
CATERPILLAR DEFINED CONTRIBUTION PENSION PLAN

Chair's Annual Statement regarding Governance For the year ended 30 September 2018

Introduction

In March 2015 the Department of Work and Pensions ("DWP") set out new rules for the governance of Defined Contribution ("DC") pension schemes as set out in the Occupational Pension Schemes (Charges and Governance) Regulations 2015. Caterpillar DC Pension Trust Limited (the "Trustee Company") is the sole corporate Trustee of the Plan. Since 6 April 2015, the Directors of the Trustee Company (the "Trustee Directors") are required to produce an annual report, signed by their Chair, setting out a number of prescribed matters. The current Chair is Anna Lee.

The Plan was set up on 4th April 1997, with effect from 6th April 1997.

The Plan operates under a Trust Deed and Rules dated 24 March 2005. These are available from the Pensions Department, Caterpillar EAME HR Shared Services, Eastfield, Peterborough, PE1 5FQ.

What do you need to do next?

This report is for noting. You do not need to take any action.

If you have any questions or require any further information you should contact the Secretary to the Trustee Company at the Pensions Department, Caterpillar EAME HR Shared Services, Eastfield, Peterborough, PE1 5FQ.

1. The default investment strategy

The Trustee Directors are responsible for investment governance. This includes setting and monitoring the investment strategy for the Plan's default arrangement.

We have chosen the Lifestyle Drawdown strategy as the investment strategy for the Plan's default arrangement. Contributions are allocated to more than one investment as per the Lifestyle Drawdown strategy. Details of the investment strategy and investment objectives of the default arrangement are recorded in a document called the Statement of Investment Principles, which is produced in accordance with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and is attached in the Statement of Investment Principles within Appendix 1. The Statement of Investment Principles is also included as an appendix to the Trustee Company's Annual Report and Financial Statements.

There are two further Lifestyle strategies members' can chose from: Lifestyle Annuity and Lifestyle Cash.

No formal review of the investment strategy was undertaken during the Plan year. The last formal review of the investment strategy was undertaken between December 2016 and March 2017. This review focused, amongst other items, on the suitability of the at-retirement destination of the default investment arrangement. Following a detailed review of membership demographics, industry trends and investment risks, the Trustees decided that the default investment option would target income drawdown and 25% tax free cash at retirement. This change was implemented during August and September 2017, along with changes to underlying funds in the 'core' fund range and glidepath length in the lifestyle strategies.

The Trustee Directors will continue to monitor regularly the use of the default investment arrangement and the choices being made by members when benefits come into payment. This will help to inform us about changes which might be appropriate in the future.

In addition the Trustee Directors also monitor investment performance on a quarterly basis and are provided with regular advice in relation to updates or changes to the funds or managers used by the Plan.

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2. Core financial transactions

The Trustee Directors recognise that delay and error can cause significant losses for members. They can also cause members to lose faith in the Plan, which may in turn reduce their propensity to save and impair future outcomes. We therefore operate measures and controls aimed at ensuring that all financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately.

During the last Plan year the Trustee Directors ensured the core financial transactions of the Plan were processed promptly and accurately by:

- Having an agreement with their administration service provider (Capita) committing them to Plan specific service level agreements ("SLAs"). The Trustee Directors have actively managed the relationship with Capita and where material issues have arisen, root cause analysis has been undertaken and processes reviewed and changed.
- Having the service provider report on their performance quarterly against the SLAs above.
- Having the Plan auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual audit process.
- The Trustee Directors received and reviewed the Pension Administrators' 2017 AAF (quality) Report.
- Ensuring all core financial transactions are paid electronically. Cheques are only paid in very exceptional circumstances.

Following significant issues with Capita over recent years in relation to system implementations and staff turnover, and considerable time spent by the Trustee working with Capita to ensure that the overall member experience is not impacted, the Trustee undertook a review of their administration service provider. Following this review, the Trustee decided to change their service provided to Mercer Limited. This change was made during October 2018.

The core financial transactions include:

- **The investment of contributions to the Plan.** A review of the contribution process was undertaken in 2017 to simplify the process being followed and reduce opportunities for error. The process continues to aim at ensuring that contributions are invested within prescribed timelines and in accordance with the Pensions Regulator's DC Code of Practice No. 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits). Measures have been put in place to seek to avoid late payment of contributions before they happen.
- **The transfer of assets relating to members into and out of the Plan.** The Trustee Directors continue to work with the administration service provider to identify opportunities for process improvements in both transfers in and out of the Plan.
- **The transfer of assets relating to members between different investments within the Plan.** This can be completed on-line by members.
- **Payments from the Plan to, or in respect of, members.** A schedule of contributions is in place and sets out timescales for the company to remit monthly contributions to the Plan.

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3. Charges and transaction costs

The annual management charges applied to the default arrangement during the year were:

Up to 22 March 2018:

Long Term Growth Fund	- 0.156%
Diversified Growth Fund	- 0.170%
Retirement Income Fund	- 0.300%
Cash Fund	- 0.125%

From 22 March 2018 to 30 September 2018:

Long Term Growth Fund	- 0.142%
Diversified Growth Fund	- 0.163%
Retirement Income Fund	- 0.300%
Cash Fund	- 0.125%

Charges for the Long Term Growth Fund and Diversified Growth Fund changed on 22 March 2018 due to renegotiation of the underlying emerging markets equity fund.

Annual management charges for all other available funds (including component funds within the core funds) can be found in the Statement of Investment Principles within Appendix 1.

Transaction costs for all funds available, including the default arrangement, can be found in Appendix 2.

The Trustee is also required to present an illustration of the impact of charges and costs on a member's pot size. This illustration is shown in Appendix 3.

No members' funds in the default or other funds are subject to charges in excess of the cap of 0.75% per annum and as such represent good value to members. This is explained further in section 4 below.

There is an administration charge of 0.25% of fund value, minimum £25 per annum, which is deducted quarterly from a member's fund by disinvestment of units. This charge is met by the Trustee for active members of the fund and therefore deductions are only made for deferred members.

4. Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustee Directors are required to consider the extent to which the investment options and the benefits offered by the Plan represent good value for members.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance, particularly the Pensions Regulator's Code of Practice No. 13. As per paragraph 115 of the Code, regulatory guidance states that "charges and transaction costs are likely to represent good value for members where the combination of costs and what is provided for the costs is appropriate for the Plan membership as a whole, and when compared to other options available in the market.

The Trustee is committed to ensuring that members receive value for money (i.e. that the costs and charges provide good value in relation to the benefits and services provided) and so consider this on an on-going basis. The Trustee has concluded, following receipt of a report from their independent Defined Contribution adviser, that the Plan offers good value relative to peers and alternative arrangements, in relation to member-borne deductions. The value for money assessment considered the following:

- Annual management charges and administration fees,
- Net of cost performance,
- Transaction costs where available.

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Wider Plan features, for example Plan governance, have also been considered. The value for money assessment concluded that the Plan's Defined Contribution benefits, services and options represent good value for money for members as:

- Members have access to a variety of well-designed investment options which the Trustee Directors regularly monitor and update and which should meet the membership's different returns/risks and income preferences.
- Members have access to institutional-priced investment fund management at charges which are competitive. Generally, the charges were found to be below the average of their peer group and fund performance has been in line with the Trustee Directors' expectations. In addition, the charges for the default strategy are well below the charge cap of 0.75% per annum.
- Administration performance is reviewed by the Trustee Directors on a quarterly basis. Service levels over the period have been below expectations, however the Trustee Directors and the company have been proactive in requesting further information to understand the reasons why SLA performance has slipped.
- Members receive good communication material and governance of the Plan by the Trustee with added support from the company.
- Death benefits are provided as a multiple of salary and group income protection is provided where a member is unable to work (subject to qualifying periods/conditions).

5. Knowledge and understanding of the Trustee Directors

The Trustee Directors' relevant knowledge and understanding has been assessed during the year and where necessary to address any gaps in knowledge, additional training has been provided. Learning sessions have also been provided during Trustee Meetings when specific and sometime complex subjects are being discussed. Each Trustee Director maintains a log of both required and voluntary training.

During the year, the Trustees undertook a number of activities with regard to the Plan that required them to give detailed consideration of pensions law and the Plan's governing documents. Examples include:

- An assessment against the Pensions Regulators DC Code of Practice during the Plan year required the Trustee to carry out a detailed review of Plan policies and processes and Plan documentation.
- The project involving the change in the administration service provider undertaken during 2018 required the Trustee to examine the relevant powers under the Trust Deed and Rules.
- Legal advisors are invited to each Trustee meeting to discuss the latest regulatory updates and how these impact Plan policies and Plan documentation. During the Plan year this included the project to comply with the EU General Data Protection Regulation.

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The Trustee Board has a good range of different skillsets and expertise and consists of Trustee Directors who are from different parts of the business. The Trustee Directors' combined knowledge and understanding compliments this and, together with the advice available to them from a range of appointed professional advisers, gives them a broad base of knowledge and experience in order to identify and analyse issues, and recognise where further advice may be required, so as to properly exercise their functions as a Trustee of the Plan. The Trustee Directors plan to undertake a Trustee effectiveness survey during the next Plan year to identify any further room for improvement on the Plan's governance and provide insight into the performance of the board, both on an operations/processes and behavioural basis. All Trustee Directors are encouraged to refresh their knowledge and understanding using the Trustee Toolkit (www.trusteetoolkit.com) on a regular basis. The Conflicts of Interest Policy was updated in 2016.

Advisors attend all Trustee meetings held on a quarterly basis.



Name A Lee
Chair

Date 6 December 2018

Transaction Costs – All Funds

At the time of finalising the Plan governance reporting, transaction costs information for the year to 30 September 2018 was unavailable. However, Legal & General have provided aggregate transaction cost information for the year to 30 June 2018 but granular attribution of these costs was also unavailable at the time of writing. The information that was provided is presented in the table below.

The transaction costs must include all charges, commissions, taxes and other payments associated with transactions in the fund. In addition, the transaction costs also include an 'implicit cost' which reflects how the price of an investment could move between the time an order from the manager enters the market and the time that order is executed. This implicit cost could be a positive or a negative depending on the movement of the market between those two points. This is measured for each transaction in the fund and means that the overall transaction costs for a fund could be a positive or a negative depending on these market movements. The positive figures shown in the table below represent a cost to members invested in the fund and a negative figure represents a positive impact to members invested in the fund.

The Trustees will continue to liaise with Legal & General regarding transaction costs disclosures. Information in relation to the year end of 30 September 2018 is expected to be available late November/early December 2018.

Fund Name	Transaction Costs**	Fund Name	Transaction Costs**
World Emerging Markets Equity Index Fund	0.019%	Sterling Liquidity Fund	0.000%
North America Equity Index Fund	-0.016%	Over 15 Year Gilts Index Fund	-0.064%
UK Equity Index Fund	-0.025%	Over 5 Year Index-Linked Gilts Index Fund	-0.007%
Japan Equity Index Fund	-0.009%	Europe (ex UK) Equity Index Fund - GBP Currency Hedged	0.004%
Europe (ex UK) Equity Index Fund	0.000%	Asia Pacific (ex Japan) Developed Equity Index Fund - GBP Currency Hedged	0.410%
Asia Pacific (ex Japan) Developed Equity Index Fund	-0.021%	Japan Equity Index Fund - GBP Currency Hedged	0.036%
UK Smaller Companies Index Fund	0.099%	North America Equity Index Fund - GBP Currency Hedged	0.043%
Overseas Bond Index Fund	-0.010%	Investment Grade Corporate Bond - All Stocks - Index Fund	-0.068%
AAA-AA-A Corporate Bond Over 15 Year Index Fund	-0.055%	Pre-Retirement Fund	-0.102%
Private Equity Passive Fund	0.011%	Retirement Income Multi-Asset Fund	-0.064%
Global Real Estate Equity Index Fund	0.015%	Long Term Growth Fund*	0.033%
FTSE Developed Core Infrastructure Index Fund	-0.027%	Diversified Growth Fund*	0.002%

Source: Legal & General

*calculated based on transaction costs of underlying funds

**Implicit costs based on PRIIPS methodology. We understand FCA methodology as required by legislation will be followed for data released from Q1 2019 onwards.

Assessing transaction costs for value is still a developing area and there is not standard method for benchmarking the costs for value. However, anecdotally, the transaction costs are very small and appear not to have had a significant impact on member's funds when compared to investment charges. Even if the transaction costs were deemed poor value and could be improved, the potential improvement would not appear to have a significant impact for members. It is also important to note that these costs are captured in the fund performance.

The Trustees will continue to monitor developments on benchmarking costs and assessing their value.

Illustration of the impact that charges and costs have on a member's pot size.

The Trustee of the Caterpillar Defined Contribution Pension Plan has prepared the following illustrative examples of the cumulative effect of costs and charges on members' investments over time. In doing so we have had regard to guidance produced by the Department of Work and Pensions. Please note that these are illustrative examples which should help you understand the impact on your savings of investment management and administration charges and transaction costs. Remember that the trustees regularly monitor the level of charges to ensure they provide value for money.

Projected Pension pot in today's money (£'s)

We assume an initial pot size of £45,038 which is based on the average pot size in the Plan calculated using total Plan assets and total membership as at 30 June 2018.

Years	Long Term Growth Fund (default growth phase)		Diversified Growth Fund		Retirement Income Multi-Asset Fund (‘RIMA’)	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	50,522.28	50,440.12	49,822.14	49,741.36	49,429.48	49,318.62
3	62,055.04	61,771.10	59,664.77	59,393.22	58,353.01	57,986.38
5	74,383.69	73,843.08	69,885.37	69,381.93	67,467.81	66,798.62
10	109,057.18	107,590.74	97,187.15	95,905.55	91,118.70	89,477.24
15	150,025.97	147,129.31	127,185.98	124,804.23	116,057.35	113,112.77
20	198,433.04	193,452.45	160,148.32	156,290.64	142,353.87	137,745.60
25	255,628.89	247,724.39	196,366.91	190,596.51	170,082.20	163,417.80
30	323,209.21	311,309.06	236,163.42	227,984.31	199,320.29	190,173.23
40	497,407.14	473,082.92	327,938.97	313,070.60	262,659.08	247,118.53
47	658,950.70	620,994.76	403,283.30	381,944.42	311,166.39	289,875.40

Years	Cash Fund		Global Real Estate Index Fund		Over 15 Year Fixed Interest Gilts Index Fund	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	48,599.78	48,538.69	50,485.66	50,314.28	48,569.70	48,580.98
3	55,648.37	55,452.80	61,928.37	61,338.02	55,552.03	55,588.14
5	62,598.62	62,252.61	74,142.31	73,021.75	62,428.07	62,491.98
10	79,553.00	78,764.41	108,401.08	105,383.73	79,163.74	79,309.48
15	95,922.22	94,602.25	148,727.39	142,809.15	95,269.81	95,513.88
20	111,726.49	109,793.65	196,195.89	186,090.28	110,769.95	111,127.52
25	126,985.29	124,364.97	252,071.51	236,173.30	125,686.97	126,171.94
30	141,717.46	138,341.55	317,843.24	294,027.76	140,042.80	140,667.90
40	169,673.99	164,606.54	486,396.23	438,384.08	167,154.54	168,093.66
47	188,107.33	181,732.07	641,721.81	567,529.37	184,932.82	186,115.01

Notes

1. The projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The assumed real terms investment returns (i.e. after allowing for future inflation) and assumed charges and costs for each of the funds illustrated are as follows:

	Long Term Growth Fund	Diversified Growth Fund	RIMA	Cash Fund	Global Real Estate Index Fund	Over 15 Year Fixed Interest Gilts Index Fund
Assumed real-terms investment return*:	3.33%	1.90%	1.19%	-0.70%	3.32%	-0.64%
Assumed future charges:	0.142%	0.17%	0.30%	0.13%	0.35%	0.04%
Assumed future transaction costs**:	0.033%	0.002%	-0.064%	0.000%	0.015%	-0.064%

* accumulation rate assumed in SMPI projections plus transaction costs minus the inflation rate (2.5%)

**based on aggregate transaction cost information for the year to 30 June 2018 (see Appendix 2). Long Term Growth Fund, Diversified Growth Fund and Global Real Estate Index Fund are positive transaction costs. A negative figure represents a positive transaction cost.

3. Initial salary is assumed to be £33,500.
4. Future inflation is assumed to be 2.5% each year.
5. The illustration assumes that further contributions will continue to be paid in. The figures show an assumed contribution of 11.6% (representing both your and your employer's contribution, including tax relief) and increasing in line with assumed earnings inflation of 2.5% each year. 11.6% represents the approximate total average contribution rate paid as at June 2018. Contributions are assumed to be paid half way through the year.
6. The timeframe shown reflects the approximate length of time that the youngest Plan member has to save until they reach the Plan's normal pension age.
7. This is not a personal illustration. The values shown are illustrations and are not guaranteed. Actual values could be significantly higher or lower than those shown in the illustrations.