

Registered number: 12007217

**THE BRUSH GROUP (2013) PENSION SCHEME  
REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2018**

## THE BRUSH GROUP (2013) PENSION SCHEME

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## THE BRUSH GROUP (2013) PENSION SCHEME

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### TRUSTEE AND ITS ADVISERS YEAR ENDED 31 DECEMBER 2018

<b>Trustee</b>	Brush Scheme Trustees Limited
<b>Company Nominated Directors</b>	G Barnes B Hewitson G Morgan – appointed 21 June 2018
<b>Member Nominated Directors</b>	G Dallard G Peters A Pidgeon
<b>Independent Directors</b>	MC Duncombe, Independent Chairman – resigned 1 January 2019 A McKinnon, Independent Chairman – appointed 1 January 2019 EL Rutter
<b>Sponsoring Employer</b>	Brush Electrical Machines Limited
<b>Secretary to the Trustee</b>	I Emery Aon Hewitt Limited Colmore Gate 2 Colmore Row Birmingham B3 2QD
<b>Actuary</b>	A Shah Aon Hewitt Limited
<b>Administrator</b>	Aon Hewitt Limited
<b>Independent Auditor</b>	Ernst & Young LLP
<b>Banker</b>	Bank of Scotland
<b>Investment Managers</b>	Legal & General Assurance (Pensions Management) Limited Majedie Asset Management Limited Morgan Stanley Investments Insight Investment BNY Mellon – removed 22 November 2018 Invesco Perpetual Life Limited
<b>AVC Providers</b>	The Equitable Life Assurance Society Aviva plc (formerly Friends Provident Life and Pensions Limited) Royal London Group
<b>Legal Advisers</b>	Squire Patton Boggs (UK) LLP
<b>Contact address</b>	The Brush Group (2013) Pension Scheme Aon Hewitt Limited Colmore Gate 2 Colmore Row Birmingham B3 2QD brushpensions@aonhewitt.com

# THE BRUSH GROUP (2013) PENSION SCHEME

## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Introduction

The Trustee of The Brush Group (2013) Pension Scheme (the 'Scheme') is pleased to present the annual report together with the audited financial statements for the year ended 31 December 2018.

The Scheme came into existence during 2013 following the demerger of the FKI Group Pension Scheme. The Definitive Deed was signed on 4 April 2014. A Deed of Amendment was subsequently signed on 27 June 2014 following agreement to the demerger. Some deferred members of the FKI Group Pension Scheme were transferred to the Brush Group (2013) Pension Scheme. The Scheme is closed to new entrants.

### Scheme constitution and management

The Scheme is a Defined Benefit (DB) scheme. The Scheme is governed by a Trust Deed as amended from time to time and is administered by Aon Hewitt Limited in accordance with the establishing document and rules solely for the benefit of its members and other beneficiaries.

The Trustee Directors are shown on page 1.

Under the Trust Deed and Rules of the Scheme, the power of appointment or removal of the Trustee and Directors of the present Trustee rests with the Sponsoring Employer, Brush Electrical Machines Limited, subject to the regulations governing Member Nominated Directors.

In accordance with The Pensions Act 2004 at least one third of the total number of Trustee Directors must be nominated by Scheme members. The Member Nominated Trustee Directors (MNTs) are elected from the membership.

A Trustee Board is comprised of eight Directors, made up of two Independent Directors, three Company Nominated Directors and three Member Nominated Directors.

A Trustee Director can choose to retire from office at any time. Member Nominated Trustee Directors can only be removed with the agreement of all other Trustee Directors.

The Trustee Directors have appointed professional advisers and other organisations to support them in delivering the Scheme objectives. These individuals and organisations are listed on page 1.

### Trustee meetings

The Trustee Board met formally five times during the year to consider the business of the Scheme.

	3 January 2018	7 February 2018	19 April 2018	4 October 2018	20 December 2018
G Barnes	N	Y	N	Y	Y
G Dallard	N	Y	Y	Y	Y
M Duncombe	Y	Y	Y	Y	Y
B Hewitson	N	Y	Y	Y	Y
G Morgan	N/A	N/A	N/A	N	N
G Peters	Y	Y	Y	Y	Y
A Pidgeon	Y	Y	Y	Y	Y
E Rutter	Y	Y	Y	Y	Y

## THE BRUSH GROUP (2013) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### The Sponsoring Employer

The Sponsoring Employer of the Scheme is: Brush Electrical Machines Limited.

#### Scheme changes

There were no changes to the Scheme in the year.

#### Review of the financial developments during the year as shown by the audited financial statements

The financial statements included in this annual report have been prepared and audited in accordance with the regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

#### Membership

Details of the membership changes of the Scheme in the year are as follows:

	Deferred 2018	Pensioners 2018	Total 2018
Members at the start of the year	1,151	357	1,508
Adjustments to members	(11)	11	-
New Spouses & Dependants	-	4	4
Retirements	(74)	74	-
Deaths	(5)	(6)	(11)
Trivial commutation	-	(1)	(1)
Transfers out	(19)	-	(19)
<b>Total members at the end of the year</b>	<b>1,042</b>	<b>439</b>	<b>1,481</b>

Pensioners include 10 individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 2 dependants in receipt of a pension.

These membership figures do not include movements notified to the Administrator after the completion of the annual renewal.

The adjustments shown above are the result of retrospective updating of member records.

## THE BRUSH GROUP (2013) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### Pension increases

There are three categories of pensions in payment in respect of contractual increases to pensions earned prior to 6 April 1997:

- a) No increases.
- b) 3% increases
- c) Increases according to the rate of inflation but not less than 3% and not more than 5%.

The above increases are on that part of the pension in excess of the Guaranteed Minimum Pension ("GMP"). The GMP is broadly equal to the pension a member would have earned in the state pension scheme had they not been contracted out of that scheme. The pre-1988 GMP is inflation proofed by the state pension scheme.

All pensions in payment were reviewed during the period and an increase of between 0% and 4.1% were awarded in respect of categories (a) to (c) above. Pensions earned after 5 April 1997 were increased by between 2.5% and 4.1%. No discretionary increases were awarded to current pensioners.

A deferred pension consists of three parts:

- a) the GMP; this part increases between the date of leaving and state pension age at 4% for each complete tax year (for leavers prior to 6 April 2007 different rates of increase apply, 4.5%, 6.25%, 7%, 7.5% or 8.5%);
- b) that part of the pension in excess of GMP which arose from pensionable service prior to 1 January 1985; this part does not increase;
- c) that part of the pension in excess of GMP which arose from pensionable service on or after 1 January 1985; this part increases between the date of leaving and normal retirement date at the lesser of 5% per annum and the change in the retail prices index.

Because of changes in legislation, all leavers after 31 December 1990 have that part of the deferred pension earned prior to 1 January 1985 (see (b) above) increased in the same way as that part of the pension earned on or after 1 January 1985 (see (c) above).

No discretionary increases were provided to deferred pensions.

#### Transfer values

Members leaving service can normally transfer the value of their benefits under the Scheme to another scheme that they join or to an insurance contract or personal pension.

The Trustee is responsible for setting the economic, financial and demographic assumptions to be used in calculating transfer values, having taken the advice of the Actuary.

No discretionary benefits are included in the calculation of transfer values.

# THE BRUSH GROUP (2013) PENSION SCHEME

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## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Report on Actuarial liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to the Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2016 and revealed:

The value of the Technical Provisions was: £255.6 million

The value of the assets at that date was: £253.4 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

#### **Method**

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

#### **Significant actuarial assumptions**

**Discount interest rate:** term dependent rates set by reference to the UK government fixed interest gilt curve at the valuation date plus an addition of 1% per annum.

**Future Retail Price inflation (RPI):** term dependent rates derived from the market yields on fixed interest and index-linked gilts at the valuation date.

**Future Consumer Price inflation (CPI):** term dependent rates derived from the market yields on fixed interest and index-linked gilts at the valuation date with a deduction equal to Aon Hewitt's prevailing best estimate of the difference between RPI and CPI inflation. As at 31 December 2016 this difference was 1.1% p.a.

**Pension increases:** derived from the RPI or CPI price inflation as appropriate, allowing for the maximum and minimum annual increases, and for inflation to vary from year to year.

**Mortality:** for the period in retirement standard tables S2PMA for male members and S2PFA for female members with a scaling factor of 110% for all members with an allowance for improvements in mortality in line with the CMI 2016 Proposed 2015 improvement factors, subject to a long term rate of improvement of 1.5% p.a.

## THE BRUSH GROUP (2013) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### **Management and custody of investments**

As required by the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles (SIP) setting out its policy on investment, which includes the Trustee's policy on Socially Responsible Investment. A copy of the Statement is available on request.

The Trustee has delegated management of investments to the investment managers shown on page 1. These managers, who are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments in line with the investment managers agreements which are designed to ensure that the objectives and policies captured in the SIP are followed.

The Trustee has considered ethical and socially responsible investments and has delegated to the Investment Managers the responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of an investment and for exercising the rights relating to the Scheme's investments.

The investment managers are paid fees for their services. The fees are calculated as a percentage of the market value of the part of the Scheme that they manage.



# THE BRUSH GROUP (2013) PENSION SCHEME

## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Investment report

#### Changes during the year

The investment in the Newton Real Return Fund was redeemed by the Trustee with the proceeds invested with the LGIM Matching Plus LDI Pooled Fund and LGIM All World Equity Index Fund.

#### Performance

##### Total Scheme Performance to 31 December 2018 (p.a.)

1 year %	-3.3%
3 year % p.a.	9.8%
5 year % p.a.	9.5%

#### Investment Policy and Objectives

The Trustee aims to invest the assets of the Scheme to meet members' benefits as and when they fall due. The Trustee is responsible for determining the Scheme's investment strategy and has set the investment strategy after taking appropriate professional investment advice.

The current asset allocation strategy chosen is set out in the table below. The Trustee will monitor the actual asset allocation versus the target weights in the table below on an ongoing basis.

#### Current planned asset allocation strategy

	Target weighting (%)	Benchmark Index
<b>Active Equity</b>	<b>20.0</b>	
Majedie – UK Equity Fund - Unconstrained	8.0 – 12.0	FTSE All Share
Morgan Stanley – Global Brands Fund – Unconstrained	8.0 – 12.0	MSCI World NDR (USD)
<b>Passive Equity</b>	<b>11.0</b>	FTSE All World Index – GBP Hedged
LGIM – All World Equity Index (GBP Hedged)	9.0 – 13.0	
<b>Diversified Growth Funds</b>	<b>18.0</b>	
Insight – Broad Opportunities Fund	7.0 – 11.0	Sterling 3 Month LIBID
Invesco – Global Targeted Returns Pension Fund	7.0 – 11.0	Sterling 3 Month LIBOR
<b>Liability Driven Investment (LDI) Funds</b>	<b>51.0</b>	
LGIM – Matching Plus LDI Pooled Funds (including LGIM – Sterling Liquidity Fund)	46.0 – 56.0	Typical scheme liability profile benchmark
<b>Total</b>	<b>100.0</b>	

#### Custody of assets

There were no custodians directly engaged by the Trustee during the year. Separate custody arrangements are in place with each of the Scheme's investment managers.

# THE BRUSH GROUP (2013) PENSION SCHEME

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## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Investment principles

The Trustee has produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995.

The Statement summarises how the Trustee:

- Sets the investment policy and chooses the most suitable types of investments for the Scheme;
- Delegates buying and selling investments to the Scheme's investment managers; and
- Monitors the performance of the Scheme's investments.

The Trustee has delegated to the investment managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments and for exercising the rights attaching to the Scheme's investments.

### Market Background: 12 Months to December 2018

#### General Background

The MSCI AC World Index fell 7.2% in local currency terms over the last year. In contrast to the strong and relatively stable equity market uptrend seen through much of 2016 and 2017, 2018 saw lower returns and higher volatility with equity markets falling sharply in the first and fourth quarters. The Q1 2018 fall was triggered by expectations of a pick-up in US inflation and interest rates. Having largely recovered in the middle of the year, global equities were then rocked by rising concerns of slowing global growth and trade wars in Q4 2018 while earnings growth expectations moderated over the period. The fourth quarter's 12.5% fall in global equities was the steepest quarterly decline since 2011. On a sector level, the more defensive Health Care (3.4%) and Utilities (4.4%) sectors were the best performers whilst the more cyclical Industrials (-12.7%) and Financials (-12.6%) sectors underperformed.

The US Federal Reserve (Fed) continued on their course to normalise monetary policy. Over the period, the Fed hiked the Federal Funds rate on four occasions, reaching 2.25%-2.50% in December 2018 despite gathering market worries of over-tightening. The European Central Bank (ECB) ended their asset purchase programme in December, although reinvestment of principal payments is continuing indefinitely. Meanwhile, the Bank of England (BoE) raised rates to 0.75% in August as economic data stabilised and inflation remained above target though Brexit uncertainty meant further rate rises looked unlikely.

Production cuts undertaken by the Organization of the Petroleum Exporting Countries (OPEC) and increased geopolitical tensions drove up Brent oil prices over much of the year, peaking at \$86/bbl in October. However, fears of a slowdown in global growth, coupled with high US inventories and the waiving of US sanctions for eight Iranian oil importers, caused oil prices to slump in the fourth quarter. The price of Brent Crude ended the year down 19.5% at \$54/bbl. Amidst weakening Chinese economic data and heightened trade tensions, industrial metals also fell by 18.0% over the year resulting in the S&P GSCI Commodity index to finish the year to December 2018 down 13.8%.

UK fixed interest gilt yields had a volatile year, tending to rise and fall in tandem with global yields and Brexit developments. Shorter maturity yields ended the year higher whilst longer maturity yields were broadly unchanged as Brexit uncertainty and a weak UK economy anchored the longer end of the curve. Fixed interest gilts outperformed index-linked gilts as they returned 0.6% versus -0.3%.

# THE BRUSH GROUP (2013) PENSION SCHEME

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## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### General Background (continued)

Sterling ended the twelve-month period 1.5% lower on a trade-weighted basis. Sterling rallied in early 2018 on the back of expectations of an increase in the base rate but then fell back amidst increasing Brexit uncertainty and broad dollar strength. Sterling weakness softened the blow of weak global equity markets to unhedged UK investors as the MSCI AC World Index loss shrunk to -3.3% in sterling terms.

UK investment grade corporate bond credit spreads – the difference between corporate and government bond yields – widened by 46bps to end the twelve-month period at 159.6bps. Spreads widened steadily through the year before widening more rapidly in the fourth quarter against a backdrop of heightened volatility of risky assets.

UK commercial property returned 7.2%, supported by a steady income return. Capital value appreciation slowed through the year with capital values falling in Q4 2018. The retail sector underperformed over the year as fears over the health of the high street took hold, UK economic performance remained lacklustre and corporate earnings in the retail sector disappointed.

### UK Equities

UK equities posted a return of -9.5% over the year. Poor performance in Q1 2018, driven by expectations of tighter monetary policy and sterling appreciation, was recovered in Q2 as sterling depreciation and higher energy prices then boosted UK equities. However, UK equities stalled in the third quarter before falling 10.2% in the fourth quarter with the sizeable Energy sector hit hard by falling oil prices and the Industrial sector hit by slowing global growth and trade tensions. Brexit uncertainty was also a sizeable drag over the second half of the year.

Performance once again varied greatly across sectors. Health Care (13.0%) was the best performing sector and the only sector to post positive returns over the year. The sizeable Oil and Gas sector led the index for much of the year but was hit hard by the sharp fall in oil prices in the fourth quarter and ended the year down 1.8%. Telecommunications (-22.2%) and Technology (-23.1%) were the worst performers.

UK large cap equities (-8.7%) outperformed both mid cap (-13.3%) and small cap equities (-9.5%) over the 12-month period. Having initially lagged at the beginning of the year, UK large cap equities benefited from Brexit-induced sterling weakness which boosted their overseas earnings and Oil & Gas sector revenues. Mid-cap equities were hit by their large exposure to the underperforming Industrials sector as well as poor stock-specific performance amongst the mid-cap Healthcare sector. Small cap equities were somewhat insulated by their sizeable exposure to investment managers but suffered broad based poor performance elsewhere given their higher exposure to the weakening UK economy and Brexit-related risk.

### Overseas Equities

US equities outperformed other markets over much of the year as a strong US economy – driven by a strong labour market, increased government spending and tax cuts – boosted US corporate earnings. Earnings were particularly strong in the highly-weighted Health Care and Technology sectors. However, the gap between the US and other markets' returns narrowed sharply in December as earnings expectations were revised down, particularly in the Technology sector, as concern over an over-tightening Fed policy, the health of the Chinese economy and ongoing trade tensions took hold. Nevertheless, US equities remained the best performing region over the year, returning -4.5% in local currency terms with Health Care (7.7%) the best performing sector and Oil & Gas (-18.0%) the worst.

## THE BRUSH GROUP (2013) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### Overseas Equities (continued)

Fading economic momentum in the Eurozone as well as heightened political risk weighed on Europe ex UK equity performance over the year with the index returning -10.7% in local currency terms. The anti-establishment Italian government, election upsets in Germany and fears over European banks' exposure to Turkey following sharp falls in the Turkish lira all weighed on sentiment. Economic data worsened through the year with the manufacturing purchasing managers index – a forward indicator of economic growth in the region – falling from 60.6 in December 2017 to 51.4 in December 2018. Utilities (5.9%) and Oil & Gas (3.5%) were the best performing sectors whilst Financials (-18.3%) and Basic Materials (-17.7%) were the worst.

Japanese equities were the worst performing region in local currency terms in all but the third quarter, ending the year down 15.3% in local currency terms. Disappointing economic data (Japanese GDP declined in both the first and third quarters), an appreciating yen, political scandals and global trade tensions all weighed on the region over the year. The export-sensitive Technology (-23.0%) and Industrials (-20.2%) sectors were hit by concerns over global growth and trade whilst the Basic Materials (-26.7%) and Oil & Gas (-22.0%) sectors were hit by falling commodity prices in the fourth quarter. However, sterling depreciation against the yen boost returns to -7.6% in sterling terms.

Emerging Market (EM) equities returned -9.7% in local currency terms over the past year. Much of the region's negative return occurred in the second quarter as the region was hurt by US dollar strength and idiosyncratic shocks in Turkey and Brazil. Poor performance continued into the third quarter as trade tensions between the US and China escalated and concerns over the Chinese economy increased. EM equities were the best performer in the fourth quarter as a 10% decline in Chinese stocks was countered by double-digit positive returns from Brazilian stocks following the election of Jair Bolsonaro but the market still fell 7.4% over the year in local currency terms. EM currency appreciation raised the year's return to -8.9% in sterling terms.

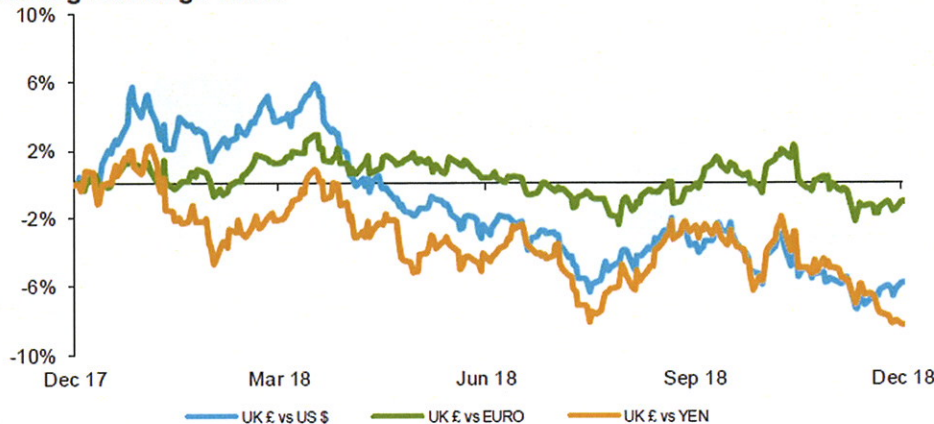
In the FTSE All World ex UK Index, the best performing sectors (in sterling terms) were Health Care (9.0%) and Utilities (23.4%) whilst Basic Materials (-10.8%) and Consumer Goods (-8.6%) underperformed.

# THE BRUSH GROUP (2013) PENSION SCHEME

## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Currencies and Interest Rates

#### Sterling Exchange Rates



Source: FactSet

Sterling ended the 12-month period down 1.5% on a trade-weighted basis. Having performed well in the first quarter on the back of an agreement on a Brexit transition period and expectations of tighter UK monetary policy, sterling fell back in Q2 2018 as weak UK economic data and a lack of further progress in the Brexit negotiations increased the risk of a 'no deal' Brexit and lowered expectations of future rate hikes. A further bout of Brexit uncertainty followed the negative reaction to the EU / UK Government's proposed Brexit deal and renewed economic weakness led sterling lower towards the end of the period.

The US dollar was up 7.5% on a trade-weighted basis and 5.9% against sterling over the year. The dollar weakened through the first quarter as markets worried over increased Government borrowing to fund Trump's increased government spending. However, these fears abated in the second quarter as widening interest rate differentials with other economies as a result of tighter US monetary policy, strong economic performance and global risk aversion led the dollar higher. This positive momentum continued into the second half of the year but the Fed's softer approach to further interest rate hikes caused dollar strength to level off towards the end of the year.

Meanwhile, sterling moved broadly sideways against the euro, falling back slightly towards the end of the period. Weaker economic data in the Eurozone and a continued easy monetary stance from the ECB kept the euro weak. The ECB's QE program ended in December but this was accompanied by indications that future rate hikes would be pushed into late-2019 to 2020. The euro depreciated by 0.6% on a trade-weighted basis and appreciated by 1.1% against sterling.

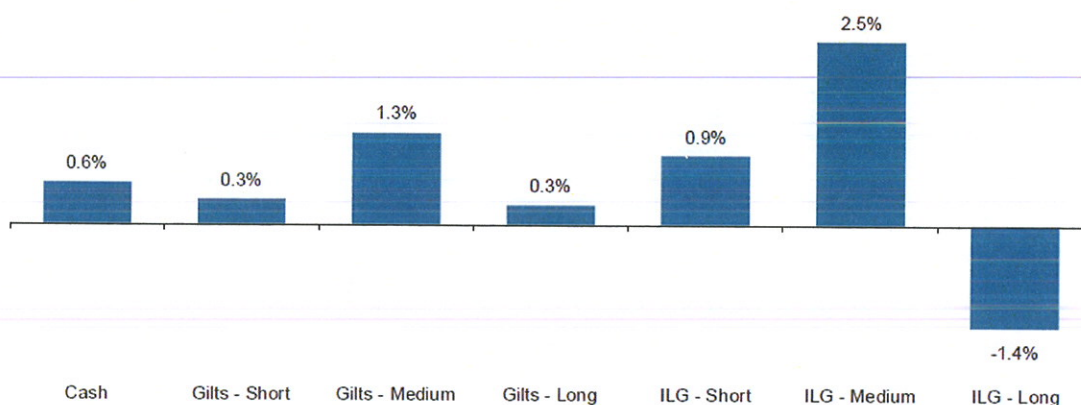
Bouts of risk aversion in global markets, amid heightened geopolitical tensions, led to safe-haven flows into the Japanese yen over the year. These flows were particularly strong in the fourth quarter given the greater risk aversion. These flows were countered by poor economic data and a continued accommodative monetary policy stance from the Bank of Japan. Overall the yen appreciated by 4.1% on a trade-weighted basis over the 12-month period and appreciated by 8.3% against sterling.

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## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Gilt Returns

Index returns from 31/12/2017 to 31/12/2018



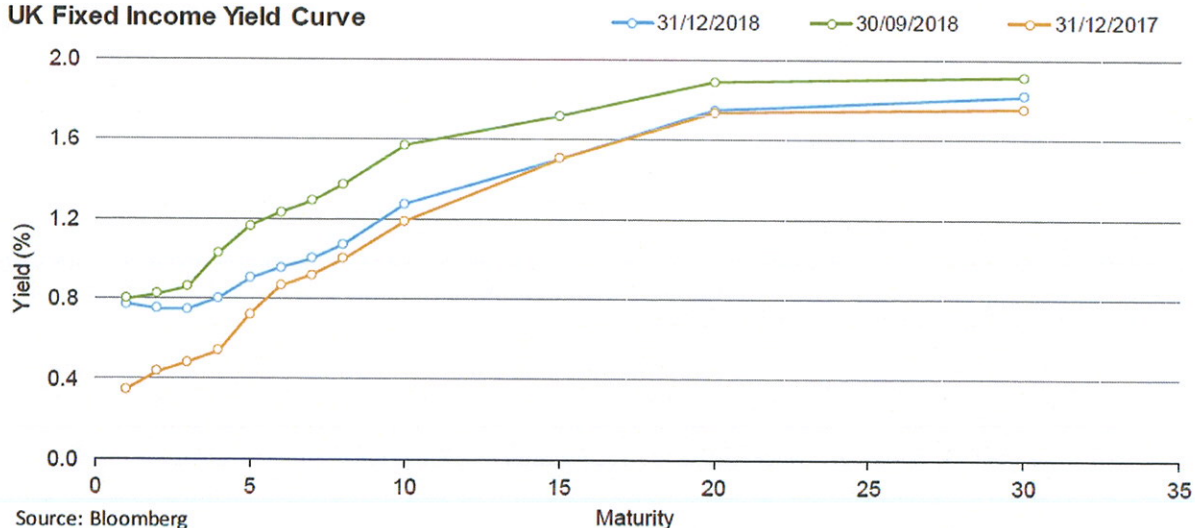
Source: Factset

UK fixed rate gilts returned 0.6%, whilst their index-linked counterparts returned -0.3%. UK short yields underperformed as yields rose over much of the year. Yields increased a little for both medium and long-dated gilts but long gilts underperformed medium gilts, despite their smaller increase in yields, due to the index's higher duration.

Index-linked gilts outperformed fixed interest gilts, except at long maturities, as breakeven inflation ended the year higher on the back of sterling weakness and higher than expected inflation. Medium maturity index-linked gilts were once again the best performer as yields were pushed down by higher breakeven inflation. The yield-sensitive long index-linked gilts index underperformed significantly as yields rose over the year, with rises concentrated in the second and third quarter.

### Fixed Interest and Index-Linked Yield Curves

#### UK Fixed Income Yield Curve



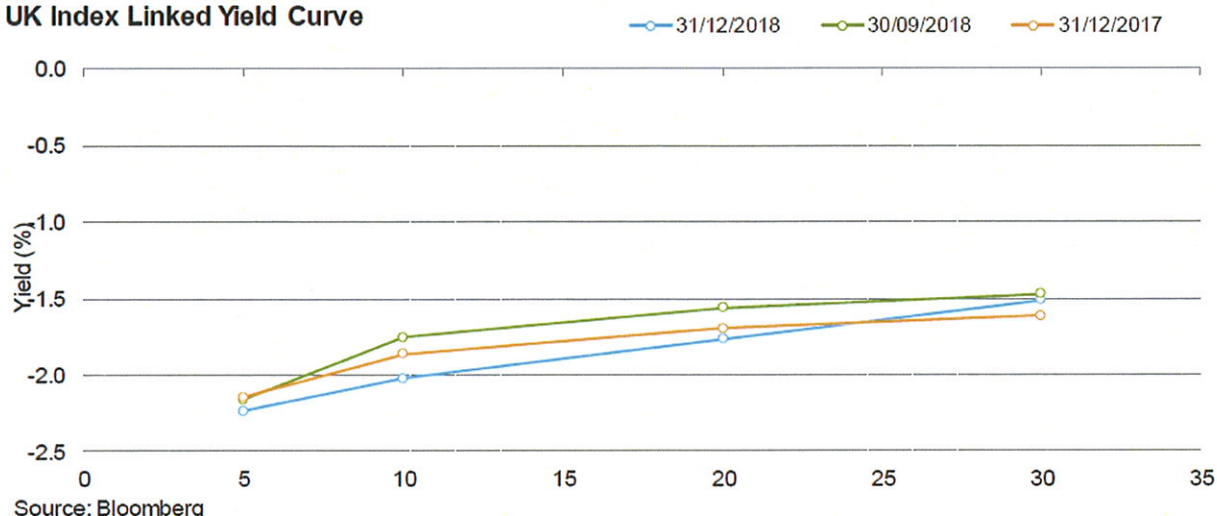
Source: Bloomberg



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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### UK Index Linked Yield Curve

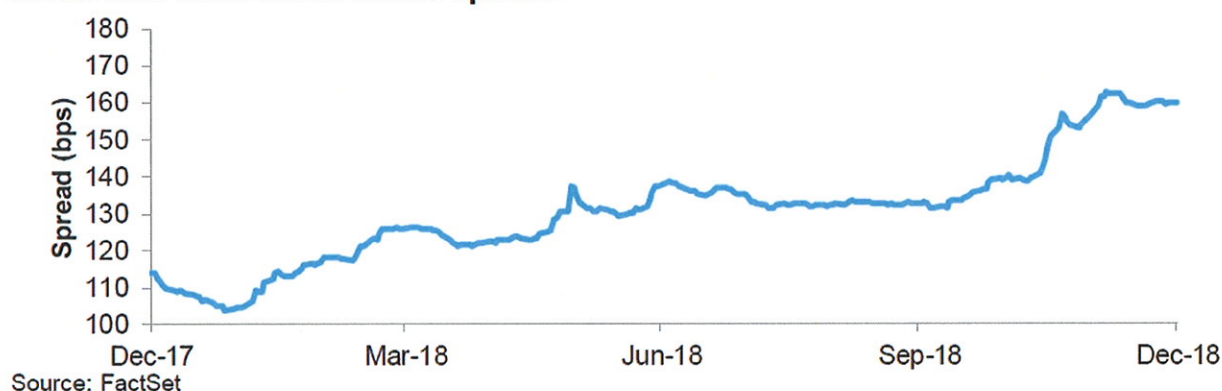


The fixed interest gilt yield curve flattened over the year with an upwards shift at the short and intermediate parts of the curve whilst the longer end was broadly flat. The policy-sensitive two-year yield rose to 0.75%, ending the year 31bps higher. The more globally-driven 10-year yield was highly volatile over the year, peaking at 1.73% in October before falling back amidst falling risk sentiment to end the year 9bps higher at 1.28%.

In contrast, the index-linked gilt yield curve steepened over the year. Short and intermediate real yields fell over the year driven by higher breakeven inflation on the back of sterling weakness following increased Brexit uncertainty through the second half of the year. In contrast, long end real yields rose slightly as breakeven inflation was more stable.

#### UK Investment Grade Credit

##### iBoxx Non-Gilts Index Credit Spread



UK iBoxx non-gilt credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) widened by 46bps to 159.6bps over the 12-month period.

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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### **UK Investment Grade Credit (continued)**

After touching a 10 year low in January 2018, spreads widened over 2018. In the first quarter, equity market volatility and concern over global trade widened spreads. They continued to widen in the second quarter as further trade protectionist policies were announced and Brexit concerns gathered pace. After remaining largely unchanged in the third quarter, spreads widened sharply in the fourth quarter as greater risk aversion swept through riskier markets. As a result of the rise in credit spreads, UK non-gilts returned -1.5%, underperforming fixed interest gilts.

Lower quality corporate bonds underperformed with BBB-rated credit spreads widening the most (rising by 78 bps). A-rated credit spreads rose by 41bps, AA-rated bonds moved 18 bps higher and AAA-rated spreads moved 19bps higher.

#### **Employer related investments**

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995. Details of any employer related investments are disclosed in note 18 to the financial statements.



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## TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

### Further information

Further information about the Scheme is available, on request, to members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustee's Statement of Investment Principles can be inspected.

If members have any queries concerning the Scheme's or their own pension position, or wish to obtain further information, they should contact Aon Hewitt Limited (address below) who will also be able to provide them with a further copy of the Scheme's booklet should they require one and answer any queries that they may have about entitlement to benefits.

The Trustee of The Brush Group (2013) Pension Scheme care of:

Aon Hewitt Limited  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2QD  
[brushpensions@aonhewitt.com](mailto:brushpensions@aonhewitt.com)

Aon Hewitt Limited processes the personal data as contained in this Report and Financial Statements for the purpose of providing the Trustee with a report and financial statement on the operation of the Scheme. Aon Hewitt Limited processes personal data in the context of the operation of the Scheme on behalf of the Trustee, the data controller. Aon Hewitt Limited, in its capacity as data processor who provides the members of the Scheme with pension services on behalf of the Trustee, will comply with the applicable legislation including any data protection legislation and the instructions of the Trustee.

The Trustee or the Employer will ensure the data subjects of whom personal data is processed for the purposes of this Report and Financial Statement are informed of the processing activities in accordance with the requirements of the applicable data protection legislation.

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### TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2018

#### Compliance Statement

##### HM Revenue & Customs Registration

The Scheme is a registered pension scheme in accordance with The Finance Act 2004. This means that the contributions paid by both the Company and the members qualify for full tax relief, and enables income earned from investments by the Trustee to receive preferential tax treatment.

##### Other information

##### Pension Tracing

The Scheme is registered with the Pension Tracing Service which maintains a list of up to date addresses of Scheme to assist ex-members trace their rights if they have lost contact with the previous employer's Scheme. The address for the Pension Tracing Service is:

The Pension Tracing Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

0345 6002 537  
<https://www.gov.uk/find-pension-contact-details>

##### Resolving difficulties/Internal Dispute Resolution

It is expected that most queries relating to benefits can be resolved with the Scheme's administration office. In the event that a complaint cannot be resolved members can make a formal complaint using the Scheme's Internal Dispute Resolution (IDR) procedure details of which can be obtained from the Trustee office.

If the complaint is not resolved satisfactorily, the Government appointed Pensions Ombudsman can investigate complaints of injustice by bad administration either by the Trustee or the Scheme's Administrators, or disputes of fact of law. The Pensions Ombudsman can be contacted at:

The Pensions Ombudsman  
10 South Colonnade  
Canary Wharf  
E14 4PU

0800 917 4487  
[enquires@pension-ombudsman.org.uk](mailto:enquires@pension-ombudsman.org.uk)

## THE BRUSH GROUP (2013) PENSION SCHEME

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### STATEMENT OF TRUSTEE'S RESPONSIBILITIES YEAR ENDED 31 DECEMBER 2018

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulations 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report. The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed for and on behalf of the Trustee:

Trustee Director:

Trustee Director:

Date:

## THE BRUSH GROUP (2013) PENSION SCHEME

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### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE YEAR ENDED 31 DECEMBER 2018

#### Opinion

We have audited the financial statements of The Brush Group (2013) Pension Scheme for the year ended 31 December 2018 which comprise the fund account, the statement of net assets and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

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

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

## THE BRUSH GROUP (2013) PENSION SCHEME

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### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE YEAR ENDED 31 DECEMBER 2018

#### Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Responsibilities of the Trustee

As explained more fully in the Trustee's Responsibilities Statement set out on page 17, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**Ernst & Young LLP**  
Statutory Auditor  
Reading

Date:

## THE BRUSH GROUP (2013) PENSION SCHEME

### FUND ACCOUNT YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Other income	3	-	22
Benefits payable	4	(5,540)	(3,435)
Transfers out	5	(5,498)	(4,991)
Administrative expenses	6	(605)	(626)
		(11,643)	(9,052)
<b>Net withdrawals from dealing with members</b>		(11,643)	(9,030)
<b>Returns on investments</b>			
Investment income	7	7	-
Change in market value of investments	8	(8,337)	19,841
Investment management expenses	9	(589)	(433)
<b>Net return on investments</b>		(8,919)	19,408
<b>Net (decrease) / increase in the Scheme during the year</b>		(20,562)	10,377
<b>Opening net assets</b>		265,553	255,175
<b>Closing net assets</b>		244,991	265,553

The notes on pages 22 to 33 form part of these financial statements.

## THE BRUSH GROUP (2013) PENSION SCHEME

### STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Investment assets</b>			
Pooled investment vehicles	11	242,131	264,054
AVC investments	12	1,685	1,883
		243,816	265,937
<b>Total net investments</b>		243,816	265,937
Current assets	16	1,820	235
Current liabilities	17	(645)	(619)
<b>Net assets available for benefits at 31 December</b>		244,991	265,553

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on actuarial liabilities included in the Trustee report and these financial statements should be read in conjunction with it.

The notes on pages 22 to 33 form an integral part of these financial statements.

These financial statements were approved by the Trustee and were signed on its behalf by:

Trustee Director:

Trustee Director:

Date:

# THE BRUSH GROUP (2013) PENSION SCHEME

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidelines set out in the Statement of Recommended Practice (SORP) (2015) - Financial Reports of Pension Schemes.

The Scheme is a registered pension scheme in accordance with The Finance Act 2004. This means that the contributions paid by both the Company and the members qualify for full tax relief, and enables income earned from investments by the Trustee to receive preferential tax treatment.

### 2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. The policies have been consistently applied unless otherwise stated.

#### Functional and Presentation Currency

The Scheme's functional and presentation currency is Pounds Sterling (GBP).

Assets and liabilities in other currencies are converted to sterling at the rates of exchange ruling at the year end. Transactions in other currencies are translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

#### 2.1 Transfers from and to other schemes

Individual transfers to and from other schemes are accounted for when funds are received or paid, or where the Trustee has agreed to accept the liability in advance of receipt of funds on an accruals basis from the date of the agreement.

#### 2.2 Benefits

Pensions in payment, including pensions funded by annuity contracts, are accounted for in the period to which they relate.

Benefits to members are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type and amount of the benefit to be taken. If there is no member choice, benefits are accounted for on the date of leaving.



## THE BRUSH GROUP (2013) PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 2. Accounting policies (continued)

##### 2.3 Administrative and investment manager expenses

Administrative and investment manager expenses are accounted for on an accruals basis.

##### 2.4 Investment income

Income from cash and short term deposits is dealt with in these financial statements on an accruals basis.

##### 2.5 Valuation and classification of investments

Pooled investment vehicles are stated at bid price or single price where there is no bid/offer spread as provided by the investment managers at the year end.

AVC funds are included at the market value advised by the fund managers at the year end.

##### Change in market value

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

##### Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

#### 3. Other income

	2018 £000	2017 £000
Other income	-	22

## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 4. Benefits payable

	2018 £000	2017 £000
Pensions	2,715	2,196
Commutations of pensions and lump sum retirement benefits	2,662	1,131
Lump sum death benefits	163	108
	5,540	3,435

#### 5. Transfers out

	2018 £000	2017 £000
Individual transfers out to other schemes	5,498	4,991

#### 6. Administrative expenses

	2018 £000	2017 £000
Administration and processing	143	127
Actuarial fees	170	173
Audit fees	9	8
Legal fees	53	34
Other professional fees	98	90
Scheme levies	95	173
Trustee fees and expenses	36	20
Bank charges	1	1
	605	626

The administration and management of the Scheme is provided by the Principal Employer. These costs are charged to the Scheme.

#### 7. Investment income

	2018 £000	2017 £000
Interest on cash deposits	7	-

## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 8. Investments

	Opening value at 1 Jan 2018	Purchases at cost	Sales proceeds	Change in market value	Closing value at 31 Dec 2018
	£000	£000	£000	£000	£000
Pooled investment vehicles	264,054	171,138	(184,724)	(8,337)	242,131
AVCs	1,883	-	(198)	-	1,685
	<u>265,937</u>	<u>171,138</u>	<u>(184,922)</u>	<u>(8,337)</u>	<u>243,816</u>
Total net investments	<u>265,937</u>				<u>243,816</u>

Included in the purchases and sales figures above are £149,581 in relation to switches of holdings between funds.

The companies managing the pooled fund investments are registered in the United Kingdom except for Morgan Stanley which is registered in Luxembourg.

#### 9. Investment management expenses

	2018 £000	2017 £000
Administration and management fees	502	491
Management fee rebates	(33)	(195)
Consultancy fees	120	137
	<u>589</u>	<u>433</u>

#### 10. Transaction Costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds in the reconciliation in note 8. Transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

In addition to the direct transaction costs, indirect costs are incurred through the bid-offer spread on pooled investment vehicles. It is not possible for the Trustee to quantify these indirect costs.

## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 11. Pooled investment vehicles

	2018 £000	2017 £000
Bond funds	130,642	113,101
Equity funds	111,489	150,953
	<u>242,131</u>	<u>264,054</u>

#### 12. AVC Investments

	2018 £000	2017 £000
Equitable Life	14	27
Aviva	1,634	1,798
Royal London	37	58
	<u>1,685</u>	<u>1,883</u>

The Trustee holds assets which are separately invested from the main Scheme to secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 December each year confirming the amounts held to their account and movements during the year.

The total amount of AVC investments at the year end is shown above.

## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 13. Fair value of investments

FRS102 requires for each class of financial instrument an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Level 1: The unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability either directly or indirectly;

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

	Level 1 £000	Level 2 £000	Level 3 £000	2018 Total £000
<b>Investment assets</b>				
Pooled investment vehicles	46,028	196,103	-	242,131
AVC investments	-	-	1,685	1,685
	46,028	196,103	1,685	243,816

	Level 1 £000	Level 2 £000	Level 3 £000	2017 Total £000
<b>Investment assets</b>				
Pooled investment vehicles	58,740	205,314	-	264,054
AVC investments	-	-	1,883	1,883
	58,740	205,314	1,883	265,937

## THE BRUSH GROUP (2013) PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 14. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks.

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

**Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

**Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

**Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

#### Risk management structure

The Trustee is responsible for identifying and managing risks, including risks arising from the investment activities.

The Trustee has appointed investment managers to manage the investments of the Scheme under agreed mandates. The Trustee requires the investment managers to operate within agreed constraints, parameters, benchmarks and risk tolerance levels (as set out within the pooled fund governing documentation or in an Investment Management Agreement where applicable).

The Trustee reviews the performance of each investment manager against the agreed performance objectives.

#### Risk measurement and reporting

The Trustee monitors the Scheme's risks periodically with appropriate reference to potential losses.

The Trustee measures risks both qualitatively and quantitatively.

The Trustee monitors and measures the overall risk in relation to the aggregate risk exposure across all risk types and activities, including employer covenant and funding risks.

# THE BRUSH GROUP (2013) PENSION SCHEME

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 14. Investment risks (continued)

#### Risk mitigation

The Trustee has appointed an investment advisor to assist it in determining and implementing the investment strategy for the Scheme.

The Trustee acknowledges that the investment managers may use derivatives and other instruments for trading purposes in connection with its risk management activities. The Scheme has indirect exposure to derivatives through the pooled funds in its LDI portfolio, through the Diversified Growth Funds managed by Insight and Invesco and through the currency hedging carried out by LGIM and Morgan Stanley within their global equity funds.

#### Credit risk

##### Direct Credit Risk

The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the pooled investment vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of the investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled managers.

##### Indirect Credit Risk

The Scheme's assets include pooled diversified growth funds managed by Insight and Invesco. These investments include exposure to credit risk in an effort to generate returns.

The Scheme also has an allocation to LGIM's pooled Matching Plus LDI funds and Sterling Liquidity Fund. The Scheme is therefore indirectly exposed to credit risk through the underlying derivative contracts held within the pooled LDI investment vehicles. This risk is mitigated by the fund manager through the collateralisation process operated within the pooled LDI funds. There is no direct link between the Scheme and the counterparties the investment managers trade with on behalf of the Scheme. Exposure to credit risk within the liquidity fund is mitigated by the fund investing in a diverse range of high quality investment-grade money market instruments.

The Trustee mitigates indirect credit risks as follows:

- By investing in pooled funds containing an appropriate degree of diversification
- By investing in pooled funds that have appropriate benchmarks and investment restrictions
- By regularly reviewing the investment manager's performance.

## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 14. Investment risks (continued)

##### Credit quality of financial assets

As at 31 December 2017 and 31 December 2018, the Scheme's assets subject indirectly to credit risk were primarily:

	31 December 2018 £000	31 December 2017 £000
Insight – Broad Opportunities Fund	20,837	23,664
Invesco – Global Targeted Returns Pension Fund	21,475	22,288
LGIM – Matching Plus LDI	123,961	113,101
Newton Real Return Fund	-	22,271
<b>Total</b>	<b>166,273</b>	<b>181,324</b>

The amount in LGIM – Matching Plus LDI has been updated from £137,091k to £113,101k in 2017 figures, as the Investment Team does not believe that LGIM – All World Equity Index (GBP) should be included under Matching Plus LDI.

##### Indirect Currency risk

The Scheme is subject to currency risk to the extent that the pooled funds in which it invests purchase assets denominated in currencies other than Sterling without hedging the currency risk. All of the Scheme's pooled investments in equities and diversified growth funds are likely to be subject to currency risk.

The Scheme is invested in the LGIM All World Equity Index Fund. To mitigate currency risk the Trustee invested in a currency hedged share class. The Morgan Stanley share class is also hedged from US Dollars to Sterling.

While the mandate for Majedie is to invest in UK equities, the fund also has limited discretion to invest in overseas markets. The multi-asset managers (Insight and Invesco) can also invest in non-Sterling denominated stocks at their discretion.

The fund managers will decide whether or not to hedge the currency risks associated with any non-Sterling denominated investments and may take currency positions as part of their strategy to generate investment returns.

The Scheme's investments in pooled equity funds and diversified growth funds as at 31 December 2017 and 31 December 2018 were:

##### Exposure to currency risk

	31 December 2018 £000	31 December 2017 £000
Majedie – UK equities	23,238	28,121
Morgan Stanley – Global equities	22,790	30,618
LGIM – All World Equity Index (GBP)	23,150	23,991
Insight – Broad Opportunities Fund	20,837	23,664
Invesco – Global Targeted Returns Pension	21,475	22,288
Newton Real Return Fund	-	22,271
<b>Total</b>	<b>111,490</b>	<b>150,953</b>



## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 14. Investment risks (continued)

##### Indirect Interest rate risk

The Scheme is subject to interest rate risk on the LDI portfolio, comprising leveraged gilt and swap funds held through pooled investment vehicles.

The principal purpose of the LDI portfolio is to match movements in the value of the liabilities due to changes in interest rates. Under this strategy, if interest rates fall, the value of these investments will rise in a similar manner to the increase in the pension liabilities.

The Scheme's primary exposure to interest rates as at 31 December was:

##### Exposure to interest rate risk

	31 December 2018 £000	31 December 2017 £000
LGIM – Matching Plus LDI	123,961	113,101
<b>Total</b>	<b>123,961</b>	<b>113,101</b>

##### Other price risk

Other price risk arises in relation to all of the Scheme's invested assets. The Scheme manages this exposure by constructing a diverse portfolio of investments across various asset classes and markets.

The Scheme's exposure to other price risk as at 31 December 2017 and 31 December 2018 was:

##### Exposure to other price risk

	31 December 2018 £000	31 December 2017 £000
<b>Indirect</b>		
Majedie – UK Equities	23,238	28,121
Morgan Stanley – Global equities	22,790	30,618
LGIM – All World Equity Index (GBP Hedged)	23,150	23,991
Insight – Broad Opportunities Fund	20,837	23,664
Invesco – Global Targeted Returns Pension Fund	21,475	22,288
LGIM – Matching Plus LDI	123,961	113,101
LGIM – Sterling Liquidity Fund	6,680	-
Newton Real Return Fund	-	22,271
<b>Total</b>	<b>242,131</b>	<b>264,054</b>

Within the exposure to other price risk table there has been an additional fund in the year - LGIM – Matching Plus LDI. The Investment Team changed their approach this year to include all assets (within all of the Scheme's assets, there is a risk of the fair value fluctuating).

## THE BRUSH GROUP (2013) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 15. Concentration of investments

The following investments, excluding UK Government securities, account for more than 5% of the Scheme net assets as at 31 December 2018.

	2018 Value £000	%	2017 Value £000	%
Majedie UK Equity Fund	23,238	9	28,121	11
L&G GPBF - All World Eqty Indx GBP Hedged	23,150	9	23,990	9
Morgan Stanley Global Brands Fund	22,790	9	30,618	12
Invesco Perpetual Global Targeted Returns Pension Fund 7	21,475	9	22,288	8
Insight Broad Opportunities Fund	20,837	9	23,664	9
L&G NF – 2042 Gilt	13,909	6	-	-
L&G VH - 2049 Gilt	12,972	5	-	-
Newton Real Return Fund Exempt Shares 2 (Acc)	-	-	22,271	8
L&G FAAR-2060 Leveraged Gilt Fund	-	-	21,935	8
L&G FAAN-2049 Leveraged Gilt Fund	-	-	21,489	8

#### 16. Current assets

	2018 £000	2017 £000
Prepayments	234	213
Bank	1,582	11
Sundry debtors	4	4
Due from employer	-	7
	1,820	235

#### 17. Current liabilities

	2018 £000	2017 £000
Accrued expenses	509	619
Accrued benefits	136	-
	645	619

## THE BRUSH GROUP (2013) PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 18. Employer related investments

There were no direct employer related investments during the year. The Trustee recognises that indirect investment in the employer's parent company is possible through holdings in pooled investment vehicles. Based on information provided by the investment managers, the Trustee believes that any indirect exposure to shares in the employer has not exceeded 0.1% of the Scheme assets at any time during the year.

#### 19. Related Party Transactions

Any benefits paid in respect of Trustee Directors who are members of the Scheme have been made in accordance with the Trust Deed and Rules (please see note 6).

The principal employer is considered to be a related party. The principal employer recharges the Scheme for costs.

The Employer is reimbursed by the Scheme for expenses incurred in the maintaining of the Scheme during the year. The amount of reimbursement of expenses was £690,005 (2017: 806,147).

Two of the Trustee Directors on page 1 are members of the Scheme and like any other member they are thus eligible for benefits in accordance with the Scheme Rules.

#### 20. Contingent assets and liabilities

In the opinion of the Trustee, the Scheme had no contingent liabilities or assets as at 31 December 2018 (2017: £nil).

#### GMP Equalisation

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

## THE BRUSH GROUP (2013) PENSION SCHEME

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### INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2018

#### **Independent Auditor's Statement about Contributions to the Trustee of The Brush Group (2013) Pension Scheme**

We have examined the summary of contributions to The Brush Group (2013) Pension Scheme for the Scheme year ended 31 December 2018 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 December 2018 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 22 January 2015 and 9 January 2018.

#### **Scope of work on Statement about Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions on page 35 have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the Schedules of Contributions.

#### **Respective responsibilities of Trustee and the auditor**

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

#### **Use of our statement**

This statement is made solely to the Scheme's Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or the opinions we have formed.

**Ernst & Young LLP**  
Statutory Auditor  
Reading

Date:

## THE BRUSH GROUP (2013) PENSION SCHEME

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### SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2018

During the year ended 31 December 2018 the contributions payable to the Scheme were as follows:

	<b>2018 £000</b>
<b>Contributions required by the Schedule of Contributions</b>	
Employer's Contributions - deficit funding	-
<b>Total</b>	<u>-</u>

approved by the Trustee and signed on its behalf:

Trustee Director:

Trustee Director:

Date:

## THE BRUSH GROUP (2013) PENSION SCHEME

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### ACTUARIAL STATEMENTS

#### ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

Name of scheme: Brush Group (2013) Pension Scheme

#### Adequacy of rates of contributions

1. I certify that, in my opinion the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 December 2016 to be met by the end of the period specified in the recovery plan dated 18 December 2017.

#### Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles effective from 18 December 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

Signature: ALKA SHAH

Date: 9 January 2018

Name: Alka Shah

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2QD

Name of employer: Aon Hewitt Limited