I am pleased to present the Annual Report and Accounts, for the Defined Benefit section of the Plan, for the year ended 30 June 2015. In another busy year, we have successfully concluded the funding negotiations with the Company following the finalisation of the triennial actuarial valuation.

The actuarial valuation carried out as at 30 June 2014 revealed an ongoing funding level of 88% with a corresponding deficit of £38.2 million (m). Low interest rates have increased the Plan’s deficit since the last valuation date. The Trustees and the Company have agreed a new Schedule of Contributions as detailed in the Summary Funding Statement included within this Report.

The investment world remains a challenging place and the Trustees have established an Investment Sub-Committee (ISC) to monitor the performance of the investments and review the Plan’s investment strategy. The decision was made to withdraw funds from Neptune and reinvest in existing funds with BlackRock and M&G. The ISC continues to work hard to ensure that the Plan’s investments are best placed and working to cover member benefits as they fall due.

In this edition, we keep you up to date with recent legislative changes and future developments in our Plan. You will see from the article on administration that the decision has been taken to seek support in this area which has seen increasing volume, especially now members have more flexibility surrounding their pension options.

We have seen the retirement of one Trustee and two new Trustee directors have joined the Board this year – I would like to welcome Marcus Mead [based in Lichfield] and Steven Fielden [based in Dewsbury]. I also take this opportunity to thank Nigel Judd for his contribution to the Board and wish him a very happy retirement.

The Trustees continue to rotate their meetings around the UK plants to incorporate site tours and welcome the opportunity to talk with members.

I hope you continue to enjoy viewing the Report online and please let us know if you have any comments. Click on the ‘Your feedback’ section [found at the bottom of the online Report] to tell us what you think.

Michael Meacham, Chairman of the Trustee
Important pension tax changes
Generally, pensions are a tax efficient way of saving for retirement. In the summer 2015 Budget, the Government announced another reduction to the tax relief available on pension savings.

The key changes are as follows:
- **From 6 April 2016**, the Lifetime Allowance (LTA) will reduce from its current level of £1.25m to £1m.
- However, the Government has committed to increasing the LTA each year in line with inflation (starting from 6 April 2018).
- Two new forms of protection against the lower LTA are expected. They are expected to be similar to those introduced in 2014 (when the Lifetime Allowance was last reduced).
- **The current Annual Allowance (AA) is £40,000** worth of pension savings. This applies to the total of all your pension savings made to all schemes.
- **From the 2016/17 tax year**, individuals with income deemed to be more than £150,000 will be subject to an AA of less than £40,000. For these individuals, the AA will now steadily reduce in proportion to earnings, ultimately reaching £10,000 for those deemed to be earning over £210,000.
- In preparation for the tapered Annual Allowance from 6 April 2016, there are transitional arrangements for the 2015/16 tax year, meaning that the AA will work differently in this year. Further details on the transitional arrangements can be found in your 2015 Benefit Statement.

If your pension savings in the Parker Plan (Defined Benefit section) exceeds the AA we will write to you with details before the end of October, after the end of the tax year in question, but it is your responsibility to assess yourself against this allowance in respect of all your pension savings.

Changes to your pension administration contacts
**PS Administration Limited** (a Punter Southall Group company) has been appointed to assist with the administration of the Defined Benefit section of the Plan. Historically, the administration of the Plan has always been carried out by Parker Hannifin’s in-house Pensions Team, led by Jane Young.

What does it mean to you?
- **From 1 February 2016, active or deferred members** should contact Laura Birtwistle and her team at PS Administration Limited for any queries regarding your pension entitlement.
- **For Pensioner members already in receipt of their pension,** this will continue to be administered and paid by Parker Hannifin. You should continue to contact Janet Ward with any queries.

- This change will not affect your Plan benefit entitlement in any way. It simply means that any communications you receive regarding the Plan may be prepared by PS Administration Limited.

Active or deferred members contact:
PS Administration Limited (Punter Southall)
Email: parkerhannifin@puntersouthall.com
Telephone: 0330 202 0770
Please ask for the Parker Hannifin administration team.

Post: Laura Birtwistle
Parker Hannifin Pension and Death Benefits Plan, PS Administration Limited, Albion, Fishponds Road, Wokingham, Berkshire, RG41 2QE

Pensioner members contact:
Janet Ward, Parker Hannifin Pensions Team
Email: janet.ward@parker.com
Telephone: 0191 4029046

More on PS Administration Limited...
With the full involvement and support of the Company, the Trustees ran a thorough review of potential service providers to assist the in-house team. Pensions specialists, PS Administration Limited, were selected to provide assistance in relation to the administration of the Defined Benefit section of the Plan.

PS Administration Limited come highly recommended to the Trustee, with an excellent track record of being focused on the needs of their clients and members. The Trustee is looking forward to working with them over the coming years.

Punter Southall Limited will also be providing actuarial and consulting services to the Trustee.

Data Protection Act - ‘Fair Processing Notice’
For the purposes of the Data Protection Act 1998, the Trustee of the Plan is a data controller. The Trustees may appoint third parties to assist them with the operation of the Plan. PS Administration Limited has been appointed as a data processor. As a member of the Plan, you agree to provide personal data to the Trustees and consent to the processing and disclosure of this data to the Principal Employer, and such professionals and other third parties that the Trustees have chosen to assist with this. The data will be held during your membership of the Plan or any longer period necessary to answer questions relating to your benefits.

Under the Act you are entitled to request a copy of the information being held. You can do this by writing to PS Administration Limited.
Freedom and choice for your pension
In April 2015, the Government introduced greater flexibility in the way members can draw their retirement savings from Defined Contribution (DC) schemes.

In brief:
- Members with DC savings now have three options for how they can take their money at retirement: a pension for life (annuity), a flexible income (where they can draw multiple lump sums) and a cash lump sum. However, members should be aware of the tax implications for each option.
- The new rules do not directly apply to those with Defined Benefit arrangements so the Parker Plan (Defined Benefit section) is not affected. However, some members may consider transferring their benefits out of the Plan (if an Independent Financial Adviser recommends they would be better off moving to a DC arrangement to take up the new flexibilities).
- If you have Additional Voluntary Contributions (AVCs), these are DC arrangements so you can transfer the value of these savings to take up the new flexibilities.

What does it mean for Defined Benefit members?
The Parker Plan Defined Benefit section is not a Defined Contribution scheme and as such, these new rules do not apply directly to your benefits within the Plan. However, DB members who have not yet retired and may want to take up the new flexibilities may consider transferring their Parker Pension benefits out of the Plan, prior to retirement.

Seek independent financial advice
If the transfer value is in excess of £30,000, the Government now insists that members take advice from a Financial Conduct Authority authorised adviser before the transfer can be allowed. However, as this is a significant decision, we would advise any member considering transferring their benefits out of the Plan to seek advice first.


What about my Additional Voluntary Contributions (AVCs)?
Parker Plan Additional Voluntary Contributions (AVCs) are Defined Contribution arrangements. If you have paid AVCs you are now able to transfer just your AVCs, leaving your main Defined Benefit pension value in the Parker Plan.

For more information on the new flexibilities, read our key update ‘Big Changes to Pensions’ at www.parkerpensionplan.com/#/page/big-changes-to-pensions-db.

Changes to the minimum pension age
Generally, the earliest age members can currently access their pension savings is at 55.

The minimum pension age will increase from 55 to 57 from 2028, when the State Pension Age increases to 67. It will then be set at 10 years below the State Pension Age. The minimum pension age is likely to go up again after 2028. This applies to both DB and DC members.

Guaranteed Minimum Pensions (GMPs) and the abolition of contracting-out
‘Contracting-out’ of the State Second Pension (S2P) is to be abolished from April 2016, tying in with the introduction of a new single-tier State Pension from this date.

Further details on this will be provided in a separate communication to active members before the start of the new tax year.
The financials
This graphic shows how much money has been paid into the Plan, and how much has been paid out in benefits for the year to 30 June 2015.

<table>
<thead>
<tr>
<th>2014 Plan</th>
<th>£267,998,501</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
</tr>
<tr>
<td>Employer’s contribution</td>
<td>£3,414,663</td>
</tr>
<tr>
<td>Employer Special Contributions</td>
<td>£4,270,000</td>
</tr>
<tr>
<td>Members’ contributions*</td>
<td>£179,155</td>
</tr>
<tr>
<td>Transferred-in benefits</td>
<td>£0</td>
</tr>
<tr>
<td>Life assurance monies received</td>
<td>£105,222</td>
</tr>
<tr>
<td>Investment income</td>
<td>£62,860</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>£8,031,900</td>
</tr>
</tbody>
</table>

| **Expenditure**            |              |
| Pension and tax free cash sums | £9,603,245  |
| Life assurance payments on death in service | £105,222   |
| Refunds to leavers/return on death | £66,167     |
| Transferred-out benefits to other schemes | £872,278    |
| Life assurance premiums    | £73,266      |
| Pensions Department costs (inc PPF levy) | £670,012   |
| Actuarial and other professional charges | £283,280    |
| Investment management expenses | £104,489    |
| **Total expenditure**      | £11,777,959  |

**Change in market value of investments**

£21,516,807

*The Company operates 'SMART Pensions' so employer contributions also include employee contributions.*
Membership

On 30 June 2015, the total number of Plan members was 4,278, split as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Active members</th>
<th>Deferred members</th>
<th>Pensioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>540</td>
<td>1,946</td>
<td>1,848</td>
</tr>
<tr>
<td>2015</td>
<td>487</td>
<td>1,908</td>
<td>1,883</td>
</tr>
</tbody>
</table>

Investing

Asset allocation

The assets of the Plan are currently split across the following investment types:

<table>
<thead>
<tr>
<th>Asset Allocation as at 30 June 2015</th>
<th>Plan (%)</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock Managed Equities</td>
<td>20.1</td>
<td>57.48</td>
</tr>
<tr>
<td>BlackRock Diversified Growth</td>
<td>17.2</td>
<td>49.29</td>
</tr>
<tr>
<td>BlackRock Index Linked Gilts</td>
<td>21.3</td>
<td>60.75</td>
</tr>
<tr>
<td>M&amp;G Corporate Bonds</td>
<td>21.3</td>
<td>60.79</td>
</tr>
<tr>
<td>Veritas Global Equities</td>
<td>9.4</td>
<td>26.79</td>
</tr>
<tr>
<td>Muzinich High Yield Bonds</td>
<td>9.8</td>
<td>28.07</td>
</tr>
<tr>
<td>Standard Life Property</td>
<td>0.4</td>
<td>1.01</td>
</tr>
<tr>
<td>AVC Investments</td>
<td>0.5</td>
<td>1.54</td>
</tr>
</tbody>
</table>

The Trustees look to minimise deficits on a funding valuation basis by investing in assets which, together with any new contributions, meet the cost of current and future benefits. In order not to take excessive risk, they maintain a broad spread of investments investing in 'return assets', such as equities, with the intention to achieve long term excess returns over liabilities and 'matching assets', such as gilts, which aim to move in line with the liabilities.

The Trustee’s current investment objectives are set out in the Statement of Investment Principles (SIP), a copy of which is available on request from the Pensions Department.
Summary Funding Statement and valuation update

On a regular basis, the Trustee is required by law to provide members with information on the financial health of the Plan. The statement below provides you with this information.

Understanding the Statement
At least once every three years, our Actuary carries out a formal review of the Plan’s financial position. This process is called an actuarial valuation.

A key element of the valuation involves setting a funding target for the Plan. The funding target (which is also known as the ‘technical provisions’) is an estimate of the amount of money that is needed today to provide the benefits that will be payable from the Plan in the future. Once calculated, the Actuary compares the funding target with the current value of the Plan’s assets. This shows the funding surplus or deficit in the Plan (assets less funding target) and also the funding level percentage (assets divided by funding target).

In the years where a full valuation is not being carried out, the Actuary is required to provide an approximate update of the funding position of the Plan, reflecting developments in the Plan’s technical provisions and any changes in the value of the Plan’s assets.

Since we last wrote to you, our Actuary has completed both the 30 June 2014 actuarial valuation and also the 30 June 2015 approximate funding update. The results are summarised below. Please note that these results are in respect of the Defined Benefit (DB) section of the Plan only, so exclude any Defined Contribution (DC) benefits.

Actuarial valuation at 30 June 2014
At 30 June 2014:
- The Plan’s Actuary calculated that the funding target was £305.6m; and
- The value of the Plan’s assets was £267.4m; meaning
- The Plan had a deficit of £38.2m, corresponding to a funding level of 88%.

The last Funding Statement we provided to you showed the funding update as at 30 June 2013, where the Plan had a deficit of around £46m, corresponding to a funding level of 85%.

So, from 30 June 2013 to 30 June 2014, the Plan’s funding position improved, due largely to strong investment returns achieved by the Plan’s assets over the period.

Funding update at 30 June 2015
At 30 June 2015:
- The Plan’s Actuary estimated that the funding target was £363m; and
- The value of the Plan’s assets was £286m; meaning
- The Plan had a deficit of £77m, corresponding to a funding level of 79%.

So, from 30 June 2014 to 30 June 2015, the Plan’s funding position worsened, due largely to adverse changes in the financial assumptions used to measure the funding target, such as a large fall in the yields available on Government bonds (which makes the funding target higher).

Other points to note since the last Summary Funding Statement
We must tell you if there have been any payments to the employers out of the Plan’s funds since the last Statement. There have not.

We must also tell you if the Pensions Regulator (the industry ‘watchdog’ for work based pension schemes) has used any of its powers to change Plan benefits, give directions about working out the Plan’s technical provisions or impose a schedule of contributions. We are pleased to say that it has not needed to use its powers in this way for our Plan. For more information, visit the Pensions Regulator website at www.thepensionsregulator.gov.uk.

The employers’ support and actions to address the funding deficit
The Plan relies on the employers’ financial support to:
- Pay contributions towards the cost of the benefits building up in the future;
- Make extra contributions when there is a funding shortfall;
- Put in more money if the target set for funding the Plan turns out to be too low; and
- Pay the future expenses of running the Plan each year.
Following the 30 June 2014 valuation, and acting on advice from the Actuary, the Trustees and the employers agreed that the employers will pay:

- Regular monthly contributions, of 17.2% of active DB members’ pensionable salaries, towards the cost of benefits building up in the future for DB members.

PLUS

- Annual lump sum contributions towards:
  - Part of the cost of benefits building up in the future for DB members;
  - The future expenses of running the DB section of the Plan; and
  - Removing the deficit shown in the Plan at 30 June 2014.

The first of these annual lump sum contributions was £4.3m due by 30 June 2015, which the employers paid to the Plan early, in December 2014. Further annual lump sum contributions, of £6.4m, are payable by 30 June each year from 2016 to 2024 inclusive.

In addition to the above, the employers pay contributions for DC members as required under the Rules of the Plan and meet the future expenses of running the DC section of the Plan.

Both DB and DC members also pay contributions in line with the Rules of the Plan.

As at 30 June 2014, the Actuary estimated that if the assumptions made in the 30 June 2014 valuation play out in practice, the above contributions, along with future investment returns, would remove the deficit shown in the Plan at 30 June 2014 by 30 June 2024.

This plan will be reviewed at the next full valuation, which is due at 30 June 2017.

What if the Plan started to wind up?

As part of the valuation, the Actuary must also look at the Plan’s solvency if it started to wind up (come to an end). This does not mean that the employers are thinking of ending the Plan, it is simply a legal requirement to consider this position at each valuation.

The Actuary looks at whether the Plan would have enough money at the valuation date to buy insurance policies to provide members’ benefits. Insurance companies have to invest in ‘low risk’ assets, which are likely to give low returns and their policy prices will include administration charges and a profit margin. This means that even if a plan is fully funded on the technical provisions basis, the solvency figure is likely to be less than 100%.

If the Plan had started winding up at 30 June 2014, the Actuary estimated the amount the Plan needed to ensure benefits were paid in full (the full solvency position) was around £438m, which equated to a deficit (on the solvency basis) of around £171m.

Use of personal data

In providing services to the Trustees, including preparing this Summary Funding Statement, the Trustees and its advisers require access to personal data about members and their dependants. The Data Protection Act governs how the Trustees and its advisers use and store personal data. Members can find out more information about how their personal information is used from the Information Commissioner’s website at https://ico.org.uk.

If you have further questions regarding the processing of your personal information, please contact the Pensions Department.
Looking after the Plan

The Trustees

The Parker Plan is managed by the Trustee Company, Parker Hannifin Pension Trustees Limited. The nine directors of this Company act as Trustees to the Parker Plan. The Trustees are nominated by the Company and by the Plan’s members.

Michael Meacham (Chairman)
Jim Elsey (employer nominated)
Derek Turnbull (employer nominated)
Graham Ellinor (employer nominated)
David Orchard (pensioner nominated)
Kevin Clarkson (member nominated)
Tony Woodward (member nominated)
Marcus Mead (employer nominated)
Steven Fielden (employer nominated)

The Trustees meet as a full Board at least four times a year to review the business of the Plan and consider issues affecting the pension scheme. The Trustees have a dedicated team of professional advisers to assist them in their decision making and management of the Plan. The current advisers and their roles are listed below:

**Administration support** - PS Administration Ltd
Deal with the day-to-day administration of the Plan.

**Actuaries** - Punter Southall Ltd
An Actuary carries out valuations as required by the Scheme Rules. They provide tables and factors for the application of Scheme Rules and the options available, and advise on all matters relating to funding.

**Auditors** - Mercer & Hole
The Auditors carry out the annual audit of the Plan’s financial transactions and report to the Trustees before the Trustee Board signs its Financial Statements for the year.

**Bankers** - Barclays Bank plc
Manage the Trustee’s bank accounts. These mainly involve short term deposits and day-to-day transactions.

**Solicitors** - CMS Cameron McKenna
Provide legal advice to the Trustee Board.

**Investment Advisers** - Lane Clark & Peacock
Monitor the investment performance and provide advice to the Trustees on suitable asset allocation and management for the Plan.

**Investment Managers** - BlackRock, M&G, Veritas, Standard Life and Muzinich.

Your feedback
We’re keen to hear your views. Let us know what you think by clicking on the ‘Your feedback’ section at the bottom of the online Report.

Get in touch
If you have any questions or need further information you can find our contact details on the website.