

Registered number: 12007217

**THE BRUSH GROUP (2013) PENSION SCHEME
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2020**

THE BRUSH GROUP (2013) PENSION SCHEME

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TRUSTEE AND ITS ADVISERS YEAR ENDED 31 DECEMBER 2020

Trustee	Brush Scheme Trustees Limited
Company-Appointed Directors	G Barnes B Hewitson G Morgan
Member-Nominated Directors	G Dallard G Peters A Pidgeon
Independent Directors	A McKinnon, Independent Chairman
Principal Employer	Brush Electrical Machines Limited
Secretary to the Trustee	I Emery Aon Solutions UK Limited (previously Aon Hewitt Limited) Colmore Gate 2 Colmore Row Birmingham B3 2QD
Actuary	A Shah, FIA Aon Solutions UK Limited (previously Aon Hewitt Limited)
Administrator	Aon Solutions UK Limited (previously Aon Hewitt Limited)
Independent Auditor	Ernst & Young LLP
Banker	Bank of Scotland plc
Investment Managers	Legal & General Assurance (Pensions Management) Limited ('LGIM') Majedie Asset Management Limited ('Majedie') (disinvested 20 January 2020) Morgan Stanley Investments ('Morgan Stanley') Insight Investment ('Insight') Invesco Asset Management Limited ('Invesco')
AVC Providers	Utmost Life and Pensions Limited ('Utmost') Aviva plc ('Aviva') Royal London Group ('Royal London')
Legal Adviser	Squire Patton Boggs (UK) LLP
Contact Details	The Brush Group (2013) Pension Scheme Aon Solutions UK Limited Colmore Gate 2 Colmore Row Birmingham B3 2QD brushpensions@aon.com 0345 268 8475

THE BRUSH GROUP (2013) PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

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 2020.

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 Solutions UK Limited in accordance with the establishing document and Rules solely for the benefit of its members and other beneficiaries.

The Scheme came into existence during 2013 following the demerger of the FKI Group Pension Scheme. The Definitive Deed was signed on 4 April 2013. A Deed of Amendment was subsequently signed on 27 June 2013 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.

The Trustee Directors are shown on page 1.

Under the Trust Deed and Rules of the Scheme, Trustee Directors are appointed and may be removed by the Principal Employer.

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 Directors ('MNDs') are elected from the membership.

The Trustee Board is comprised of seven Directors, made up of one Independent Director, three Company Appointed Directors and three Member-Nominated Directors.

A Trustee Director can choose to retire from office at any time. A Member-Nominated Director can only be removed with the agreement of all other Trustee Directors. Company Appointed Directors are removed by the Principal Employer.

The Trustee Directors have appointed professional advisers and other organisations to support them in delivering the Scheme's objectives. These individuals and organisations are listed on page 1. The Trustee Directors have written agreements in place with each of them.

Trustee meetings

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

Scheme changes

There were no changes to the Scheme in the year.

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.

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Membership

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

	Deferreds	Pensioners	Total
Members at the start of the year	953	509	1,462
Adjustment to members	(5)	6	1
New spouses	-	3	3
Retirements	(44)	44	-
Deaths	(3)	(3)	(6)
Transfers out	(15)	-	(15)
Members at the end of the year	<u>886</u>	<u>559</u>	<u>1445</u>

Pensioners include 17 (2019: 14) individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 3 (2019: 3) child 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 to members shown above are the result of retrospective updating of member records.

Pension increases

Pensions in payment in excess of the Guaranteed Minimum Pension ('GMP') were increased on 1 May 2020 by 3.0% for both pensions earned prior to 6 April 1997 and for pension earned after 6 April 1997.

There were no discretionary pension increases in the year.

Deferred benefits are increased in line with legislation and the Scheme Rules.

Transfers

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary increases.

Transfers into the Scheme are not allowed.

Contributions

The Trustee and the Employer have agreed that no deficit reduction contribution will be paid to the Scheme following the results of the actuarial valuation as at 31 December 2019.

The expenses of administering the Scheme (including the Pension Protection Fund Levy) are met directly by the Employer, with the Scheme then reimbursing the Employer.

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Going concern and COVID-19

The Trustee Directors receive a covenant update from the employer at each Trustee meeting. Recent updates have shown that the business has weathered the pandemic well and now has a full order book. This is borne out in Melrose's recent annual results announcement which gives the following outlook for the business:

- "Brush is now a profitable, cash generative business. Having demonstrated that it is more agile than ever before, it has secured a positive order backlog stretching well into 2021 and beyond, and firm foundations for improvement based upon a more diversified customer portfolio across a broad range of traditional and emerging end-markets."

The Trustee reduced the Scheme's equity exposure in January 2020 to below 20% of the assets and increased the level of interest rate hedging in response to the improved funding position. This meant that the Scheme ended 2020 in a better funding position than at the start of the year, despite the market turmoil caused by the pandemic. The latest estimates show that the funding level at the end of February 2021 was around 102% on the technical provisions basis.

The Scheme now holds about 2/3rds of its assets in matching assets with interest and inflation exposures fully hedged. In addition, the Scheme holds about 15% of its assets in diversifiers which provide further protection against market volatility. Even at the height of the pandemic, the funding level was estimated to have only fallen to around 95%.

Taking all these factors into consideration, in particular the improved funding position of the Scheme, the low risk investment strategy and the favourable covenant position, the Trustee Directors consider that the Scheme remains a going concern for the foreseeable future.

The Scheme's administrator, Aon Solutions UK Limited, has a business continuity plan that is tested at regular intervals and updated periodically.

The Trustee Directors continue to monitor the operational impact of the developments and has no significant concerns regarding the Scheme's ongoing ability to fulfil its operational, cashflow or benefit payment requirements.

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Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ('FRS 102'), the financial statements do not include liabilities in respect of promised retirement benefits.

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 Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2019 and revealed:

The value of the technical provisions was: £276.0 million

The value of the assets at that date was: £277.7 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 0.75% p.a.

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's prevailing best estimate of the difference between RPI and CPI inflation. As at 31 December 2019 this difference was 0.9% 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 2018 core projections with parameters $Sk=7.0$ and $A=0.5\%$, subject to a long-term rate of improvement of 1.5% p.a.

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Investment matters

As required by Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles ('SIP'). A copy of the SIP can be found on the Scheme's website at <https://www.brushpensions.co.uk/pdf/bru-brush-sip-2020-08.pdf> and is available on request from the Secretary to the Trustee.

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 environmental, social and governance ('ESG') factors for investments (including but not limited to climate change) and has delegated to the investment managers the responsibility for taking these considerations into account when assessing the financial potential and suitability of an investment and for exercising the rights (including voting 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 Trustee has not appointed a custodian to the Scheme as the investment managers appoint a custodian for the assets underlying the investments they manage for the Trustee. The Custodians appointed by the investment managers are shown below:

Managers	Custodians
Legal & General Assurance (Pensions Management) Limited	HSBC Bank Plc and Citibank
Majedie Asset Management Limited	The Bank of New York Mellon (International) Limited
Morgan Stanley Investments	J.P. Morgan Bank Luxembourg S.A.
Insight Investments	State Street Custodial Services (Ireland) Limited
Invesco Perpetual Life Limited	The Bank of New York Mellon (International) Limited

The Custodians are responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Investments are held in the name of the Custodians' nominee company, in line with common practice for pension scheme investments.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and believe them to be appropriate relative to the reasons for holding each class of investments.

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Investment report

Performance

Total Scheme Performance to 31 December 2020 (p.a.)		
1 Year	3 Years	5 Years
15.3%	9.8%	12.6%

Source: Aon/Fund Managers.

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 have 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 allocation

	Target weighting (%)	Actual allocation	Benchmark Index
Active Equity	9.0	31,851	
Morgan Stanley – Global Brands Fund - Unconstrained	7.0 – 11.0	31,851	MSCI World NDR (USD)
Passive Equity	9.0	32,456	FTSE All World Index – GBP Hedged
LGIM – All World Equity Index (GBP Hedged)	7.0 – 11.0	32,456	
Diversified Growth Funds	15.0	45,380	
Insight – Broad Opportunities Fund	5.5 – 9.5	23,380	Sterling 3 Month LIBID
Invesco – Global Targeted Returns Pension Fund	5.5 – 9.5	22,000	Sterling 3 Month LIBOR
Liability Driven Investment (LDI) Funds	67.0	199,276	
LGIM – Matching Plus LDI Pooled Funds (including LGIM – Sterling Liquidity Fund)	62.0 – 72.0	199,276	Typical scheme liability profile benchmark
Total	100.0	308,963	

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TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Investment report (continued)

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.

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These risks include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Market background: 12 Months to December 2020

General background

The global pandemic over 2020 resulted in the shutdown of economies and caused severe disruption in global markets. The initial lockdowns drove developed economies into a deep recession over the first half of 2020. Whilst the relaxation of lockdown measures resulted in a sharp economic rebound over Q3, a second wave outbreak amidst the onset of winter dampened economic activities over Q4. Despite the havoc caused by the outbreak of the coronavirus over the year, the MSCI AC World Index rose by 14.2% in local currency terms over the past twelve months and returned 12.7% in sterling terms. Global equities rebounded sharply on the back of huge fiscal and monetary stimulus, which led to investor willingness to overlook the worst economic recession in generations.

Global equities suffered its worst quarter since the 2008 Global Financial Crisis over the first quarter, returning -20.0% in local currency terms due to the virus outbreak. However, global risk markets rebounded strongly over the next three quarters of 2020 with the MSCI AC World Index increasing by 42.7% in local currency terms and 34.1% in sterling terms.

Global equities were further boosted in Q4 by optimism over Covid-19 vaccine roll-outs despite surging Covid-19 cases and deaths. Heightened political uncertainty around November's presidential election was a drag on risk sentiment, but increased expectations of expanded fiscal spending following Joe Biden's victory boosted markets. Meanwhile, fears of a chaotic end to the Brexit transition period faded after the eventual confirmation of a trade deal between the UK and the EU towards the end of December.

US equities posted the strongest return over the year helped by their high exposure to large technology companies. On a global sector level, Information Technology (43.5%) and Consumer Discretionary (34.6%) were the best performers in local currency terms. These sectors were bolstered by coronavirus-driven lockdowns. Energy (-28.8%) was the worst-performing sector as the oil price fell, followed by Real Estate (-7.8%) and Financials (-5.6%). Both the Energy and Financial sectors recouped some of their earlier losses in Q4 2020.

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Investment report (continued)

General background (continued)

The US Federal Reserve (Fed) announced two emergency rate cuts in Q1 2020 in response to the severe economic impacts of Covid-19, lowering the Fed Funds Rate target to 0.00%-0.25%. The Fed also relaunched its quantitative easing programme, pledging to buy potentially unlimited amounts of treasuries, corporate bonds and other credit assets. In Q2 2020, the Fed also began buying individual corporate bonds directly from the secondary market for the first time. The Fed announced a major policy shift in Q3 2020 by adopting an "average inflation targeting" approach which implies a higher tolerance towards inflation before tightening monetary policy in order to make up for below-target inflation in recent years. In Q4 2020, the Fed announced that it will continue to buy \$120bn of debt per month until "substantial further progress has been made" towards its employment and inflation targets.

Following the Fed's lead, the Bank of England (BoE) cut its base rate by 65bps to an all-time low of 0.10% in Q1 2020. In Q3 2020, the BoE reported in its meeting minutes that it is examining how negative interest rates could be implemented effectively should this be required. However, deputy governor Dave Ramsden later suggested that the current base rate represented the "effective lower bound" for interest rates.

Meanwhile, the European Central Bank (ECB) kept interest rates unchanged in Q1 2020. The ECB introduced a Pandemic Emergency Purchase Programme worth €1.85tn which will continue until March 2022. In late 2020, the European Union (EU) also passed the bloc's €1.8tn budget and recovery package.

After years of negotiations, the UK and the European Union (EU) reached a historic Brexit trade deal. The deal was reached after issues including EU fishing rights in UK waters and fair competition rules were agreed. The deal allows most goods to be traded between the UK and the EU without tariffs or quotas. Meanwhile, EU fishing rights in UK waters will be reduced by one-quarter over a five and a half-year transition period, after which access will depend on annual negotiations. Spain and the UK also agreed to keep the land border between the British overseas territory of Gibraltar and Spain open.

Sterling ended the twelve-month period 2% lower on a trade-weighted basis. Sterling depreciated in the first two quarters of 2020 due to the deteriorating UK coronavirus situation, Brexit uncertainty and a poor economic outlook. However, in Q3 2020, the sterling exchange rate against the US dollar appreciated, benefiting from a weak US dollar. Sterling continued to more broadly appreciate in Q4 2020 in the anticipation that a deal would be reached. Continued improvement in global risk sentiment due to the discovery and approval of multiple Covid-19 vaccines also supported the pound.

Brent crude oil prices fell by 21.5% over the last twelve months to \$52/BBL. Over Q1 2020, oil prices fell by 65.5% in USD terms as demand for fuel fell due to weaker demand as a result of Covid-19 and a glut in supply amidst a price war between Russia and Saudi Arabia. However, oil prices recovered in Q2 2020, rising by 81.0% supported by record-setting production cuts by OPEC+ and the easing of lockdown measures in major economies. Optimism over vaccines approval and the start of vaccinations supported oil prices later in the year too. even though OPEC and Russia agreed to increase oil production by 500,000 barrels per day from January 2021. OPEC also cut its forecast for 2021 growth in oil demand citing continued virus uncertainty and weak labour markets.

UK gilt yields fell in tandem with global government bond yields in the first half of 2020 as monetary easing measures by major central banks took developed economy interest rates to near zero. Increased demand for government bonds from investors seeking "safe haven" assets amidst the equity market sell-off and uncertain economic outlook kept further downward pressure on yields. However, later in Q3, UK gilt yields started to edge up across maturities as global risk sentiment improved on the back of optimism over a vaccine solution to the virus and better economic data. Global inflation expectations rose particularly in the US on the back of liquidity expansion, growth optimism and the shift in Fed strategy. However, upward pressure in bond yields was countered in the UK as Brexit uncertainty and new lockdowns drove increased expectations of a BOE rate cut to negative levels. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 8.3% whilst index-linked gilts returned 11.0% over the last twelve months.

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TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Investment report (continued)

General background (continued)

UK investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 15bps lower at 108bps. However, credit spreads widened sharply, reaching their highest level since 2012, in Q1 2020 on concern over future corporate earnings and existing corporate leverage. Spreads reversed substantially over the rest of the year as corporate bonds benefited from an improvement in liquidity and investor sentiment on the back of easy fiscal and monetary policy and direct central bank purchases in the US and Europe. Vaccine news provided a further boost to credit assets at the end of the year.

UK commercial property returned -1.0% over the period as the income return of 5.6% failed to offset the 6.3% fall in capital values. The coronavirus outbreak intensified pressure on the already struggling retail sector, delivering the worse sector return of -10.8% over the last twelve months. The office sector returned -0.9% over the year, whilst industrials outperformed with a return of 8.7%.

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Engagement Policy Implementation Statement ('EPIS')

The Scheme stewardship policy

The Trustee's stewardship policy was expanded in August 2020 and is set out in the Statement of Investment Principles (SIP). The latest Scheme SIP can be found at this website:
<https://www.brushpensions.co.uk/pdf/bru-brush-sip-2020-08.pdf>

Through this report, the Trustee reviews how the actions of its asset managers have aligned with its expectations and principles set out in the SIP. The Trustee will set out where they expect more information or engagement to be undertaken by its managers.

Scheme activity over the year

The Trustee reviews quarterly investment reports prepared by the investment consultant. These reports include performance information and amongst other analysis, "ESG" ratings of the managers used by the Scheme.

These ESG ratings reflect analysis carried out by the investment consultant that assesses the Scheme's investment managers on their quality of ESG integration as well as the features and impact of their respective Stewardship programs. The Scheme's managers are all "Buy rated" by Aon and the Trustee expects Aon to communicate any material issues as part of their ongoing monitoring.

Aon's manager research team engage on behalf of the Scheme (and all their clients) with Buy-rated strategies regularly on a variety of ESG issues.

During the year, the Trustee discussed its approach to ESG risks and its stewardship policy and updated their SIP to include revisions to reflect this.

Voting and engagement – equity and diversified growth funds

Over the year, the Scheme was invested in the following funds:

Manager	Fund Name
Majedie*	UK Equity Fund
Morgan Stanley Investment Management "MSIM"	Global Brands Fund
Legal & General Investment Management "LGIM"	All World Equity Index GBP Hedged
Invesco	Global Target Returns Pension Fund
Insight Investment	Insight Broad Opportunities Fund

*The Trustee disinvested from this fund on the 20 January 2020 and due to the short time period of the investment has not been covered in this statement.

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TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Engagement Policy Implementation Statement ('EPIS') (continued)

Morgan Stanley

Voting approach

MSIM receives proxy voting research from the Institutional Shareholder Services (ISS) and Glass Lewis. The ISS voting platform is used but votes are cast by MSIM employees. MSIM Affiliates will vote proxies in a prudent and diligent manner and in the best interests of clients, including beneficiaries of and participants in a client's benefit plan(s) for which the MSIM Affiliates manage assets, consistent with the objective of maximizing long-term investment returns.

Over the year to 31 December 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
% resolutions voted	100%	100%	100%	100%
% of meetings where resolutions voted against management	12%	8%	17%	8%
% resolutions abstained	0%	0%	0%	0%

An example of a significant vote is MSIM voting against management of Reckitt Benckiser Group in May 2020. The proposal was seeking approval on the remuneration report. MSIM stated it had concerns over the company's short term and long-term performance metrics and will continue to engage with the company on this topic. This vote was deemed significant on the basis that it is a vote against management's recommendation.

Engagement approach

MGIM conduct analysis of the material ESG factors relevant to their companies, utilising proprietary tools, which enables them to determine subjects for engagement. Their ESG engagements have three key purposes: the assessment of materiality of specific ESG issues relevant to companies, and their strategies to address these issues; monitoring companies' progress; and influencing companies towards better practices. Potential ESG engagement topics are discussed and agreed at the investment team's quarterly engagement meeting.

In October 2020, Morgan Stanley engaged with Procter & Gamble regarding the improvement of their disclosures on deforestation and actions being taken to eliminate it. MSIM engage on ESG issues they believe to be potentially material for their companies' sustainability of returns on operating capital. Engagement and evaluation of a company's management informs MSIM's view of the quality of a stock. MSIM discussed the company's targets regarding sustainable wood pulp and palm oil sourcing, and the initiatives it has in place to meet them. MSIM voted for the shareholder resolution to improve disclosure around deforestation actions and actions to eliminate it and will continue to engage on this subject.

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Engagement Policy Implementation Statement ('EPIS') (continued)

LGIM

Voting approach

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.

Over the year to 31 December 2020	1 January 2020 – 31 December 2020
% resolutions voted	99.42%
% of meetings where resolutions voted against management	15.59%
% resolutions abstained	0.84%

LGIM have reported that there were no significant votes made in relation to the securities held by the LGIM All World Equity Index GBP Hedged over the year to 31 December 2020. This seems to be a reporting anomaly, given there were 73,595 resolutions that the fund was eligible to vote on over the year. The investment adviser, on behalf of the Trustee will raise this feedback with LGIM to better understand the reasons and encourage more disclosure or stewardship activity as appropriate.

Example of a significant vote from the quarterly report: The Procter and Gamble Company

LGIM have started producing quarterly stewardship reports, an example of a significant vote at a manager level is LGIM voting in favour of a resolution at The Procter and Gamble Company (P&G) on 13 October 2020 to report on effort to eliminate deforestation.

More detail on this significant vote and others can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement approach

LGIM does not outsource its engagement activities. It has a six-step approach to engagement activities which includes:

1. Identifying the most material issues and focus on specific ESG themes they are able to address.
2. Identify and set long-term goals for the engagement, which often may take many years to occur.
3. Formulate an engagement strategy, including prioritising engagement in companies where they have the biggest holdings, which poses the greatest risk and opportunities to market performance.
4. Track progress of the engagement activity to assist evaluation of stewardship approaches and performance.
5. Regularly reviewing the progress, impact and success of engagement and amend the engagement strategy if required.
6. Consistent and regular reporting to clients on the engagement outcomes and detailing case studies.

LGIM's engagement policy aims to encourage companies to adopt sustainable business models. Engagement at LGIM covers governance in its broadest sense looking at all material issues including regulation, listing rules, mergers and acquisitions, corporate strategy, and capital and financial management. LGIM's top five engagement topics with companies are on climate change, remuneration, diversity, board composition and strategy

LGIM is currently working on reporting developments that should allow it to provide more targeted strategy level engagement information.

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Engagement Policy Implementation Statement ('EPIS') (continued)

However, this is not due to be available before 2021. As a result, LGIM is unable to provide information about engagement at an individual fund level and therefore provided the above information at the aggregate firm level.

Invesco

After contacting the fund manager in regard to the Global Targeted Returns Pension Fund, the manager was only able to provide information at a manager level rather than strategic.

Voting approach

Invesco views proxy voting as an integral part of its investment management responsibilities. The proxy voting process at Invesco focuses on protecting clients' rights and promoting governance structures and practices that reinforce the accountability of corporate management and boards of directors to shareholders. Voting matters are assessed on a case-by-case basis by Invesco's respective investment professionals considering the unique circumstances affecting companies, regional best practices and their goal of maximizing long-term value creation for our clients.

Invesco do not use any service providers on their behalf; however, they supplement their internal research with information from proxy advisory firms such as ISS, Glass Lewis and the Investment association IVIS. Despite this, Invesco generally retains full and independent discretion with respect to proxy voting decisions.

Over the year to 31 December 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
% resolutions voted	96%	97%	98%	98%
% of meetings where resolutions voted against management	6%	6%	5%	5%
% resolutions abstained	0%	1%	1%	0%

Voting example – Aercap Holdings NC

In April 2020, Invesco cast a significant vote in support for management regarding Capitalization. The company wanted to authorize the board to exclude pre-emptive rights from share issuances. Invesco believed a vote for this proposal was warranted since it is in line with commonly used safeguards regarding volume and duration. This was classified as a significant vote since the company has greater than 1% Invesco Ownership and it includes a key ESG proposal.

Engagement approach

Invesco mirror 6 physical securities portfolios of their Invesco fund manager colleagues, via segregated sleeves specifically for Global Targeted Returns, in order to prioritise their company engagements. Invesco replicate any engagement undertaken by proxy by the respective teams of the portfolio.

In October 2020, Invesco engaged with National Grid. National Grid reached out to Invesco to invite them to attend their 2020 ESG seminar, which was the launch event for their 2021 ESG Programme. During the webinar, National Grid outlined their ESG strategy, and the key role they will play in facilitating the electrification of carbon-intensive industries and products such as automobiles. They outlined their carbon reduction targets, which include a 2050 net-zero target as well announcing on the webinar an interim scope 3 reduction target for 2030. They also announced social objectives they are working on, including getting more women into science, technology, engineering and mathematics (STEM) from a young age. Following the webinar, Invesco provided feedback to National Grid that although the overall vision set out is very strong, more clarity is needed about how their gas business can be decarbonised and the feasibility of proposed solutions such as renewable natural gas (RNG) or hydrogen blending.

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TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Engagement Policy Implementation Statement ('EPIS') (continued)

Insight Investment

Voting approach

Insight uses Minerva Analytics as a service provider. Insight retains the services of Minerva Analytics (Minerva) for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of market, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote.

Insight have not disclosed any significant voting examples but have stated they invest in listed closed – end investment companies with a focus on cash generative investments in social infrastructure, renewable energy and asset-backed aviation finance. Insight have minimal voting activities which explains the reduced disclosure in such information.

Engagement approach

Through the Fund's holdings in infrastructure, Insight have engaged with management and company boards to discuss governance, strategy and other relevant issues.

Insight have found attractive investment opportunities in energy generation from renewable sources. Their strategy's renewable energy holdings provide an important source of potential returns with underlying portfolio exposures to operational investments in mature renewable technologies including wind, solar, hydropower and anaerobic digestion. The strategy's exposure to renewable energy helps to power an increasing number of homes with clean energy, avoid CO2 emissions and support local communities. Moreover, some portfolio holdings assist with waste recycling, reducing landfill and treating water resources. Insight are also working towards a transparency report which would highlight the strategy's ESG scores implied from their indirect market exposures. The report is expected to be available in the near future.

Insight produce a detailed annual report on responsible investment covering examples of their collaboration, engagement and ESG integration. More information can be found here:

<https://www.insightinvestment.com/globalassets/documents/responsible-investment/responsible-investment-reports/uk-responsible-horizons-report-2020.pdf>

Summary

Overall, the Trustee is of the opinion that the stewardship carried out on behalf of the Scheme is adequate. The Trustee notes examples of the willingness and ability of Morgan Stanley and LGIM to take proactive votes against management where appropriate. Having said that, the Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

The Trustee expects more willingness to disclose more information from Insight in particular as it recognises the lack of examples and voting statistics.

THE BRUSH GROUP (2013) PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

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.

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 Solutions UK Limited at the contact details on page 1 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.

Aon Solutions UK 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 statements on the operation of the Scheme. Aon Solutions UK Limited processes personal data in the context of providing pension scheme administration services on behalf of the Trustee, the data controller. Aon Solutions UK Limited, when operating in its capacity as a data processor who provides the members of the Scheme with pension scheme administration 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 statements are informed of the processing activities in accordance with the requirements of the applicable data protection legislation.

THE BRUSH GROUP (2013) PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Compliance matters

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 Principal Employer and the members qualify for full tax relief, and enables income earned from investments by the Trustee to receive preferential tax treatment.

Pension Tracing

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

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

0800 731 0193
www.gov.uk/find-pension-contact-details

The Pensions Regulator

The Pensions Regulator ('TPR') is the United Kingdom ('UK') regulator of work-based pension schemes.

TPR's role is to act to protect the interest of pension scheme members and to enforce the law as it applies to occupational pensions.

The regulations set out clearly the areas that TPR covers and the powers that are vested in it. For example, TPR can prohibit or disqualify Trustees for acting unlawfully, and can impose fines on wrong doers.

TPR can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

0345 600 1011
customersupport@tpr.gov.uk
www.thepensionsregulator.gov.uk

THE BRUSH GROUP (2013) PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Compliance matters (continued)

The Pension Protection Fund

The Pension Protection Fund was established to provide compensation to members of eligible pension schemes, when there is a qualifying insolvency event in relation to the Employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

The Pension Protection Fund can be contacted at:

PPF Member Services
Pension Protection Fund
PO Box 254
Wymondham
NR18 8DN

0330 123 2222
ppfmembers@ppf.co.uk
www.ppf.co.uk

Questions about pensions

If you have any questions about your pension, The Pensions Advisory Service ('TPAS'), which is part of the Money and Pensions Service, provides professional, independent and impartial help with pensions for free. Services include independent information and general guidance on pension matters.

TPAS can be contacted at:

Money and Pensions Service
120 Holborn
London
EC1N 2TD

0800 011 3797
www.pensionsadvisoryservice.org.uk

Resolving difficulties / Internal Dispute Resolution

It is expected that most queries relating to benefits can be resolved with the Scheme's Administrator. In the event that a member's complaint cannot be resolved by the Administrator they may make a formal complaint using the Scheme's Internal Dispute Resolution ('IDR') procedure, details of which can be obtained from the Secretary to the Trustee or use the Pensions Ombudsman's informal Early Resolution Service.

The Government appointed Pensions Ombudsman can investigate complaints of injustice due to bad administration either by the Trustee or the Scheme's Administrator, or disputes of fact of law. The Pensions Ombudsman can be contacted at:

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
London
E14 4PU

0800 917 4487
enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

THE BRUSH GROUP (2013) PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 DECEMBER 2020

Statement of Trustee's Responsibilities

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.

Approval

Approved by the Trustee and signed on its behalf by:

Trustee Director:

Date:

THE BRUSH GROUP (2013) PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE BRUSH GROUP (2013) PENSION SCHEME

Opinion

We have audited the financial statements of The Brush Group (2013) Pension Scheme for the year ended 31 December 2020 which comprise the fund account, the statement of net assets and the related notes 1 to 21, 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, including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2020, 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; 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. 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

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from the date when the Scheme's report and financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern.

Other information

The other information comprises the information included in the report and financial statements other than the financial statements, our auditor's report thereon and our auditor's statement about contributions. 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.

THE BRUSH GROUP (2013) PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE BRUSH GROUP (2013) PENSION SCHEME

Other information (continued)

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 course of 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 Statement of Trustee's Responsibilities set out on page 19, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Trustee.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes)
- We understood how the Scheme is complying with these legal and regulatory frameworks by making enquiries of the Trustee. We corroborated our enquiries through our review of the Trustee's meeting minutes.

THE BRUSH GROUP (2013) PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE BRUSH GROUP (2013) PENSION SCHEME

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Scheme has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. In our assessment we considered the risk of management override. Our audit procedures included, testing manual journals, including segregation of duties.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the trustee for its awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of Trustee's minutes.
- The Scheme is required to comply with UK pensions regulations. As such the Statutory Auditor has considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Scheme with these regulations as part of our audit procedures.

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 FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Benefits paid or payable	4	(5,017)	(5,156)
Payments to and on account of leavers	5	(3,745)	(4,294)
Administrative expenses	6	(729)	(503)
		(9,491)	(9,953)
Net withdrawals from dealing with members		(9,491)	(9,953)
Returns on investments			
Investment income	7	3	4
Change in market value of investments	8	42,591	44,424
Investment management expenses	9	(467)	(559)
		42,127	43,869
Net returns on investments		42,127	43,869
Net increase in the fund during the year		32,636	33,916
Opening net assets		278,907	244,991
Closing net assets		311,543	278,907

The notes on pages 25 to 36 form part of these financial statements.

THE BRUSH GROUP (2013) PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Investment assets			
Pooled investment vehicles	11	308,963	276,898
AVC investments	12	1,313	1,208
		<u>310,276</u>	<u>278,106</u>
Total net investments		<u>310,276</u>	<u>278,106</u>
Current assets	16	1,497	1,193
Current liabilities	17	(230)	(392)
Net assets available for benefits at 31 December		<u><u>311,543</u></u>	<u><u>278,907</u></u>

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's Report. These financial statements and Actuarial Certificate should be read in conjunction with this report.

The notes on pages 25 to 36 form part of these financial statements.

These financial statements on pages 23 to 36 were approved by the Trustee and were signed on its behalf by:

Trustee Director:

Date:

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation

The individual 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 guidance set out in the Statement of Recommended Practice ('SORP') (2018) – Financial Reports of Pension Schemes, published by the Pensions Research Accountants Group ('PRAG').

2. General information

The Brush Group (2013) Pension Scheme is a Defined Benefit occupational pension scheme established under trust under English Law.

The address of the Scheme's principal office is Brush Electrical Machines Limited, PO Box 18, Falcon Works, Nottingham Road, Loughborough, Leicestershire LE11 1ZF.

3. Accounting policies

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

Functional and presentational currency

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

Benefits paid or payable

Pensions in payment, are accounted for in the period to which they relate.

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, or if there is no member choice, on the date of retiring or leaving.

Payments to and on account of leavers

Individual transfers to other schemes are accounted for when member liability is discharged which is normally when the transfer amount is paid.

Administrative expenses

Administrative expenses are accounted for on an accruals basis, net of recoverable VAT.

Investment income

Income from cash and short-term deposits is accounted for in these financial statements on an accruals basis.

Change in market value of investments

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.

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Accounting policies (continued)

Investment management expenses

Investment management fees and rebates are accounted for on an accruals basis, net of recoverable VAT.

Management fees for pooled investment vehicles are incorporated in the unit price and reflected in change in the market value of investments in the Fund Account.

Valuation of investment assets

Investments

Pooled investment vehicles which are traded on an active market are included at quoted price, which is usually bid price.

Pooled investment vehicles which are unquoted or not actively traded 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.

With profits insurance policies held as AVC investments are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

AVC funds are included within the Statement of Net Assets (Available for Benefits) on the basis of fair values provided by the AVC provider at the year end.

4. Benefits paid or payable

	2020	2019
	£000	£000
Pensions	3,652	3,269
Commutations of pensions and lump sum retirement benefits	1,308	1,709
Lump sum death benefits	57	178
	<u>5,017</u>	<u>5,156</u>

5. Payments to and on account of leavers

	2020	2019
	£000	£000
Individual transfers to other schemes	<u>3,745</u>	<u>4,294</u>

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

6. Administrative expenses

	2020 £000	2019 £000
Administration and processing	98	93
Actuarial fees	202	85
Audit fees	10	9
Legal fees	32	22
Other professional fees	110	114
Scheme levies	255	162
Trustee fees and expenses	21	17
Bank charges	1	1
	729	503

The increase in actuarial fees is due to the Actuarial Valuation as at 31 December 2019 and the GMP equalisation project commencing.

The increase in legal fees is due to the GDPR governance work.

The increase in scheme levies is due to an increase in PPF levy mainly due to changes in market conditions and a worsening in the levy band for the employer from levy band 7 to levy band 8.

7. Investment income

	2020 £000	2019 £000
Interest on cash deposits	3	4

8. Investments

	Opening value at 1 Jan 2020 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Closing value at 31 Dec 2020 £000
Pooled investment vehicles	276,898	244,391	(254,650)	42,324	308,963
AVC investments	1,208	6	(168)	267	1,313
	278,106	244,397	(254,818)	42,591	310,276
Total net investments	278,106				310,276

Included in the purchases and sales figures above are £217,657,199 in relation to switches between L&G funds.

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Investments (continued)

Transaction costs

There are no direct transaction costs in the year nor in the previous year. 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.

9. Investment management expenses

	2020 £000	2019 £000
Administration and management fees	407	486
Management fee rebates	(23)	(21)
Consultancy fees	83	94
	<u>467</u>	<u>559</u>

10. Taxation

The Scheme is a registered pension scheme in accordance with the Finance Act 2004. This means that the contributions paid by both the Employer and the members qualify for full tax relief, and is exempt from income tax and capital gains tax except for withholding tax on overseas investment income.

11. Pooled investment vehicles

	2020 £000	2019 £000
Bond funds	138,860	100,811
Equity funds	109,687	130,207
LDI funds	60,416	45,880
	<u>308,963</u>	<u>276,898</u>

The 2019 disclosure was updated. The 2020 LDI funds (£199,276k) on page 7 has been separated between the Bond and LDI funds.

The legal nature of the Scheme's pooled arrangements is:

	2020 £000	2019 £000
Open ended investment company	23,380	50,164
Unitised insurance policies	231,732	175,603
Unit linked insurance policies	22,000	22,224
Undertakings for collective investment	31,851	28,907
	<u>308,963</u>	<u>276,898</u>

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

12. AVC investments

	2020 £000	2019 £000
Aviva	1,198	1,161
Utmost	44	14
Royal London	71	33
	<u>1,313</u>	<u>1,208</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.

AVC providers can be further analysed as:

	2020 £000	2019 £000
With profits	1,198	1,161
Unit linked	44	14
Crest Secure Fund	71	33
	<u>1,313</u>	<u>1,208</u>

The 2019 disclosure was updated to reflect the Utmost unit linked AVC investments separately.

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. Fair value hierarchy

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 assessment dates;

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.

The Scheme's investment assets fall within the above hierarchy as follows:

	Level 1	Level 2	Level 3	2020
Investment assets	£000	£000	£000	Total
Pooled investment vehicles	31,851	277,112	-	308,963
AVC investments	-	-	1,313	1,313
	31,851	277,112	1,313	310,276

	Level 1	Level 2	Level 3	2019
Investment assets	£000	£000	£000	Total
Pooled investment vehicles	55,614	221,284	-	276,898
AVC investments	-	-	1,208	1,208
	55,614	221,284	1,208	278,106

Valuation techniques as described in note 3 are applied.

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 measure 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020

14. Investment risks (continued)

Credit quality of financial assets

As at 31 December 2019 and 31 December 2020, the Scheme's assets subject indirectly to credit risk were primarily:

Financial assets subject to credit risk

	31 December 2020 £000	31 December 2019 £000
Insight – Broad Opportunities Fund	23,380	23,457
Invesco – Global Targeted Returns Pension Fund	22,000	22,224
LGIM – Matching Plus LDI	199,273	146,506
Total	244,653	192,187

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 2019 and 31 December 2020 were:

Exposure to currency risk

	31 December 2020 £000	31 December 2019 £000
Majedie – UK equities	-	26,707
Morgan Stanley – Global equities	31,851	28,907
LGIM – Global equities	32,456	28,912
Insight – Diversified Growth Fund	23,380	23,457
Invesco – Diversified Growth Fund	22,000	22,224
Total	109,687	130,207

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

14. Investment risks (continued)

Indirect interest rate risk

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

The principle 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 increase in the pension liabilities.

The Scheme's assets exposed to interest rate risk as at 31 December 2019 and 31 December 2020 were:

Exposure to interest rate risk

	31 December 2020 £000	31 December 2019 £000
LGIM – Matching Plus LDI	199,273	146,506
Total	199,273	146,506

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 2019 and 31 December 2020 was:

Exposure to other price risk

	31 December 2020 £000	31 December 2019 £000
Indirect		
Majedie – UK Equity Fund - Unconstrained	-	26,707
Morgan Stanley – Global Brands Fund - Unconstrained	31,851	28,907
LGIM – All World Equity Index (GBP Hedged)	32,456	28,912
Insight – Broad Opportunities Fund	23,380	23,457
Invesco – Global Targeted Returns Pension Fund	22,000	22,224
LGIM – Matching Plus LDI	199,273	146,506
LGIM – Sterling Liquidity Fund	3	185
Total	308,963	276,898

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

15. Concentration of investments

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

	2020		2019	
	Value £000	%	Value £000	%
LGIM VH – 2049 Gilt Fund	37,677	12	-	-
LGIM – All World Equity Index (GBP Hedged)	32,456	10	28,912	10
Morgan Stanley Global Brands Fund	31,851	10	28,907	10
LGIM HB – 2055 Gilt	25,030	8	38,744	14
Insight Broad Opportunities Fund	23,380	8	23,457	8
Invesco Perpetual Global Targeted Returns Pension Fund	22,000	7	22,224	8
Majedie UK Equities	-	-	26,707	10

Majedie UK Equities investment was disinvested during the year. The LGIM VH – 2049 Gilt Fund was a new fund in the year.

16. Current assets

	2020 £000	2019 £000
Prepayments	348	302
Cash balances	1,149	887
Sundry debtors	-	4
	1,497	1,193

17. Current liabilities

	2020 £000	2019 £000
Accrued expenses	230	340
Accrued benefits	-	52
	230	392

18. Employer related investments

There were no direct or indirect Employer related investments during the year or at the year end (2019: Nil).

The Trustee recognises that indirect investment in the Employer's sponsor group, is possible through holdings in pooled investment vehicles. The Trustee believes that any indirect exposure to shares in the Employer sponsor group was no more than 1.0% of the Scheme assets at any time during the year and was 0.0% (2019: 0.0%) at year end.

THE BRUSH GROUP (2013) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Related party transactions

Related party transactions and balances comprise:

Key management personnel

Any benefits paid in respect of the Trustee Directors who are members of the Scheme have been made in accordance with the Trust Deed and Rules.

Fees and expenses were paid to three the Trustee Directors in the amount of £21k (2019: 17k) by the Employer. The Employer is reimbursed by the Scheme for these expenses.

The membership status of the Trustee Directors at the year end is as below:

G Barnes – non-member
B Hewitson – non-member
G Morgan – non-member
G Dallard – non-member
G Peters – pensioner
A Pidgeon - pensioner

Employer and other related parties

The Principal Employer is considered a related party. All transactions involved with these entities relate to remittance of monthly contributions required under the Rules of the Scheme. The Principal Employer recharges the Scheme for costs.

The Principal Employer meets all administrative expenses of the Scheme except for those in note 6.

20. Contingent assets and liabilities

In the opinion of the Trustee, the Scheme had no contingent assets and liabilities as at 31 December 2020 (2019: £nil).

21. 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. On 20 November 2020, the High Court issued a follow on judgement in the Lloyds case and ruled that pension schemes will also need to revisit individual transfer payments made since 17 May 1990 to consider if any additional value is due as a result of GMP equalisation. Based on an initial assessment of the likely backdated amounts and related interest the Trustee Directors do 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 Trustee Directors are working with its advisers on the project. The target completion date, at which point the Trustee expect to be able to accurately assess the impact on the Scheme's liabilities, is the end of 2021.

THE BRUSH GROUP (2013) PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE BRUSH GROUP (2013) PENSION SCHEME

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 2020 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 December 2020 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 9 January 2018 and on 15 June 2020.

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 38 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 Schedules 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

SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2020

During the year ended 31 December 2020 the contributions payable to the Scheme were as follows:

	Employer's 2020 £000	Employees 2020 £000	Total 2020 £000
Contributions payable under the Schedules of Contributions and as reported by the Scheme auditor			
Deficit funding	nil	nil	nil

Approved by the Trustee and signed on its behalf by:

Trustee Director:

Date:

THE BRUSH GROUP (2013) PENSION SCHEME

ACTUARIAL CERTIFICATE

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 2019 to continue to be met by the end of the period for which the schedule is in force.

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 15 June 2020.

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:	15 June 2020
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 Solutions UK Limited