The Brush Group (2013) Pension Scheme (the Scheme) Statement of Funding Principles (SFP)

Introduction	This statement sets out the policy of the Brush Scheme Trustees Limited (the Trustees) for securing that the statutory funding objective (SFO) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions. Brush Electrical Machines Limited ("the Company") is the Scheme's principal employer.
Technical Provisions	The technical provisions are the amount that will be needed to pay the Scheme benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice. The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Scheme. There is an underlying assumption that the Scheme will continue with benefits being met from the Scheme as they fall due. The method and assumptions used to calculate the technical provisions are summarised in Appendices A and B.
Company contribution rule	Rules 2.1 and 2.2 of the Scheme's Trust Deed & Rules state that: "2.1 Each of the Participating Employers will contribute such amounts to the Scheme as may be determined by the Trustees acting on the advice of the Actuary after agreement with the Principal Employer to be necessary (when added to the assets of the Scheme) to meet the requirements of Section 222 of the 2004 Act. For this purpose AVCs and AVC accounts are to be ignored. 2.2 In addition to any contributions due under rule 2.1 the Participating Employers will contribute such further amounts as the Trustee acting on the advice of the Actuary after agreement with the Principal Employer may from time to time determine to be necessary (when added to the Participating Employers' contributions under rule 2.1 and the assets of the Scheme) to provide the benefits due under the Scheme; and such contributions may have regard to the expenses properly incurred by any Participating Employer in connection with the Scheme."
Company contributions	Company contributions are the amounts needed to eliminate any shortfall relative to the technical provisions. These may be adjusted to take into account expected out-performance on the Scheme's assets compared to the discount rate (any expected outperformance is set out in Appendix A). Contributions in respect of the expenses of administering the Scheme (including the Pension Protection Fund Levy) are met directly by the Company, with the Scheme reimbursing the Company.
Dealing with shortfalls	Any shortfall in assets compared with technical provisions identified at an actuarial valuation will be eliminated as quickly as the Company can reasonably afford by the payment of additional contributions which may allow for some expected out-performance of the Scheme's assets compared to the discount rate. The additional contributions will normally consist of a stream of regular level payments made over the recovery

period.

In determining the recovery period at any particular valuation, the following factors will be taken into account:

- the size of the funding shortfall;
- the business plans of the Company;
- the Trustees' assessment of the financial covenant of the Company; and
- any contingent security offered by the Company.

The Trustees may also take into account any estimated change in the funding shortfall (where one exists) as a result of changes in financial conditions between the valuation date and the date of signing the Schedule of Contributions.

The Trustees normally expect the recovery period to be no longer than 10 years but may agree a longer period with the Company in light of its business plan and affordability of the contribution payments.

Should future valuations reveal a deficit larger than expected, the payments under the original plan will continue, but will be supplemented by additional or expected payments.

The assumptions to be used in the shortfall elimination calculations will be the same as those for calculating the technical provisions. In addition, allowance may be made for the expected out-performance of the Scheme's assets at the time.

Dealing with surpluses

Any funding surplus revealed by a valuation may lead to a review of the investment strategy, which could result in a higher proportion of matching assets and a lower overall level of risk, which are likely to provide a lower expected return. However, before any changes are made to the investment strategy, the Trustees will consult with the Company.

Policy on discretionary increases and funding strategy

No allowance for discretionary benefits is made in the technical provisions.

The Trustees' current policy is to request immediate additional contributions to meet the cost of such benefits if they are granted.

Interaction with investment strategy

The assets that most closely match the Scheme's liabilities are index linked and fixed-interest gilts of appropriate term compared to the liabilities.

The Scheme is partly invested in growth assets such as equities and diversified growth funds, that are expected, although not guaranteed, to produce a higher return than gilts. The Trustees understand that investing in growth assets reduces the expected contributions required from the Company in the long-run.

Both the Company and the Trustees appreciate that the contributions required can be volatile.

The Trustees regularly review the Scheme's investment strategy taking into account the funding position and liability profile. The Trustees will consult fully with the Company before any changes are made to the investment strategy.

Risks

The Trustees and the Company recognise that there are a number of risks inherent in the funding plan and that additional funding may be required at

	future valuations if the experience of the Scheme is not in line with the assumptions made. In addition to the investment risk detailed above, particular risks are set out below.
Longevity risk	Future improvements in life expectancy may be greater than anticipated. In setting the Scheme's funding target, mortality assumptions are made based on the latest information available on the likely improvements in longevity. The mortality assumptions are reviewed at each formal triennial actuarial valuation.
Discontinuance risk	The Trustees and the Company recognise that the Scheme could be discontinued in accordance with Rule 17.1 of the Scheme's Trust Deed & Rules if the Company so determines. If the Scheme is discontinued, then the technical provisions may need to be revised to reflect the change in the Scheme's circumstances. There is a risk that the assets in the Scheme at that time may be insufficient to cover these revised technical provisions. In addition, there is a risk that the Company may at that time be unable to meet its obligation to contribute to the Scheme.
Monitoring employer covenant	The Company will present information to the Trustees at least once a year on the profitability, prospects and net assets of the Company. In addition, the Company will inform the Trustees as soon as possible of developments which have or could have a material adverse impact on the strength of the employer covenant. The Trustees will review the need for further information on employer covenant such as an independent assessment at least once a year and following any valuation or funding report which shows a shortfall against the technical provisions.
Frequency of valuations	The Scheme's actuarial valuation to which this statement applies is being carried out as at 31 December 2019. Subsequent valuations will normally be carried out every three years. The Trustees will obtain a report showing the approximate progression of the Scheme's funding level at least annually. The Trustees may call for a full actuarial valuation when, after considering the actuary's advice, they become of the opinion that it is unsafe to rely on the results of the previous full valuation as a basis for future Company contributions. However, the Trustees will consult the Company before doing so.

Signatures	This statement has been agreed by the Company	
	Signed on behalf of Brush Electrical Machines Limited	
	Signature:	Name:
	Position:	Date:
	This statement was agreed by the Trustees on 15 June 2020 and is effective from that date.	
	Signed on behalf of the Brush Scheme Trustees Limited	
	Signature:	Name:
	Position:	Date:

Appendix A:
Method and financial assumptions for determining the technical provisions and Company contributions

Method	The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.
Financial assumptions for technical provisions - approach	The approach to be used in determining each of the financial assumptions for calculating the technical provisions and the Company contributions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are "term dependent".
RPI inflation	The assumption is derived from the difference between the market yields on long-dated fixed-interest and index-linked gilts at the valuation date at all durations (rounded to the nearest 0.01% p.a.)
CPI inflation	The RPI inflation curve with a deduction at each duration 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. The assumed difference between the long term RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI at the date subsequent calculations are carried out. With an ongoing consultation in relation to RPI reform, the Trustees recognise that future RPI (and hence the difference between RPI and CPI) is more uncertain than normal.
Discount rate	The UK Government fixed interest gilt curve at the valuation date plus 0.75% p.a. (at all durations).
Increases in pensions in payment	Derived from the RPI or CPI inflation assumption as appropriate, allowing for the maximum and minimum annual increases, and for inflation to vary from year to year.
Revaluations of deferred pensions in excess of GMP	The RPI or CPI price inflation assumption as appropriate, (subject to review if there is a significant change in the level of this assumption).
GMP increases in deferment	In line with the appropriate fixed rate (or limited) rate of revaluation for each member.
Expenses	The Scheme's technical provisions will include a past service expense reserve of 2.0% of the Scheme's liabilities using the assumptions set out above. In addition, in determining the Company contributions, an allowance will be made for ongoing annual expenses.
Financial assumptions for technical provisions summary	A summary of all the financial assumptions for calculating the technical provisions and the Company contributions for the valuation as at 31 December 2019, determined using the approach outlined above, is set out below. Note that in all cases, the yields shown are forward rates, and are set out for the next 50 years.

Term	Discount rate	RPI inflation	CPI inflation	Inflation linked pension increases			
				RPI subject to a maximum of 5% p.a.	RPI subject to a minimum of 3% p.a. and maximum of 5% p.a.	RPI subject to a maximum of 2.5% p.a.	CPI subject to a maximum of 3.0% p.a.
0	1.32%	2.62%	1.68%	2.37%	3.00%	2.37%	1.51%
1	1.24%	2.83%	1.94%	2.82%	3.20%	2.37%	1.99%
2	1.30%	2.89%	1.99%	2.84%	3.24%	2.35%	1.93%
3	1.36%	3.58%	2.68%	3.02%	3.34%	2.38%	2.04%
4	1.43%	3.26%	2.36%	3.52%	3.67%	2.45%	2.37%
5	1.52%	3.29%	2.39%	3.20%	3.52%	2.36%	2.10%
6	1.65%	3.36%	2.46%	3.24%	3.59%	2.33%	2.11%
7	1.80%	3.44%	2.54%	3.26%	3.64%	2.30%	2.12%
8	1.97%	3.51%	2.61%	3.29%	3.69%	2.28%	2.15%
9	2.15%	3.59%	2.69%	3.33%	3.73%	2.28%	2.17%
10	2.32%	3.65%	2.75%	3.36%	3.75%	2.28%	2.20%
11	2.47%	3.69%	2.79%	3.40%	3.76%	2.30%	2.22%
12	2.58%	3.71%	2.81%	3.42%	3.76%	2.32%	2.23%
13	2.67%	3.70%	2.80%	3.42%	3.75%	2.34%	2.23%
14	2.72%	3.66%	2.76%	3.41%	3.72%	2.36%	2.21%
15	2.75%	3.61%	2.71%	3.38%	3.69%	2.37%	2.18%
16	2.75%	3.54%	2.64%	3.34%	3.66%	2.37%	2.15%
17	2.73%	3.46%	2.56%	3.28%	3.63%	2.37%	2.10%
18	2.69%	3.37%	2.47%	3.21%	3.59%	2.36%	2.05%
19	2.63%	3.27%	2.37%	3.13%	3.56%	2.34%	2.00%
20	2.56%	3.17%	2.27%	3.04%	3.53%	2.29%	1.94%
21	2.48%	3.07%	2.17%	2.95%	3.50%	2.24%	1.87%
22	2.39%	2.96%	2.06%	2.86%	3.48%	2.18%	1.81%
23	2.28%	2.85%	1.95%	2.75%	3.45%	2.11%	1.74%
24	2.18%	2.74%	1.84%	2.65%	3.43%	2.04%	1.67%
25	2.07%	2.64%	1.74%	2.55%	3.41%	1.96%	1.60%
26	1.96%	2.54%	1.64%	2.45%	3.40%	1.89%	1.53%
27	1.86%	2.45%	1.55%	2.35%	3.38%	1.81%	1.47%
28	1.77%	2.37%	1.47%	2.27%	3.37%	1.74%	1.41%
29	1.68%	2.30%	1.40%	2.19%	3.36%	1.68%	1.36%
30	1.61%	2.25%	1.35%	2.13%	3.35%	1.63%	1.32%
31	1.56%	2.21%	1.31%	2.07%	3.35%	1.58%	1.29%
32	1.51%	2.18%	1.28%	2.03%	3.35%	1.54%	1.26%
33	1.49%	2.18%	1.28%	2.01%	3.35%	1.52%	1.24%
34	1.47%	2.18%	1.28%	2.00%	3.35%	1.50%	1.24%
35	1.48%	2.21%	1.31%	2.00%	3.36%	1.50%	1.24%
36	1.49%	2.25%	1.35%	2.02%	3.36%	1.51%	1.25%
37	1.52%	2.30%	1.40%	2.05%	3.37%	1.53%	1.26%
38	1.56%	2.37%	1.47%	2.09%	3.39%	1.56%	1.29%
39	1.61%	2.44%	1.54%	2.15%	3.40%	1.60%	1.32%
40	1.96%	2.40%	1.50%	2.19%	3.41%	1.63%	1.35%
41	1.96%	2.36%	1.46%	2.14%	3.40%	1.59%	1.31%
42	1.96%	2.72%	1.82%	2.17%	3.41%	1.60%	1.33%
43	1.96%	2.87%	1.97%	2.46%	3.47%	1.82%	1.52%
44	1.96%	2.89%	1.99%	2.55%	3.49%	1.88%	1.58%
45	1.95%	2.96%	2.06%	2.56%	3.49%	1.89%	1.59%
46	1.93%	3.85%	2.95%	2.74%	3.53%	2.02%	1.72%
47	1.93%	3.93%	3.03%	3.37%	3.68%	2.46%	2.19%
48	1.61%	3.94%	3.04%	3.37%	3.68%	2.45%	2.19%
49	1.20%	3.93%	3.03%	3.37%	3.68%	2.46%	2.19%
50	1.20%	3.93%	3.03%	2.37%	3.68%	2.45%	2.18%

Additional assumptions for Company contributions

In determining Company contributions, the same assumptions will be used as those for calculating the technical provisions together with any other additional financial assumptions that may be agreed.

Appendix B: Demographic Assumptions

Post-retirement mortality	Base mortality table: ▪ Males – 110% of standard table S3PMA ▪ Females – 110% of standard table S3PFA_M An allowance for improvements between 2013 and 2018 and an allowance for future improvements has been made in line with the CMI_2018 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.50% for men and women. Additional parameters (Sk = 7.0 and A=0.5%) reflect Aon's preferred view.
Pre-retirement mortality	▪ Males: 100% of standard table AMC00 ▪ Females: 100% of standard table AFC00
Early retirements	All members are assumed to retire at their Normal Retirement Date, except ex-BTR members who can draw their benefits accrued before 1 March 2004 from age 60 with no early retirement reduction (and some of these members can also draw their benefits accrued from 1 March 2004 from age 60 with no early retirement reduction, depending on the level of contributions they paid whilst in active service). For this valuation, ex-BTR members are assumed to retire according to the following retirement pattern – 20% at age 60, 50% at age 62 and 30% at age 65, with no early retirement reduction.
Family Details	A man is assumed to be three years older than his wife/partner. 80% (Males) / 70% (Females) of non-pensioners are assumed to be married or have a dependant at retirement or earlier death. 74% of pensioners are assumed to be married or have a dependant at the valuation date.
Commutation	Each member is assumed to commute 25% of their pension on retirement, based on a commutation factor of 13 at age 65 for a man (with consistent factors at other ages and for women).

Sample life expectancies

The assumed improvements in life expectancy are illustrated in the table below:

Current age	Male life expectancy on reaching age 65	Female life expectancy on reaching age 65
65	21.7	23.4
45	23.3	25.2

Woolwich AVC conversion terms

The ex-Woolwich members have the right to convert their Additional Voluntary Contributions ("AVCs") held in the Scheme into pension at the rate of 9 (single life) and 10.6 (joint life). These special terms mean that a reserve has been held within the Scheme for when these members come to "cash in" their AVCs.

Appendix C:
Further information to meet requirement of Scheme Funding Regulations

Policy on reduction of cash equivalent transfer values	The Trustees will ask the Scheme Actuary to advise them at each valuation, or soon afterwards, of the extent to which assets are sufficient to provide cash equivalent transfer values (CETVs) for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100% of benefits, the Trustees may reduce CETVs as permitted under legislation, after obtaining advice as to the appropriate extent. If at any other time, after obtaining advice from the Scheme Actuary, the Trustees are of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustees will commission a report from the Scheme Actuary regarding the extent to which CETVs should be reduced.
Payments to the Company	The Trustees may make payments to the Company when Company contributions have been overpaid due to an administrative error or in respect of expenses (which are currently paid by the Company and the Trustees reimburse the Company from the assets of the Scheme). The Trustees would not expect to make payments to the Company in any other circumstances, except on winding up once all benefits have been secured.
Contributions to the Scheme	There are no arrangements currently in place for persons other than the Company or members of the Scheme to contribute to the Scheme.