the Plan's 'core' funds, which are a limited number of straightforward options. In addition, there are three lifestyle options to choose from. Lifestyle options are investment strategies pre-built by the Trustees. They aim to grow a member's pension savings over the longer term with investments automatically adjusted in the years before retirement to target the way in which benefits are to be taken – see pages 6 - 8 for more details. The lifestyle options available are as follows:

- **Lifestyle – Annuity:** designed for those who want to take 25% of their savings as a tax-free cash sum, and use the rest to buy an annuity.
- **Lifestyle – Flexible Drawdown:** designed for those who want to take 25% of their savings as a tax-free cash sum and leave the remaining funds invested and withdraw amounts in a more flexible way (i.e. "as and when").
- **Lifestyle – Cash:** designed for those planning to take their pension pot as a single or a series of irregular cash lump sums.

Do it for me will invest your pension pot in the Lifestyle – Flexible Drawdown option, as described above. If you do not make an active investment decision this is where your savings will be invested.

These different options help you find the balance between control and support that is right for you.

If you do not tell the Trustee how you would like your contributions invested, they will be invested automatically in the Lifestyle – Flexible Drawdown option with a target retirement age of 65. You will be able to change this age to suit your own plans.

Whether you want the flexibility of ‘leave me to it’, the support of ‘help me to do it’, or the ease of ‘do it for me’, you still have important decisions to make.

With ‘leave me to it’ and ‘help me to do it’ you have the option to pick the funds which you judge to be right for your situation. All of the available funds, together with the level of risk that you take by investing in them are shown on page 6. The information in ‘Things to consider’ on pages 12 - 14 can help you as you consider how you want to invest. In addition, there are three lifestyle options available under ‘help me to do it’. The lifestyle options aim to grow a member’s pension savings over the longer term with investments automatically adjusted in the years before retirement to target the way in which benefits are to be taken. If choosing a lifestyle option you will need to think about what age you wish to retire and what way you wish to take your retirement benefits.

With ‘do it for me’ you will need to think about what age you wish to retire at and should make sure that you are comfortable with how your money will be invested.

YOUR INVESTMENT OPTIONS

‘Leave me to it’

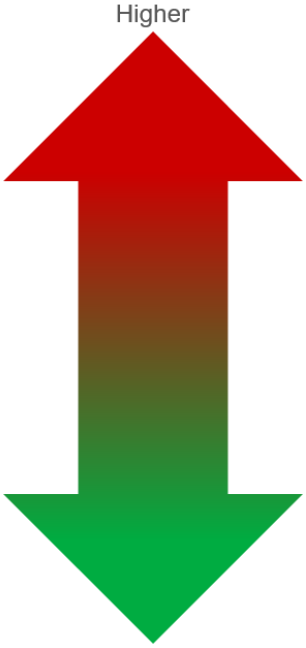
The ‘freestyle funds’ provide a range of options, so you can strike the balance of potential risk and the potential reward that you are comfortable with. This approach means you need to take responsibility for learning about all the funds. But with that knowledge you can tailor an investment strategy that you think is right for your individual situation. Freestyle funds are for members that are comfortable making decisions about their own investments.

‘Help me to do it’

With this approach, you can pick from four ‘core funds’ – which include equities, bonds, cash and a diversified investment fund. These funds have been specially picked to be potentially appealing to a variety of members, depending on their situation and life stage. Therefore, with this approach, you only need to learn about these four funds to understand which of them may be right for you depending on your goals and how long you have until retirement.

Risk Level

Higher



Lower

CORE FUNDS

Long Term Growth Fund

Diversified Growth Fund

Retirement Income Fund

Annuity Aware Fund

Cash Fund

FREESTYLE FUNDS

World Emerging Markets Equity Index Fund
UK Smaller Companies
Pacific (ex Japan) Equity Index Fund
Japan Equity Index Fund
North America Equity Index Fund
Europe (ex UK) Equity Index Fund
UK Equity Index Fund
HSBC Islamic Global Equity Index Fund.
Future World Global Equity Index Fund
Real Estate

Investment Grade Corporate Bond – All Stocks – Index Fund
Over 15 Year Fixed Interest Gilts Index Fund
Over 5 Year Index-Linked Gilts Index Fund

You can find more details about each of the funds on the Plan's website at www.mycatpension.co.uk. Some investments have higher charges than others, which means you need to get a higher return from these funds to make up for the charges.

In addition, the Trustee has made three lifestyle options available to members. A lifestyle option invests in higher risk, higher potential growth funds while you are some way from retirement. As you approach retirement your pension pot is automatically adjusted to target the way in which benefits are to be taken. You can pick your own target retirement age (see overleaf).

All three lifestyle options in the Plan invest 100% in the Long Term Growth Fund until you are 10 years from your target retirement age. At this point, your investments begin to shift, so that by your retirement date, your pension pot is invested in line with how you intend to access your savings at retirement. The three lifestyle options target the following at retirement:

- **Lifestyle – Annuity:** 75% in the Annuity Aware Fund and 25% in the Cash Fund. Designed for those who want to take 25% of their savings as a tax-free cash sum, and use the rest to buy an annuity.
- **Lifestyle – Flexible Drawdown:** 75% in the Retirement Income Fund and 25% in the Cash Fund. Designed for those who want to take 25% of their savings as a tax-free cash sum and leave the remaining funds invested and withdraw amounts in a more flexible way, i.e. "as and when").
- **Lifestyle – Cash:** 100% in the Cash Fund. Designed for those planning to take their pension pot as a single or a series of irregular cash lump sums.

The timing for the switching of your funds in each of the lifestyle options is shown in the tables below. It is linked to your target retirement age. You can choose your own target retirement age (see the box at the bottom of this page), but if you do not, it will be linked to the Plan's normal retirement age (age 65). The switching first begins in the month of your 55th birthday (unless you have selected a target retirement age other than 65).

Lifestyle – Annuity

	Years to target retirement age – percentage of pension pot invested*											
	10+	**10**	**9**	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**
Long Term Growth Fund	100	100	75	50	25	0	0	0	0	0	0	0
Diversified Growth Fund	0	0	25	50	55	60	40	30	20	10	0	0
Annuity Aware Fund	0	0	0	0	20	40	55	60	65	70	75	75
Cash Fund	0	0	0	0	0	0	5	10	15	20	25	25
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Lifestyle – Flexible Drawdown

	Years to target retirement age – percentage of pension pot invested*											
	10+	**10**	**9**	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**
Long Term Growth Fund	100	100	75	50	25	0	0	0	0	0	0	0
Diversified Growth Fund	0	0	25	50	55	60	40	30	20	10	0	0
Retirement Income Fund	0	0	0	0	20	40	55	60	65	70	75	75
Cash Fund	0	0	0	0	0	0	5	10	15	20	25	25
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Lifestyle – Cash

	Years to target retirement age – percentage of pension pot invested*											
	10+	**10**	**9**	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**
Long Term Growth Fund	100	100	75	50	25	0	0	0	0	0	0	0
Diversified Growth Fund	0	0	25	50	75	100	80	60	40	20	0	0
Cash Fund	0	0	0	0	0	0	20	40	60	80	100	100
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

* The value of your pension pot is gradually moved between funds with switches that take place monthly. This helps protect your pot from any major market fluctuations and balances your pot in line with the relevant lifestyle option.

The Trustee of the Plan has aimed to provide a suitable range of investment options that takes account of the membership as a whole. The range of funds will be reviewed from time to time by the Trustee and can change from time to time.

‘Do it for me’

If you would prefer to not make your own investment decisions, the contributions to your Plan will be invested in the Lifestyle – Flexible Drawdown option. This option is designed for those who want to take 25% of their savings as a tax-free cash sum and leave the remaining funds invested drawing down a flexible income from their pension savings as required. If you do not make an active investment decision then the Trustee will invest your pension pot in this option on your behalf.

As noted above, the Lifestyle – Flexible Drawdown option invests 100% in the Long Term Growth Fund until you are 10 years from your target retirement age. It then begins to shift over time, so that by your retirement date, your pension pot is invested:

- 75% in the Retirement Income Fund
- 25% in the Cash Fund

The timing for the switching is shown in the second table under the ‘help me do it’ section above.

No reverse switching

It could be the case that the proportion of investments in certain funds (at the point of performing the re-balancing switch) may be less than the proportion reflected in the matrix (for example, if there is a significant fall in the equity markets, the percentage invested in the Growth Funds could drop below the percentages shown above). In this situation, investments would **not** be sold in one fund(s) and re-invested in another to achieve the target investment distribution.

The Plan’s normal retirement age is 65. If you select one of the lifestyle options, the switching periods shown in the table on the next page will end when you reach age 64. If your plans change and you would like to retire at a different age, you may want the switching periods to start at a different time. If you select a lifestyle option and intend to retire at an age other than 65, you can change your target retirement age by logging on to the member website through **www.mycatpension.co.uk** or by contacting Mercer (the Plan administrator) by telephone **(0)344 854 3338 or www.contact.mercer.com/blue**

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How the Lifestyle – Flexible Drawdown option matches your working life

Early Working life

When you are young, one priority is likely to be to protect the value of your pension pot against inflation. The Trustee has been advised that, historically, equities have provided returns in excess of long-term inflation and so the Lifestyle – Flexible Drawdown option automatically directs the contributions to the Long Term Growth Fund when you are young.

A few years from retirement
At retirement, one of your options is to use your DC Plan fund is to keep your "pension pot" invested after you retirement and withdraw amounts as and when required. The Lifestyle – Flexible Drawdown option gradually transfers the monies in your "pension pot" from the Long Term Growth Fund to the Diversified Growth Fund 10 years before your retirement before switching gradually to the Retirement Income Fund. As mentioned above, the Retirement Income Fund will reach 75% of your pot one year before retirement (with the remaining 25% being allocated to Cash).

At or near retirement
At retirement, you have the option of taking a certain amount of your pension as a tax-free cash sum. Therefore, you may want to ensure that a similar amount of your pension is invested in the Cash Fund at the time you retire. The Lifestyle – Flexible Drawdown option assumes members will take 25% of their pension pot as a tax-free cash sum at retirement.

Lifestyle – Flexible Drawdown option not the best choice for everyone
You should note that "lifestyle" strategies are designed to produce mixes of investment returns and risks for the **majority of members** which the Trustee, having taken advice, consider to be reasonable. However, this may mean that the benefits are not appropriate for some individuals – for example those who intend to buy short-term annuities at retirement which use only a part of the pension 'pot' at a time to purchase. For these individuals, a different investment strategy may be more appropriate.

It should also be stressed that lifestyle strategies will not necessarily produce higher benefits for members than other investment strategies and, if you are in any doubt as to whether this strategy is suitable for your particular circumstances, we strongly recommend that you take independent financial advice

Be realistic about your retirement age
For the lifestyle options to work properly, you need to be realistic about when you expect to retire and start drawing your Plan pension. For example, if you say that you are going to retire at age 55 and then find you cannot afford to retire until 65, the lifestyle options will switch your investments into lower risk (and therefore, over the long term, likely to be lower return) investments too soon and you may lose the opportunity to benefit from higher returns expected from an equity-based investment. **Keep your expected retirement age under review and choose the investment fund which matches your latest expected retirement age.**

THINGS TO CONSIDER

It is worth keeping in mind that there is no 'right' answer when it comes to investment. There are several things to consider when you are deciding how to invest, including:

1. The amount of time you have until retirement
2. Your plans for when you retire
3. The types of risks associated with investing
4. The way in which you plan to withdraw your retirement benefits.

This section gives you detail about each of these, to help you decide which investment approach to take and, if you select 'leave me to it' or 'help me to do it' to help you decide which investments might be right for you.

1. Time until your retirement

It is very important to consider how long you have until retirement when deciding how you will invest.

If retirement is a long way off, you may be more willing to accept the possibility of sudden, short-term changes in the value of funds that have a higher risk rating.
Here's why:

- Over the long-term, higher risk investments have often, in the past, produced higher growth (but sometimes higher losses).
- In the event of any falls in the value of your investments, you would then have more time to recover from these drops in value.

Core funds with expected higher growth potential:

- Long Term Growth Fund

Freestyle funds with expected higher growth potential:

- World Emerging Markets Equity Index Fund
- Pacific (ex Japan) Equity Index Fund
- Japan Equity Index Fund
- North America Equity Index Fund
- Europe (ex UK) Equity Index Fund
- UK Equity Index Fund
- UK Smaller Companies
- Future World Global Equity Index Fund
- Real Estate
- Islamic Global Equity Index Fund

If retirement is close (say within the next five to ten years), you may want to consider funds with a lower risk profile.
Here's why:

- The value of these funds can also go down as well as up, but short term changes in value are likely to be smaller than funds with a higher risk profile (although this is not certain to be the case).

Core funds with expected lower risk:

- Annuity Aware Fund
- Cash Fund

Freestyle funds with expected lower risk:

- Investment Grade Corporate Bond – All Stocks – Index Fund
- Over 15 Year Fixed Interest Gilts Index Fund
- Over 5 Year Index-Linked Gilts Index Fund
- Sterling Liquidity Fund

- These funds are considered less likely to have any significant sharp drop in value (although this is not certain to be the case), which is important if you are closer to retirement, because your investments would have less time to recover from a potential drop in value.

If you are somewhere in between, you may wish to balance risk and reward by investing in a combination of funds.
Here's why:

- Investing in a range of different funds is a commonly used way to spread your risk.
- That's because even if some funds change value quickly, others could be more stable.

Core fund with balanced risk approach:
- Diversified Growth Fund
- Retirement Income Fund

With freestyle funds, you may need to invest in several of the freestyle fund options to obtain a balance that is right for you.

Please be aware that the value of all investments can go down as well as up. There is no guarantee that you will get back all of the contributions you invest. Charges will reduce the returns on your investments, and changes in the make up of your investments may incur transaction costs. Note also that currency fluctuations will impact returns on the overseas based investments.

2. Your retirement plans

At retirement, you will have the choice of how you wish to access your pension pot:

- **Guaranteed Income for Life (Annuity)* -** take up to 25% as tax free cash and buy a secure income from an insurance company
- **Flexible Income (Flexible Drawdown) –** take up to 25% as tax free cash and leave the rest invested after retirement, accessing the funds as required. You will be required to transfer out of the Plan to another arrangement if using this option.
- **Cash –** take 25% as tax free cash and the remaining amount as a cash sum which is taxable.
- **A mixture of the options above.**

Please note you can currently take 25% of your pension pot as tax free cash in all options you choose. Tax may be due on the rest of your fund. Please note also the Plan does not permit members to take their fund directly from the Plan at retirement as cash or drawdown. You would need to transfer out your fund to another pension provider.

More details can be found in the 'Pension Plan Booklet' available at www.mycatpension.co.uk where you can also access your member website.

3. The types of risks associated with investment

You will need to consider the risk associated with investment when deciding how and when to invest your pension pot. Three of the main types of investment risk are inflation, capital and benefit conversion risk:

Inflation risk

This is the risk that inflation will be greater than the investment growth of your pension pot over time. If this is the case then the 'purchasing power' of your pension pot will reduce. It can be overcome by choosing investments that have the potential to match or beat price inflation over the long term.

The investment options that have the potential to (but are not certain to) match or beat price inflation over the long term include equities and inflation-linked bonds.

Capital risk

There is always a possibility that your pension pot may fall in value, which is called 'capital risk' and is perhaps the most widely understood type of investment risk. It's what people are talking about when they say "the value of investments can go down as well as up". This is particularly important for members close to retirement, when it should be considered along with benefit conversion risk (see below).

The Cash Fund is generally expected to offer the lowest capital risk of the Plan's investment options.

Benefit conversion risk

Traditionally, this risk has been described in the context of someone planning to purchase an annuity at retirement (i.e. risk that underlying investments do not move in line with the cost of annuity prices). However, now that there are a variety of ways in which you can access your savings at retirement, benefit conversion risk can also be described as the risk that your savings are not invested in line with how you intend to access these savings at retirement. For example, there are risks associated with being invested in a lifestyle option targeting annuity purchase if you ultimately plan to take your savings in the form of flexible drawdown or cash at retirement.

Benefit conversion risk can generally be reduced by giving ongoing consideration to how you intend to access your benefits at retirement.

WHAT IS IN THE INVESTMENT FUNDS?

The funds available through the Plan consist mainly of equities (shares), bonds/gilts, or cash. This section gives you some guidance to help you understand the characteristics of each type when used in the context of pension saving.

Equities

Generally, equity funds:

- are made up of shares in companies traded on stock markets in the UK or overseas;
- are affected by rises and falls in their markets – their value can go down or up;
- have the potential to experience the highest short-term changes in value (either up or down) when compared with diversified growth funds, bonds/gilts or cash;
- offer the potential for higher long-term returns than bonds/gilts or cash; and
- are normally suitable for members who are not planning to retire for several years (say five years) and so do not need to sell their investments to buy a pension or take a tax-free cash lump sum for several years.

Of all the fund options, equity funds are expected to be the most volatile in the short term. This means that they can quickly go up or down in value. However, over the long term they offer the potential to (but are not certain to) produce the highest future investment returns.

The core equity fund available through the Plan is the Long Term Growth Fund. Additional freestyle equity funds are the World Emerging Markets Equity Index Fund, Pacific (ex Japan) Equity Index Fund, Japan Equity Index Fund, North America Equity Index Fund, Europe (ex UK) Equity Index Fund, UK Equity Index Fund, UK Smaller Companies, Future World Global Equity Index Fund and HSBC Islamic Global Equity Index Fund. The Global Real Estate Fund invests in the shares of real estate companies.

Diversified growth funds

Generally, diversified growth funds:

- are invested in a mixture of UK and overseas equities and other assets such as bonds, cash, currencies, commodities, derivatives and property;
- are affected by the rise and fall in equity values but because they also contain other assets, they are likely to be less volatile than pure equity funds;
- are expected to provide higher returns over the long term than bond/gilt funds and cash, but may not produce as high returns as pure equity funds; and
- are not normally suitable for members approaching retirement.

Diversified growth funds are expected to have some short-term volatility but be more stable than pure equity funds, while also offering the potential to (but are not certain to) produce future investment returns over the long term that are higher than bonds/gilts or cash.

The Diversified Growth Fund and the Income Retirement Fund are the two diversified growth funds available through the Plan.

Bonds/gilts

Generally, bond/gilt funds:

- are a loan to a company or government for a fixed period (UK Government loans are also called gilts);
- pay interest on the amount borrowed and repay the capital (i.e. the amount borrowed) at the end of the fixed period;
- pay interest at a fixed rate (fixed interest) or a rate linked to inflation (index-linked);
- rise and fall in value over their lifetime but returns are not expected to be as volatile as returns on equities or diversified growth funds; and
- are more suitable for those nearing retirement who will soon need to buy a pension. The price of pensions which do not increase in payment or increase by a fixed amount each year (say 3% each year) is linked to the price of fixed interest gilts. The price of inflation-protected pensions is linked to the price of index-linked gilts.

Gilt and bond funds are expected to produce a lower investment return over the long term than equity funds, but are also expected to have lower volatility of investment returns than equities or diversified growth funds.

The core bond/gilt fund available through the Plan is the Annuity Aware Fund. Additional bond/gilt funds available through the Plan are the Investment Grade Corporate Bond – All Stocks – Index Fund, Over 15 Year Fixed Interest Gilts Index Fund, Over 5 Year Index-Linked Gilts Index Fund, and Sterling Liquidity Fund.

Cash

Generally, cash funds:

- are expected to provide lower returns over the long term than equities, diversified growth funds or bonds/gilts;
- offer some protection against capital risk (i.e. the risk that your pension pot may fall in value), although inflation may reduce the real value of the investment and the cash fund offered by the Plan is not guaranteed never to fall in value;
- help protect the value of any tax-free cash sum amount you plan to take on retirement; and
- are generally thought to be most suitable for members only a few years away from retirement.

Cash funds are expected to provide a lower investment return in the long term than either gilts or equity funds but with much lower volatility.

The Cash Fund is the one cash fund available through the Plan.

INVESTMENTS FEES

The table below sets out the applicable annual investment management charge for each of the Plan's available investment options.

	Fund Name	Total Expense Ratio (per annum)
Core Funds	Long Term Growth Fund	0.161%
	Diversified Growth Fund	0.180%
	Annuity Aware Fund	0.100%
	Retirement Income Fund	0.336%
	Cash Fund	0.135%
Freestyle Funds	UK Equity Index Fund	0.136%
	North American Equity Index Fund	0.065%
	Europe (ex UK) Equity Index Fund	0.123%
	Japan Equity Index Fund	0.101%
	Pacific (ex-Japan) Equity Index Fund	0.142%
	World Emerging Markets Equity Index Fund	0.257%
	UK Smaller Companies Index Fund	0.779%
	Future World Global Equity Index Fund	0.137%
	Over 15 Year Fixed Interest Gilts Index Fund	0.040%
	Over 5 Year Index-Linked Gilts Index Fund	0.040%
	Investment Grade Corporate Bond – All Stocks – Index Fund	0.100%
	Global Real Estate Index Fund	0.364%
	Islamic Global Equity Index Fund	0.300%

*Total Expense Ratio (TER) – This is a measure of the total cost of the fund, which includes the Annual Management Charge but which may also include various fees (purchase, redemption, auditing) and other expenses and may change

TER's are accurate as at the date of this letter.

CHANGING YOUR INVESTMENTS

- You can change the way you invest future contributions that you and the Company will make to your pension pot, and the contributions you have already invested, at any time.
- The way that you invest your future contributions does not need to be the same as the way you currently invest.
- You cannot mix between a lifestyle option and other funds – that is, if you select a lifestyle option, 100% of your Plan pot will be invested in that way.
- If you leave the Company and you leave your fund invested in the Plan, you can continue to switch funds.

If you want to switch where your future contributions and/or your accumulated pension fund are being invested, you can do so online via the member website. You can access the member website through www.mycatpension.co.uk.

You can also download a switch form from www.mycatpension.co.uk or by contacting Mercer (the Plan administrator) by telephone 0344 854 3338 or e-mail www.contact.mercer.com

Any switch you make will take effect 5 working days after the Scheme administrators receive your instruction.

Legal Notes:

Important note
The Important Legal Notes at the end of the main Plan booklet apply equally to this investment guide. You should therefore read those notes in conjunction with this guide.

Security of Assets

Caterpillar DC Pension Plan's ("the "Plan") investments with Legal & General Assurance Pension Management Limited ("PMC") and HSBC Global Asset Management (UK) Limited ("HSBC") are held via long term insurance policies. PMC and HSBC are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This type of investment arrangement is common amongst defined contribution pension schemes in the UK.

In the event of PMC or HSBC becoming insolvent, the Trustee is likely to be eligible for protection under the Financial Services Compensation Scheme ("FSCS"). This would mean that the Trustee could make a claim (on behalf of members) for up to 100% of the value of the Plan's assets that are invested through the PMC and HSBC insurance policies.

Additionally, the underlying investment managers do not directly hold the Plan's assets; instead these assets are held by custodians. A custodian is a financial institution which is independent from the investment manager and holds the Plan's assets for safekeeping. This structure should provide an additional element of protection, as the investment managers' custodians operate a system of internal controls with the aim of ensuring as far as practical that the security of assets in the investment funds is not compromised.

The Trustee has previously assessed the level of security of the assets held by the Plan. This included training for the Trustee from their investment advisors. Following their assessment, the Trustee was satisfied that risks to the security of assets are being appropriately mitigated. However, the security of assets within the Plan cannot be guaranteed. In particular, fraud by or the insolvency of counterparties of PMC or HSBC, or of any custodian is not covered by FSCS and, in addition, a claim under FSCS has two material limitations – FSCS is funded by an industry levy and not guaranteed by the state and so may not have sufficient funds to provide compensation; in addition, in certain circumstances the court has the power to reduce the value of a policy and FSCS would, in those circumstances, only cover such reduced value.

The statements in this note are:
-given in good faith but may not be relied on as representations; and
-are effective as at July 2022; clearly law, rules and policy may change from time to time.