

# CAPITA



## **EE Pension Scheme**

**Scheme Registration Number: 10249705**

Trustee's Annual Report and Financial Statements  
For the Year Ended 31 December 2019

CONFIDENTIAL

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# Management and Advisers

## Trustee

EE Pension Trustee Limited  
Trident Place  
Mosquito Way  
Hatfield  
Hertfordshire AL10 9BW

## Investment Consultants

Aon Hewitt Limited (*Defined Benefit Section*)  
The Leadenhall Building  
122 Leadenhall Street  
London EC3V 4AN

Mercer Limited (*Defined Contribution Section*)  
The Paragon  
Counterslip  
Bristol BS1 6BX

## Auditors

Ernst & Young LLP  
The Paragon  
Counterslip  
Bristol BS1 6BX

## Benefits Administrator

Capita Employee Solutions  
(formerly *Capita Employee Benefits Limited*)  
(*Defined Benefit Section*)  
Erskine House  
68-73 Queen Street  
Edinburgh EH2 4NR

Scottish Widows Limited (*Defined Contribution Section*)  
(formerly Zurich Assurance Limited)  
UK Life Centre  
Station Road  
Swindon SN1 1EL

## Scheme Actuary

Simon Head  
Aon Hewitt Limited  
Prospect House  
Abbey View,  
St Albans AL1 2QU

## Trustee Directors

JMRC Pensions Limited \* (*Chairman*)  
Roger Waymouth \*  
Donna Breach\* (resigned 2 April 2020)  
Carmel Codd\*\*  
Antony Gara\*\*  
Roger Eyre\*  
\**Company Nominated*  
\*\* *Member Nominated*

## Employer Covenant Advisers

Penfida Limited  
1 Carey Lane  
London EC2V 8AE

## Medical Advisers

Health Management Limited  
Ash House  
The Broyle  
Ringmer BN8 5NN

## Legal Advisers

Eversheds Sutherland  
One Wood Street,  
London, EC2V 7WS

## Life Cover Insurers

Ellipse  
58 Fenchurch Street  
London EC3M 4BE

## Bankers

National Westminster Bank PLC (*Defined Benefit Section*)  
42 High Street  
Sheffield S1 1QG

National Westminster Bank PLC (*Defined Contribution Section*)  
15 Bishopsgate  
London EC2P 2AP

Lloyds Bank (*Defined Contribution Section*)  
10 Gresham Street  
London EC2V 7AE

## Management and Advisers (continued)

**Investment Managers  
(Defined Benefit Section)**

UBS Global Asset Management (UK) Limited  
21 Lombard Street  
London EC3V 9AH

Standard Life Investments  
1 George Street  
Edinburgh, EH2 2LL

PIMCO Europe Limited  
Nations House  
103 Wigmore Street  
London W1U 1QS

Insight Investment Management (Global) Ltd  
160 Queen Victoria Street  
London EC4V 4LA

Harris Associates  
111 S. Wacker Drive  
Suite 4600  
Chicago, IL 60606

Sands Capital Management LLC  
1101 Wilson Boulevard  
Suite 2300  
Arlington  
Virginia, 22209

Epoch Investment Partners Inc.  
399 Park Avenue  
New York  
NY 10022

Aviva Investors Jersey Unit Trusts  
Management Limited  
Lime Grove House  
Green Street  
St Helier  
Jersey, JE1 2ST

Deutsche International Corporate Services (Ireland) Limited  
Pinnacle 2  
Eastpoint Business Park  
Dublin 3

M&G Real Estate (Luxembourg) S.A.  
34-38 Avenue De LA  
Liberté  
Luxembourg, 1930

**(Defined Contribution Section)**

Utmost Life and Pensions Limited  
(Formerly The Equitable Life Assurance Society)  
Walton Street  
Aylesbury  
Bucks HP21 7QW

Scottish Widows Limited  
(formerly Zurich Assurance Limited)  
UK Life Centre  
Station Road  
Swindon  
Wiltshire SN1 1EL

**Investment Managers and administrators  
(AVC Investments)**

Utmost Life and Pensions Limited  
(Formerly Equitable Life Assurance Society)  
PO Box 175  
Walton Street  
Aylesbury  
Bucks HP21 7YN

Fidelity International  
Windmill Court  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6BP

# Trustee Report

EE Pension Trustee Limited (the "Trustee") has pleasure in presenting the annual report and audited financial statements for the year ended 31 December 2019.

The statement of trustee responsibilities, summary of contributions, audit opinion and statement about contributions are made with reference to the fund account and statement of net assets for the Scheme as a whole.

## Scheme Management

### Constitution of the Scheme

The EE Pension Scheme ('the Scheme') is a Hybrid Scheme, with a Defined Benefit Section and a Defined Contribution Section, established to provide benefits for the employees of EE Limited and Mobile Broadband Network Limited (together 'the Employers') and their dependants.

The Scheme is governed by the Constitutional Rules and the Final Salary Rules, both made under a Deed of 24 July 2007. The Scheme is registered for tax purposes with Her Majesty's Revenue and Customs (HMRC) in accordance with the Finance Act 2004. Consolidated Rules were executed 9 November 2015.

The Scheme is established as a Trust under English Law.

### Appointment of Trustee

The current Trustee to the Scheme is EE Pension Trustee Limited ('the Trustee') and is the Scheme administrator for the purposes of the Finance Act 2004. In accordance with the Constitutional Rules the Principal Employer, EE Limited, has the power to appoint and remove the Trustee. As the Trustee is the sole Trustee to the Scheme, the appointment and removal of Trustee Directors is made in accordance with the requirements of the Pensions Act 2004 with regard to member nominated trustee directors.

### Principal and Participating Employers

The Principal Employer is EE Limited and Mobile Broadband Network Limited is the participating employer.

### Scheme Advisers

The names of the professional advisers to the Trustee and other individuals and organisations who acted for or were retained by the Trustee during the year are listed on pages 2 and 3.

## Trustee's Report – Scheme Management (continued)

**Pension Increases**

Pensions in payment and deferred pensions under the Scheme are increased each year at the rates specified in the Scheme rules, subject to any legal requirements to increase pensions. The cost of doing so is met by the Scheme. At 1 January 2019 pensioners were granted a 2.4% increase on their post 1988 GMP, a 3.3% increase on their excess pension accrued prior to 6 April 2006 and a 2.5% increase on their pension accrued since 6 April 2006, with pensioners who retired during the previous 12 months receiving proportionate increases.

Deferred pensions receive statutory increases each year, with deferred pensions for that element of such deferred pension accruing after 5 April 2009 receiving a maximum increase of 2.5% per annum during deferment.

**Scheme Membership****Membership and Beneficiaries – Defined Benefit Section**

	<b>Deferreds (including suspended members)</b>	<b>Pensioners</b>	<b>Totals</b>
At 1 January 2019	7,729	889	8,618
Prior year adjustment	(5)	8	3
At 1 January – as amended	<b>7,724</b>	<b>897</b>	<b>8,621</b>
<b>Leavers</b>			
Commuted	(8)	(3)	(11)
Transfers out	(29)	-	(29)
Retirements	(68)	80	12
Deaths	(2)	(9)	(11)
Suspended	-	(6)	(6)
Child pension ended	-	(1)	(1)
<b>31 December 2019</b>	<b>7,617</b>	<b>958</b>	<b>8,575</b>

## Trustee's Report – Scheme Management (continued)

## Scheme Membership (continued)

## Membership and Beneficiaries – Defined Contribution section

	Actives	Deferreds (including suspended members)	Totals
At 1 January 2019	9,413	17,956	27,369
Prior year adjustment	-	1	1
At 1 January – as amended	<b>9,413</b>	<b>17,957</b>	<b>27,370</b>
Members deferring benefits	(2,582)	2,582	-
New entrants	2,332	24	2,356
Rejoiner	1	-	1
Deferred to Active	74	(74)	-
<b>Leavers</b>			
Refunds and Not Taken Up	(20)	(56)	(76)
Transfers out	(4)	(622)	(626)
Retirements	-	(3)	(3)
Deaths	-	(26)	(26)
Uncrystallised Fund Pension Lump Sum	(5)	(98)	(103)
<b>31 December 2019</b>	<b>9,209</b>	<b>19,684</b>	<b>28,893</b>

On retirement members of the Defined Contribution Section can choose to purchase an annuity, or with the consent of the Trustee, take a lump sum or mixture of both.

Prior year adjustments relate to the late notification of movements advised to the Scheme administrators.

## Review of the Financial Development of the Scheme

As at 31 December 2019 the accumulated fund stood at £1,585,703,000 (2018: £1,400,228,000). The audited financial statements, which appear on pages 33 to 62, record the financial transactions of the Scheme during the year.

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

## COVID-19 Statement

A coronavirus disease, COVID-19, began to spread globally in early 2020 and has been declared a pandemic by the World Health Organization. Its emergence and reactions to it have already had a profound effect on both the domestic and global economies and financial markets. The short- and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain and will be determined by many factors, including the effectiveness of government and other health measures to contain and prevent the spread of the virus and the effectiveness of economic stimulus, emergency relief, and other government programs, initiatives and actions implemented or taken to mitigate the economic, financial and other disruptions caused by the COVID-19 pandemic.

The COVID-19 pandemic may impact the insurance, market, credit, liquidity and operational risks to which the Scheme is exposed. The Trustees are working with the Scheme's important outsource providers to ensure continuity of services during the COVID-19 pandemic. To supplement the Trustees' regular review process for the Scheme's investment portfolio, the Trustees are assessing and monitoring the impact that the COVID-19 pandemic as part of the Funding & Investment sub-committee.

## Trustee's Report – Scheme Management (continued)

### COVID-19 Statement (continued)

At this time, there remains considerable uncertainty as to how long the COVID-19 pandemic will last and as to the extent and duration of the economic, financial and other disruptions caused by the pandemic. Consequently, there remains considerable uncertainty relating to precisely how the COVID-19 pandemic will impact the insurance, market, credit, liquidity and operational risks to which the Scheme is exposed and whether or to what extent any such impact will be temporary or lasting. These activities are subject to supervision and oversight by the Trustees.

The Trustee will continue to monitor the impact of COVID-19 on the financial position through the usual governance mechanisms, including the Trustees regular oversight through the Funding & Investment sub-committee. Prior to COVID-19 the Trustee started working with their investment advisor to review the investment strategy for the scheme, this was in relation to the imminent signing off of the 2018 valuation in March 2020. In the immediate future, the Trustees are working hard to continue to look after the members financial needs during the COVID-19 pandemic.

### Going Concern

On 31 January 2020, the World Health Organization declared the outbreak of a new coronavirus a global emergency. The virus has now spread to many parts of the world including the UK. The situation is evolving, and the Trustee will continue to monitor any potential impact on the Scheme and the members, and they will follow all official advice to limit any impact. The Scheme suppliers have initiated contingency procedures to ensure that services continue to be available to the Trustee and the members throughout this period of uncertainty. All suppliers have successfully implemented services from home or offices where the Government's strict distancing protocols are adhered to.

The Trustees are responsible for making a formal assessment as to whether the 'going concern' basis is appropriate for preparing these financial statements the Trustees have carefully assessed the long-term prospects of the Scheme taking into account our current position, the main risks faced and the measures in place to monitor and manage these risks. The Trustees believe there is a reasonable expectation that the Scheme will continue to operate successfully. This expectation is based on an understanding and analysis of our long-term risks and the associated risk management processes.

In addition, the Trustees are also engaged with their investment advisor to review the long term strategy which also includes the impact of the recent reduction in investment values and the target of when scheme will become fully funded. The employer plays an essential role in communication which has supported the country during the pandemic, so has remained operational. Since the end of the last accounting year the employer has agreed increased funding to the scheme and payments have been made in line with the Schedule of Contributions. The Trustees are evaluating the diversification of the investment portfolio as part of the long-term review. The Scheme continues to pay all member benefits in full.

### Transfer values

All cash equivalent transfer values paid by the Scheme on behalf of members who have left the Scheme have been calculated and verified as prescribed in Section 97 of the Pension Schemes Act 1993. Discretionary benefits are not included in the calculation of transfer values. No transfers were reduced to less than their cash equivalent value.

### GMP Equalisation

On 26 October 2018 the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit schemes. The Trustee is aware that the issue will affect the Scheme and has estimated that the total GMP equalisation liability is immaterial and therefore no provision has been included within these financial statements.



## Trustee's Report – Scheme Management (continued)

**Summary of Contributions**

During the year ended 31 December 2019 the contributions payable to the Scheme by the Employers under the Schedule of Contributions dated 21 March 2018 were as follows:

	<b>Defined Benefit Section 2019 £'000</b>	<b>Defined Contribution Section 2019 £'000</b>
<b>Contributions paid under the Schedule of Contributions</b>		
Employer normal contributions	-	18,014
Deficit funding contributions	22,500	-
Employee normal contributions	-	397
	<b>22,500</b>	<b>18,411</b>
<b>Contributions paid not under the Schedule of Contributions</b>		
Employee additional voluntary contributions	-	235
<b>Contributions receivable per Fund Account</b>	<b>22,500</b>	<b>18,646</b>

## Trustee's Report (continued)

### Investment Matters

#### Overview

Responsibility for the administration and management of the Scheme's assets is vested in the Trustee which is responsible for the overall investment policies of the Scheme and is partially delegated by the Investment Committee which acts in accordance with its Terms of Reference.

#### Investment managers

The names of those who have managed the Scheme's investments during the year are listed on page 3. The Trustee has delegated the day-to-day management of investment to its appointed fund managers. A written agreement between the Trustee and each manager sets out the terms on which the manager will act.

The Scheme made a commitment to a new fund with existing manager Deutsche International Corporate Services (Ireland) Limited ("Hayfin"). Hayfin were first appointed as Investment Managers 18 January 2017, with the Scheme investing in the Direct Lending Fund (DLF) II. The Scheme committed £30,000,000 on 25 April 2019 to the Direct Lending Fund (DLF) III. The Scheme's commitment to DLF III was first drawn on 25 October 2019 and will continue to be drawn over the coming years.

#### Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles which includes the Trustee's policy relating to ethical investment and the exercise of the rights attaching to investments. Any member may request a copy. This Statement may change from time to time according to advice received from the investment manager or consultants.

#### Departures from investment principles

To the best of its knowledge, the Trustee can report that there has not been any departure from the SIP by the Scheme's investment managers during the year ended 31 December 2019.

#### Custodial arrangement

The Scheme holds its defined benefit section investments in the form of units in pooled vehicles and via a segregated arrangement with Insight. Custody of Scheme assets is arranged by the providers.

The Scheme also holds individual insurance policies in respect of the defined benefit AVC investments, custody of which is arranged by the providers of those policies.

The Scheme holds its defined contribution section investments in the form of units in pooled vehicles, and custody of Scheme assets is arranged by Scottish Widows Limited.

#### Employer-related investments

There were no directly held employer related investments either during the Scheme year or at the year end. The Trustee considers that any indirect holdings are unlikely to exceed 5% at any time in the Scheme year. The Schemes investments comply with restrictions prescribed by regulations made under section 40(2) of the Pensions Act 1995.

## Trustee's Report – Investment Matters (continued)

**Asset allocation**

The table below details the Scheme asset allocation for the Defined Benefit Section, along with the benchmark asset allocation as at the start and end of 2019.

<b>Investment Fund</b>	<b>Allocation</b>	<b>Illustrative Ranges</b>	<b>31 December 2018</b>	<b>31 December 2019</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Illiquid alternatives	<b>25.0</b>	<b>10.0 – 35.0</b>	<b>23.0</b>	<b>24.8</b>
Global Equities	<b>25.0</b>	<b>15.0 – 35.0</b>	<b>22.4</b>	<b>24.2</b>
Absolute Return	<b>25.0</b>	<b>15.0 – 45.0</b>	<b>24.9</b>	<b>26.9</b>
Fixed Interest Bonds (1)	<b>25.0</b>	<b>15.0 – 35.0</b>	<b>28.8</b>	<b>23.9</b>
Index-Linked Bonds (1)				
Cash in Trustee Bank Account	<b>-</b>	<b>0.0 – 10.0</b>	<b>0.9</b>	<b>0.2</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: (1) Fixed and index-linked bond investments may include gilts, investment grade and higher yield corporate bonds and debt, cash and money-market investments and other cash-like collateral for supporting as required, interest and inflation swaps or other agreed derivative contracts.

The benchmark allocation represents a target asset allocation which is monitored by the Trustee against the allocation and illustrative ranges set out in the Statement of Investment Principles. The Trustee is in the process of funding an investment in illiquid alternatives, which is expected to be completed by Q3 2022 based on the current set of funds. However, owing to the nature of these assets (and the speed at which monies can be invested) this can lead to a deviation from the benchmark allocation.

## Trustee's Report – Investment Matters (continued)

## Asset allocation (continued)

The table below details the Defined Contribution Section investments as at 31 December 2019:

	<b>2019</b>		<b>2018</b>	
	<b>£,000</b>	<b>%</b>	<b>£,000</b>	<b>%</b>
Annuity Retirement	1,613	0.23	2,475	0.41
Cash and Money Market	2,532	0.38	2,964	0.50
Cash Retirement	583	0.08	535	0.09
Growth	496,772	72.18	436,309	72.86
High Growth	1,846	0.27	1,738	0.29
Asia Pacific (ex-Japan) Equity	3,922	0.57	3,740	0.62
Pre-Retirement	21	-	19	-
Shariah	1,282	0.19	945	0.16
Property	2,338	0.34	2,412	0.40
Emerging Markets Equity	2,000	0.29	1,930	0.32
European (ex UK) Equity	1,164	0.17	1,085	0.18
Fixed Interest Gilt	4,404	0.64	4,368	0.73
Global Equity (60/40)	12,376	1.80	11,307	1.89
Index Linked Gilt	301	0.04	406	0.07
Japanese Equity	1,852	0.27	1,861	0.31
Moderate Growth	1,108	0.16	1,025	0.17
UK Equity	30,456	4.43	26,761	4.47
US Equity	2,368	0.34	1,895	0.32
Overseas Equity	25,427	3.69	21,542	3.60
Defensive	2,219	0.32	2,162	0.36
Diversified Growth	6,517	0.96	5,713	0.96
Diversified Retirement	525	0.08	507	0.08
Drawdown Retirement	564	0.08	471	0.08
Target Annuity 2020 Retirement	4,785	0.70	4,475	0.75
Target Annuity 2021 Retirement	722	0.10	740	0.12
Target Annuity 2022 Retirement	1,390	0.20	1,290	0.22
Target Annuity 2023 Retirement	542	0.08	1,061	0.18
Target Annuity 2024 Retirement	110	0.02	95	0.02
Target Annuity 2027 Retirement	23	-	-	-
UK Corporate Bond	660	0.10	640	0.11
Ethical	5,738	0.83	5,202	0.87
Target Drawdown 2019 Retirement	-	-	4	-
Target Drawdown 2020 Retirement	1,339	0.19	1,572	0.26
Target Drawdown 2021 Retirement	6,028	0.88	5,926	0.99
Target Drawdown 2022 Retirement	8,785	1.28	8,448	1.41
Target Drawdown 2023 Retirement	7,310	1.06	7,268	1.21
Target Drawdown 2024 Retirement	11,096	1.61	10,032	1.68
Target Drawdown 2025 Retirement	10,026	1.46	8,877	1.48
Target Drawdown 2026 Retirement	11,354	1.65	10,315	1.72
Target Drawdown 2027 Retirement	15,263	2.22	-	-
Target Cash 2020 Retirement	76	0.01	72	0.01
Target Cash 2025 Retirement	715	0.10	619	0.10
	<b>688,152</b>	<b>100.0</b>	<b>598,806</b>	<b>100.00</b>

## Trustee's Report – Investment Matters (continued)

### Development of the investment strategy

Over the year to 31 December 2019, the Scheme completed the transition from a pooled, active LDI solution with Insight to a passive, segregated mandate. As a result, the Scheme now holds investments in a number of bond and derivative instruments, for the purpose of liability matching, which it has not held previously.

As at 31 December 2019, the Scheme targeted a hedge ratio of 40% on interest rate risk and 46% of inflation risk. This was the same as prior to the transition to a segregated mandate, and the transition reflected a change in the implementation of the strategy rather than a change to the hedging strategy itself.

Approximately 44.9% of the target interest rate exposure was achieved through the use of swap contracts and the remainder through fixed and index-linked gilt holdings (including repurchase agreements). This is based on Insight's analysis of the portfolio.

Approximately 45.8% of the target inflation exposure was achieved through the use of swap contracts and the remainder through index-linked gilt holdings (including repurchase agreements). This is based on Insight's analysis of the portfolio.

### Review of investment performance

The Scheme's annual, 3 year and 5 year returns for the Defined Benefit Section are set out in the table below, along with the benchmark returns over the same period.

Note: The Scheme return is an asset-weighted return using the actual performance of the fund managers. The liability benchmark is calculated using the estimated values of the Scheme's liabilities.

	<b>2015</b> <b>(%)</b>	<b>2016</b> <b>(%)</b>	<b>2017</b> <b>(%)</b>	<b>2018</b> <b>(%)</b>	<b>2019</b> <b>(%)</b>	<b>3 Year</b> <b>(% p.a.)</b>	<b>5 Year</b> <b>(% p.a.)</b>
Scheme Return (%)	<b>4.8</b>	<b>25.6</b>	<b>7.9</b>	<b>-2.5</b>	<b>9.2</b>	<b>4.7</b>	<b>8.6</b>
Benchmark Return (%)	<b>6.2</b>	<b>29.5</b>	<b>5.9</b>	<b>-2.1</b>	<b>10.6</b>	<b>4.7</b>	<b>9.5</b>
Liability Benchmark (%) <sup>1</sup>	<b>2.6</b>	<b>28.7</b>	<b>4.4</b>	<b>-0.8</b>	<b>12.5</b>	<b>11.2</b>	<b>14.3</b>

<sup>1</sup> Annual figures for the 2016 liability benchmark performance have been restated following the sign off of the valuation as at 31 December 2015.

## Trustee's Report – Investment Matters (continued)

## Review of investment performance (continued)

Overall the Scheme achieved a positive return of 9.2% over the year ending 31 December 2019. The returns for 2019 are broken down into quarterly returns as follows:

	<b>Q1 2019 (%)</b>	<b>Q2 2019 (%)</b>	<b>Q3 2019 (%)</b>	<b>Q4 2019 (%)</b>	<b>1 Year (%)</b>
Scheme Return (%)	<b>5.3</b>	<b>2.6</b>	<b>6.5</b>	<b>-5.0</b>	<b>9.2</b>
Liability Benchmark (%)	<b>8.9</b>	<b>1.7</b>	<b>13.2</b>	<b>-10.3</b>	<b>12.5</b>

The Scheme's annual, 3 year and since inception returns for the Defined Contribution Section, are set out in the table below, along with the benchmark returns over the same period. The Growth Fund performance reflects the default option which relates to the majority of member investments. Members are notified directly on their individual investment performance.

	<b>Q4 2019 (%)</b>	<b>1 Year (%)</b>	<b>3 Year (% p.a.)</b>	<b>Since inception * (% p.a.)</b>
High Growth Fund				
Scheme return (%)	<b>3.0</b>	<b>19.1</b>	<b>8.3</b>	<b>9.6</b>
Benchmark return (%)	<b>1.3</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>
Growth Fund				
Scheme return (%)	<b>2.1</b>	<b>18.4</b>	<b>7.7</b>	<b>9.7</b>
Benchmark return (%)	<b>1.2</b>	<b>4.8</b>	<b>4.6</b>	<b>4.5</b>

- date of inception 24 October 2012.

## Trustee's Report (continued)

### Compliance Matters

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

#### Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pensions Act 1993.

#### The Pensions Advisory Service ("TPAS")

TPAS is available to assist members and beneficiaries of the Scheme on pension matters.

TPAS may be contacted at Money and Pensions Service, 120 Holborn, London, EC1N 2TD

Telephone: 0800 011 3797

#### Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme and can be contacted at 1<sup>st</sup> Floor, 10 South Colonnade, Canary Wharf, London, E14 4PU.

Telephone: 0800 917 4487 Early resolution email: [helpline@pensions-ombudsman.org.uk](mailto:helpline@pensions-ombudsman.org.uk)

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

#### Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where Trustees, Employers or Professional Advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Terrace, Brighton, BN1 4DW.

Telephone: 0345 600 7060

#### Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions. The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU.

Telephone: 0800 731 0193

#### Regulation under the applicable Data Protection Legislation

The data provided by members on their application forms is processed using computers. The use of such data is registered under the applicable Data Protection Legislation for the purposes of pensions administration by the Trustee and of personnel/employee administration by the company.

## Trustee's Report (continued)

### DC Governance Statement

## Chair's Annual Governance Statement for the Period 1 January 2019 to 31 December 2019

### Annual statement regarding governance

Under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Corporate Trustee (the 'Trustee') of the EE Pension Scheme (the 'Scheme') is required to prepare a statement (the 'Statement') on governance for inclusion in the Trustee's annual report.

This document sets out the Statement covering the period 1 January 2019 to 31 December 2019.

### The default arrangement

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 (the '1995 Act') and Regulation 2 / Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations').

The current default arrangement for DC members in all sections of the Scheme is a "Target Retirement Fund" which switches investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. This is known as a Target Drawdown Strategy.

Members who intend to withdraw their retirement benefits in other ways have the option of switching to alternative lifestyle strategies prior to retirement or even choosing their own investment strategy from the range of fund choices available.

Members are supported by clear communications regarding the aims of the default and the alternative investment options available.

As a result of the introduction of new DC flexible retirement options from 6 April 2015, the Trustee completed a review of the default arrangement. This was carried out in September 2014. In the absence of any substantive market data to support using a default targeting a particular retirement benefit, the Trustee implemented the Target Drawdown Strategy designed for members who want to leave their savings invested at retirement and use income drawdown to withdraw money as needed. The default funds are reviewed annually by Mercer Workplace Savings who manage the funds. The Trustee undertook a review of the default investment strategy in 2019. Based on the demographic profile of the membership and industry trends, the Trustee decided to maintain the default strategy as Target Drawdown Retirement Path.

The Trustee has implemented three different Target Retirement Fund strategies, each aimed to be appropriate for a member taking their benefits at retirement as one of three ways:

- Drawdown (Target Drawdown Strategy)
- 75% Annuity purchase, 25% Cash (Target Annuity Strategy)
- 100% Cash (Target Cash Strategy)

Each of these strategies is split into two phases: the Growth phase and the Pre-Retirement Phase. Please see the SIP for further details in relation to the Scheme's default investment option, this covers the aims and objectives in relation to the default investment arrangement as well as policies in relation to matters such as risk and diversification.

The Trustee will keep the investment arrangements under regular review and will amend them as appropriate based on analysis of the likely requirements of the typical Scheme member.



## Trustee's Report (continued)

### DC Governance Statement (continued)

#### Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

The Trustee Benefit Committee meets quarterly to monitor the Scheme's administration and management. Included in this are reviewing the Administrator reports to ensure the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the Scheme and the payment of benefits on retirement.

The Scheme's Risk Register outlines the main risks to Scheme members and these are monitored and reviewed on a regular basis.

The Trustee has delegated the administration of Scheme member records to Scottish Widows Limited and Equitable Life and has agreed minimum timescales with Scottish Widows Limited for all services, including core financial functions. The administration reports produced by Scottish Widows Limited are reviewed at each quarterly Trustee meeting by the Trustee Directors. The Trustee also receives regular Management Information from Equitable Life for review.

The Schedule of Contributions/Payment Schedule sets out timescales for the Company to remit monthly contributions to the Scheme. However, agreed practice provides for payment of contributions on much shorter timescales, usually within 10 working days.

The Trustee has delegated the day to day investment management of the DC assets to a range of professional investment managers who are accessed through the Scottish Widows Limited investment platform and Equitable Life, with whom the Trustee holds a long-term insurance policy.

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Appointing a professional third party administrator, currently Scottish Widows Limited.
- Having in place Service Level Agreements (SLAs) with the administrator which cover all core administration processes, including payments of benefits in respect of members and the transfers of assets into and out of the Scheme.
- Monitoring SLAs on a quarterly basis as part of the review of management information provided by the administrator. The administrator also attends Trustee and operational meetings where appropriate
- Maintaining a Plan Payment schedule and ensuring robust procedures for the payment and investment of Plan contributions.
- Obtaining an AAF internal controls audit report from the administrator each year.
- Maintaining close working links between the in-house Human Resource and Payroll teams, along with the administrator.
- Monitoring the quality of Plan membership data held by the administrator on an ongoing basis.
- Maintaining and monitoring a risk register which includes risks in relation to core financial transactions.
- Appointing a professional firm, Ernst & Young LLP, to undertake an annual audit.

## Trustee's Report (continued)

## DC Governance Statement (continued)

**Charges and transactions costs**

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the default arrangement and their assessment of the extent to which the charges and costs represent good value for members.

The total charges payable (quoted in the following tables as TER – Total Expense Ratio) under the default and alternative lifestyle strategies (will vary depending on the stage that each member has reached in the default arrangement's growth and de-risking process. The table overleaf shows the TER of the funds as they currently stand. The TER includes the fees charged by the underlying manager, the platform charge from Scottish Widows Limited and the fee for Mercer Intermediary Services. Note that expenses are a function of the size of the fund and will change over time.

All of the funds used in the default strategy have TERS that fall below the charge cap of 0.75% p.a.

**“Do it for me”****Default – Target Drawdown**

Investment Phase	Fund	TER (% pa)	Transaction Cost (% pa)
<b>Growth:</b>	Mercer Growth Fund	0.42	0.000
<b>De-risking:</b>	Target Drawdown Series	0.48 – 0.50	0.026 – 0.161

*TER correct as at August 2019*

**“Help me do it”****Target Annuity**

Investment Phase	Fund	TER (% pa)	Transaction Cost (% pa)
<b>Growth:</b>	Mercer Growth Fund	0.42	0.000
<b>De-risking:</b>	Target Annuity Series	0.32 – 0.48	0.001 – 0.009

*TER correct as at August 2019*

**Target Cash**

Investment Phase	Fund	TER (% pa)	Transaction Cost (% pa)
<b>Growth:</b>	Mercer Growth Fund	0.42	0.000
<b>De-risking:</b>	Target Cash Series	0.38 – 0.47	-0.023 – 0.014

*TER correct as at August 2019*

## Trustee's Report (continued)

## DC Governance Statement (continued)

**“Leave me to it”**

The following table provides information on the charges for the self-select investment options as they currently stand, including those funds used in the default, as well as the Target Retirement strategies:

Fund	TER (% pa)	Transaction Cost (% pa)
Growth	0.42	0.000
High Growth	0.44	0.000
Moderate Growth	0.44	0.000
Defensive	0.40	0.000
Cash and Money Market	0.33	0.014
Global Equity (60:40) Fund	0.26	-0.015
UK Equity Fund	0.27	-0.067
Overseas Equity Fund	0.27	-0.021
US Equity Fund	0.27	-0.005
European (ex-UK) Equity Fund	0.29	-0.018
Japanese Equity Fund	0.29	0.091
Asia Pacific (ex-Japan) Equity Fund	0.26	-0.020
Emerging Markets Equity Fund	0.48	-0.178
Diversified Growth Fund	0.53	0.220
Diversified Retirement Fund	0.49	0.210
Pre-Retirement Fund	0.31	0.007
Property Fund	0.98	-0.434
Ethical Fund	0.94	0.123
Shariah Fund	0.54	0.047
Index-Linked Gilts Fund	0.27	0.018
Fixed-Interest Gilts Fund	0.27	-0.035
UK Corporate Fund	0.28	-0.047

*TER correct as at August 2019*

- In relation to transaction costs, we note that when buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, and the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain (on average) from trading activity, whilst a positive figure is effectively a cost from trading activity.

Historically, members were able to invest in a With Profits fund managed by Equitable Life Assurance Society (“Equitable Life”). This is now closed to new investment however some members still have a holding in this fund. Due to the way in which With-Profits Funds are structured, any fee is charged as an implicit fee within the Funds and as such, it has not been possible to ascertain the transaction costs for members of the Scheme.

## Trustee's Report (continued)

## DC Governance Statement (continued)

**Reporting Costs and Charges**

In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, for active members the Trustee has based the illustration on a starting pot size of £7,450, salary of £20,760, contribution level of 10.4% and an age of 34. For deferred members, a starting pot of £14,120 and age of 39 no additional contributions are assumed. We have also assumed an annual inflation of 2.5% per annum.

Active Members

Projected Pot sizes in Today's Money (£)								
	Most Popular Fund		Most Expensive Fund		Highest Expected Growth & Least Expensive Fund		Lowest Expected Growth	
	Drawdown Lifestyle Strategy		Ethical Fund		Pacific Rim ex-Japan Equity Fund		Cash & Money Market Fund	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	9,770	9,730	9,870	9,760	9,860	9,830	9,660	9,630
2	12,140	12,050	12,360	12,120	12,330	12,270	11,880	11,810
3	14,560	14,400	14,920	14,520	14,880	14,780	14,120	14,000
5	19,530	19,220	20,290	19,470	20,200	20,000	18,640	18,390
10	32,850	31,910	35,220	32,720	34,940	34,310	30,160	29,480
15	47,510	45,610	52,570	47,310	51,960	50,630	42,050	40,710
20	63,670	60,380	72,740	63,390	71,620	69,240	54,290	52,080
25	81,250	75,880	96,190	81,110	94,330	90,450	66,910	63,610
30	98,440	89,990	123,430	100,640	120,560	114,640	79,920	75,280
31	101,350	92,220	129,390	104,780	126,280	119,870	82,570	77,640

## Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. Values are estimates and are not guaranteed.
3. The projected growth rate for each fund are as follows:
  - A. Drawdown Lifestyle Strategy (Default Fund): between 1.96% and 0.59% p.a. gross expected real return
  - B. Pacific Rim ex-Japan Fund (Cheapest and Highest Growth Fund): 2.93% p.a. gross expected real return
  - C. Ethical Fund (Most Expensive Fund): 2.93% p.a. gross expected real return
  - D. Cash & Money Market Fund (Lowest Growth Fund): 0.59% p.a. gross expected real return
4. The Transaction Costs relate to the actual transaction costs incurred in the Scheme year.

## Trustee's Report (continued)

## DC Governance Statement (continued)

## Deferred Members

Projected Pot sizes in Today's Money (£)								
	Most Popular Fund		Most Expensive Fund		Highest Expected Growth & Least Expensive Fund		Lowest Expected Growth	
	Mercer Growth Fund		Ethical Fund		Pacific Rim ex-Japan Equity Fund		Target Cash 2020 Retirement Fund	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	14,400	14,340	14,560	14,400	14,530	14,490	14,100	14,000
2	14,680	14,560	15,020	14,680	14,950	14,880	14,070	13,890
3	14,970	14,790	15,500	14,970	15,390	15,280	14,050	13,780
5	15,570	15,250	16,490	15,560	16,290	16,100	14,010	13,550
10	17,170	16,460	19,260	17,140	18,800	18,360	13,900	13,010
15	18,940	17,780	22,490	18,890	21,700	20,930	13,790	12,480
20	20,890	19,200	26,270	20,810	25,040	23,870	13,680	11,980
25	23,040	20,730	30,690	22,930	28,900	27,210	13,580	11,500
26	23,500	21,050	31,650	23,380	29,740	27,940	13,560	11,410

## Notes:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- The starting pot size is assumed to be £14,120 and no further contributions are assumed.
- The starting salary is assumed to be £nil.
- Values are estimates and are not guaranteed.
- The projected growth rate for each fund are as follows:
  - Drawdown Lifestyle Strategy (Default Fund): between 1.96% and 0.59% p.a. gross expected real return
  - Pacific Rim ex-Japan Fund (Cheapest and Highest Growth Fund): 2.93% p.a. gross expected real return
  - Ethical Fund (Most Expensive Fund): 2.93% p.a. gross expected real return
  - Cash & Money Market Fund (Lowest Growth Fund): 0.59% p.a. gross expected real return
- The Transaction Costs relate to the actual transaction costs incurred in the Scheme year.

## DC Governance Statement (continued)

## Reporting Costs and Charges (continued)

Due to the diverse Scheme demographics, a further illustration is set out below to reflect the position for younger members of the Scheme.

This is based on a member age of 20, using a starting pot size of £1,050 and assumes an overall contribution level of 10.7%. An assumed starting salary of £14,660 has been used, with a 2.50% salary increase per year.

Projected Pot sizes in Today's Money (£)								
	Most Popular Fund		Most Expensive Fund		Highest Expected Growth & Least Expensive Fund		Lowest Expected Growth	
	Drawdown Lifestyle Strategy		Ethical Fund		Pacific Rim ex-Japan Equity Fund		Cash & Money Market Fund	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	2,650	2,640	2,670	2,640	2,670	2,660	2,630	2,620
2	4,290	4,260	4,340	4,270	4,340	4,320	4,220	4,190
3	5,950	5,900	6,070	5,930	6,050	6,020	5,820	5,770
5	9,390	9,260	9,670	9,340	9,640	9,560	9,040	8,940
10	18,570	18,110	19,700	18,470	19,560	19,260	17,280	16,940
15	28,690	27,660	31,350	28,540	31,020	30,320	25,770	25,040
20	39,830	37,960	44,890	39,630	44,270	42,930	34,520	33,240
25	52,110	49,070	60,630	51,850	59,560	57,310	43,540	41,560
30	65,640	61,060	78,920	65,310	77,230	73,710	52,840	49,980
35	80,550	73,990	100,180	80,150	97,640	92,400	62,420	58,510
40	96,470	87,110	124,900	96,490	121,210	113,720	72,290	67,160
41	99,620	89,570	130,300	99,960	126,350	118,330	74,300	68,900

## Notes:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- The starting pot size is assumed to be £1,050 and future contributions of 10.7% have been assumed.
- The starting salary is assumed to be £14,650 with an assumed increase of 2.5% per year.
- Values are estimates and are not guaranteed.
- The projected growth rate for each fund are as follows:
  - Drawdown Lifestyle Strategy (Default Fund): between 1.96% and 0.59% p.a. gross expected real return
  - Pacific Rim ex-Japan Fund (Cheapest and Highest Growth Fund): 2.93% p.a. gross expected real return
  - Ethical Fund (Most Expensive Fund): 2.93% p.a. gross expected real return
  - Cash & Money Market Fund (Lowest Growth Fund): 0.59% p.a. gross expected real return
- The Transaction Costs relate to the actual transaction costs incurred in the Scheme year.

## Value for Money

In accordance with regulation 25(1)(b), the Trustee is required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for members, relative to peers and alternative arrangements that are available.

## DC Governance Statement (continued)

### Value for Money (continued)

The Trustee has previously conducted a Value for Money Assessment in order to assess value for money, incorporating consideration of:

- Investment charges for the default and self-select options – compliance with the charge cap limits
- Transaction costs – information not available for this report
- Net performance
- Other Scheme features
- Scheme governance
- Investment design and range
- Investment manager and platform provider ratings
- Administration

The Trustee has assessed the extent to which the charges set out above represent good value for members and has concluded, following receipt of a report from its independent DC adviser, that the Scheme offers **good** value for money relative to peers and alternative arrangements that are available.

The reasons underpinning this conclusion include:

- Charges for the Scheme's default investment arrangement are competitive and below the charge cap of 0.75% per annum;
- Charges on funds have been assessed by Mercer as comparing favourably with those of peer funds;
- The funds used by the Scheme are highly rated by Mercer as having good prospects of achieving their risk and return objectives (by assessing risk and return objectives, members are able to identify which managers have achieved capital growth over a designated period of time);
- The performance of the Scheme's funds is monitored frequently, and over the last three years generally compare favourably relative to their benchmarks. Where this has not been the case the Trustees apply a watching brief.

In their regular duties, the Trustee endeavours to maintain a good quality Scheme, with members having access to appropriate investment arrangements; the administration being delivered in line with agreed targets and regular communications to aid member understanding of their benefits.

Providing a comparison between a With-Profits Fund and its peers is extremely challenging. Each With-Profits Fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific With-Profits Fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of With-Profits funds is not sufficiently alike to enable relative assessments based on past or potential performance.

Payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of 'smoothing'.

## DC Governance Statement (continued)

### Value for Money (continued)

'Smoothing' is an additional comfort factor within With-Profits funds. In years when investment performance is high, some of the return is held back to 'top-up' returns when lower performance occurs. Hence, at the point a specific member disinvests, smoothing may reduce or increase the payout relative to the underlying investment performance of the assets, thereby reducing investment risk for the individual investor and providing a steadier pattern of return. Insurers are required to stipulate that the payout in the event of early disinvestment will fall within a specified percentage of the underlying share of the assets attributable to the specific investor. Their ranges are targets; they are not guaranteed.

Finally, With-Profits investments may be subject to a Market Value Adjustment, which means that it is very difficult to predict whether a member will suffer an exit penalty on transfer out to another arrangement.

Assessing Value for Money of a With-Profits fund is also directly related to an individual's attitude towards, and capacity for, investment risk, as well as their individual circumstances. A member may find comfort in the fact that a with-profits fund provides guarantees; whether that is a guaranteed pension, investment return or capital security. Therefore, we consider it inappropriate to reach a general conclusion on value for money from the with-profits arrangement, as this will vary greatly by member.

### Trustee knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004, requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question.

The Trustee has undertaken the following:

- The Trustee has worked through the trustee knowledge and understanding requirements set by The Pensions Regulator ("TPR") and keeps up to date with ongoing developments.
- The Trustee maintains a programme of Trustee training which includes training delivered as part of Trustee's meetings as well as structured training events and webinars where required for specific events.
- The Trustee maintains a training log to record training which shows that the Trustees attended specific training events such as Valuation training.
- The Trustee Directors are an experienced board and it reviews their training programme at least annually, taking into account the balance and variety of expertise amongst the Trustee. A Trustee survey is planned for 2020 to re-assess training needs and effectiveness.
- The Trustee regularly receives email bulletins and updates from their advisers on the latest developments affecting defined benefit and defined contribution pension schemes.
- The Trustee has paid due consideration to TPR's DC Code of Practice No.13 and undertook an assessment of the Scheme in relation to the Code in June 2017 following publication of the revised DC Code of Practice by TPR.

The Trustee will also review and assess, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.



## Trustee's Report (continued)

## DC Governance Statement (continued)

**Chair's declaration**

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

I confirm that the above Statement has been produced by the Trustee to the best of its knowledge.

Signature: Name:

[Jonathan Clarke \(Jun 29, 2020 13:31 GMT+1\)](#)

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Name: Jonathan Clarke

Position: **Chair of Trustee Directors of the EE Pension Scheme**

Date: 29/06/2020

**Appendix**

Statement of Investment Principles effective September 2017

## Trustee's Report (continued)

### 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 Regulation 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 judgements 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.

#### **Defined benefit schemes**

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.

#### **Money purchase schemes**

The Trustee is responsible under pensions legislation for securing that a payment schedule is prepared, maintained and from time to time revised 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 payment schedule. 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.

## Trustee’s Report (continued)

### Contact for Further Information

Enquiries about individual member’s defined benefit section benefits should be addressed to:

Capita  
2<sup>nd</sup> Floor  
145 Morrison Street  
Edinburgh EH3 8FJ

Email: [ee.helpline@capita.co.uk](mailto:ee.helpline@capita.co.uk)

General enquiries for defined contribution section members should be addressed to:

EE Pension Trustee Limited  
Capricorn  
2620 The Quadrant  
Aztec West  
Bristol  
BS32 4TE

Telephone: 01707 318810

Email: [hr.reward@ee.co.uk](mailto:hr.reward@ee.co.uk)

Enquiries about individual member’s benefits in defined contribution section should be addressed to:

Telephone: 0800 3899160

Email: [eeserviceteam@scottishwidows.co.uk](mailto:eeserviceteam@scottishwidows.co.uk)

**Signed on behalf of the EE Pension Scheme by:**

29/06/2020

.....

**Date:** .....

**Director**  
**EE Pension Trustee Limited**

29/06/2020

.....

**Date:** .....

**Director**  
**EE Pension Trustee Limited**

# Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustees 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 2018. This showed that on that date:

The value of the Technical Provisions was: £923.4 million

The value of the assets at that date was: £762.1 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 with a 3 year central period to calculate the cost of future benefit accrual.

## Significant actuarial assumptions

**Discount interest rate:** Gilt yield curve plus 2.0% p.a. until 31 December 2032. Declining to a gilt yield curve plus 0.5% p.a. at 31 December 2042 and a gilt yield curve plus 0.3% p.a. after 31 December 2052.

**Retail Price inflation:** RPI swap markets.

**Consumer Price inflation:** RPI inflation curve less 1.1% p.a.

**Pension increases:** LPI curves based on RPI inflation assumption adjusted with allowance for caps and floors and with the aim of approximately reflecting the cost of hedging these increases using LPI-linked swaps.

**Pensionable salary increases:** RPI inflation curve plus an age related scale for promotional increases.

**Post-retirement mortality assumption – base table:** standard 'SAPS S3 All' table with CMI 2018 improvements.

**Post-retirement mortality assumption – future improvements:** CMI 2018 core projections with long-term improvement rate of 1.5% p.a.

**Withdrawal:** Allowance is made for withdrawals from service using an age related scale until 30 June 2014, when the Final Salary Section of the Scheme closed to future accrual.

# Actuary's Certification of the Schedule of Contributions

**Name of Scheme:** EE 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 2018 to be met by the end of the period specified in the recovery plan dated 23 March 2020.

## 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 dated 23 March 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 to be wound-up.

<b>Signature:</b>	<i>S Head</i>
<b>Scheme Actuary:</b>	Simon Head
<b>Date of signing:</b>	23 March 2020
<b>Name of Employer:</b>	Aon Hewitt Limited
<b>Address:</b>	Verulam Point Station Way St Albans AL1 5HE
<b>Qualification:</b>	Fellow of the Institute and Faculty of Actuaries

# Actuarial Certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

**Name of Scheme:** EE Pension Scheme

## Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 23 March 2020.

**Signature:** *S Head*

**Scheme Actuary:** Simon Head

**Date of signing:** 23 March 2020

**Name of Employer:** Aon Hewitt Limited

**Address:** Verulam Point  
Station Way  
St Albans  
AL1 5HE

**Qualification:** Fellow of the Institute and Faculty of Actuaries

# Independent Auditor's Report to the Trustee of the EE Pension Scheme

## Opinion

We have audited the financial statements of the EE Pension Scheme for the year ended 31 December 2019 which comprise the Fund Account, the Statement of Net Assets and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2019, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

## Basis for opinion

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

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

## Emphasis of matter – Effects of Covid 19

We draw attention to note 26 of the financial statements, which discloses the economic consequences the Scheme is facing as a result of Covid 19 which is impacting the financial markets. Our opinion is not modified in respect of this matter.

## Conclusions relating to going concern

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

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

## Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements, our auditor's report thereon and our auditor's statement on contributions. The Trustee is responsible for the other information.

## Independent Auditor's Report to the Trustee of the EE Pension Scheme (continued)

### Other information (continued)

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

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

We have nothing to report in this regard.

### Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 23, 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 have no realistic alternative but to do so.

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

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

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

### Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them 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

Bristol

Date: 2 July 2020



# Independent Auditor's Statement about Contributions to the Trustee of the EE Pension Scheme

We have examined the summary of contributions to the EE Pension Scheme for the scheme year ended 31 December 2019 which is set out in the Trustee's Report on page 8.

In our opinion contributions for the scheme year ended 31 December 2019 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the scheme actuary on 21 March 2017.

## 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 8 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 Trustees and the auditor

As described more fully in the Statement of Trustee's Responsibilities on page 23, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule 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  
Bristol

Date: 2 July 2020

## Fund Account

## For the year ended 31 December 2019

		Defined benefit section 2019 £'000	Defined contribution section 2019 £'000	Total 2019 £'000	Total 2018 £'000
<b>Contributions and benefits</b>					
Employer contributions		22,500	18,014	40,514	42,261
Employee contributions		-	632	632	888
<b>Total contributions</b>	4	<b>22,500</b>	<b>18,646</b>	<b>41,146</b>	<b>43,149</b>
Transfers in	5	-	542	542	246
Other income	6	-	1,700	1,700	49
		<b>22,500</b>	<b>20,888</b>	<b>43,388</b>	<b>43,444</b>
Benefits paid or payable	7	(7,325)	(5,137)	(12,462)	(10,577)
Payment to and on account of leavers	8	(5,887)	(35,284)	(41,171)	(50,031)
Administration expenses	9	(32)	(101)	(133)	(141)
Other payments	10	-	(4)	(4)	(2)
		<b>(13,244)</b>	<b>(40,526)</b>	<b>(53,770)</b>	<b>(60,751)</b>
<b>Net additions / (withdrawals) from dealings with Members</b>		<b>9,256</b>	<b>(19,638)</b>	<b>(10,382)</b>	<b>(17,307)</b>
<b>Returns on investments</b>					
Investment income	11	7,098	12	7,110	23,391
Change in market value of investments	12	82,872	107,601	190,473	(73,585)
Investment management expenses	13	(1,726)	-	(1,726)	(1,172)
<b>Net returns on investments</b>		<b>88,244</b>	<b>107,613</b>	<b>195,857</b>	<b>(51,366)</b>
<b>Net increase / (decrease) in the fund during the year</b>		<b>97,500</b>	<b>87,975</b>	<b>185,475</b>	<b>(68,673)</b>
<b>Net assets of the Scheme at start of year</b>		<b>770,955</b>	<b>629,273</b>	<b>1,400,228</b>	<b>1,468,901</b>
<b>Net assets of the Scheme at end of year</b>		<b>868,455</b>	<b>717,248</b>	<b>1,585,703</b>	<b>1,400,228</b>

The accompanying notes on pages 35 to 62 are an integral part of these financial statements.

## Statement of Net Assets as at 31 December 2019 (available for benefits)

	Note	Defined benefit section 2019 £'000	Defined contribution section 2019 £'000	Total 2019 £'000	Total 2018 £'000
<b>Investment assets:</b>					
Pooled investment vehicles	15	684,350	688,152	1,372,502	1,353,408
Bonds		250,791	-	250,791	-
Insurance policies	16	-	25,635	25,635	25,108
AVC investments	17	9,907	-	9,907	8,823
Cash and other		7,299	1,441	8,740	3,121
Derivatives	18	67,356	-	67,356	-
Amounts receivable under repurchase agreements	19	15,350	-	15,350	-
		<b>1,035,053</b>	<b>715,228</b>	<b>1,750,281</b>	<b>1,390,460</b>
<b>Investment liabilities:</b>					
Cash and other		-	-	-	(3,000)
Derivatives	18	(50,125)	-	(50,125)	-
Amounts due under repurchase agreements	19	(120,424)	-	(120,424)	-
		<b>(170,549)</b>	<b>-</b>	<b>(170,549)</b>	<b>(3,000)</b>
<b>Total net investments</b>	12	<b>864,504</b>	<b>715,228</b>	<b>1,579,732</b>	<b>1,387,460</b>
<b>Current assets</b>	22	<b>4,258</b>	<b>3,191</b>	<b>7,449</b>	<b>14,851</b>
<b>Current liabilities</b>	23	<b>(307)</b>	<b>(1,171)</b>	<b>(1,478)</b>	<b>(2,083)</b>
<b>Net assets of the Scheme at end of year</b>		<b>868,455</b>	<b>717,248</b>	<b>1,585,703</b>	<b>1,400,228</b>

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 takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on page 27 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 35 to 62 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 29 June 2020.

Signed on behalf of the Trustee: .....

# Notes to the Financial Statements

## 1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements have been prepared on a going concern basis.

## 2. Accounting policies

The principal accounting policies of the Scheme are as follows:

### Contributions

Employee contributions, including AVCs, are accounted for by the Trustee when they are deducted from pay by the Employer, except for the first contribution due where the employee has been auto-enrolled by the Employer in which case it is accounted for when received by the Scheme.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions in force during the year.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are payable.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the employer and Trustee.

### Payments to members

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving or notification of death.

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

### Transfers to and from other schemes

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

### Expenses

Administrative expenses are borne by the Employer, other than those shown in note 9. Investment manager expenses are accounted for on an accruals basis.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### **Investment income**

Income from cash and short term deposits is accounted for on an accruals basis.

Income from pooled investment vehicles which distribute income is accounted for when declared by the fund manager.

Investment income, which is not distributed, arising from the underlying investment of pooled investment vehicles is reinvested within the pooled investment vehicles reflected in the unit price. It is reported within the change in market value.

Income from fixed interest and index linked securities is accounted for on an accruals basis and reflects interest bought and sold on investment purchases and sales.

#### **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 during the year.

Investments are included at fair value as described below:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The fair value of the interest rate swaps and inflation swaps is calculated using pricing models populated with market observable inputs. Swaps contracts are valued on a single-price basis due to the absence of a bid and offer spread. Realised gains and losses on closed contracts and unrealised gains and losses on open contracts are included in change in market value. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets or liabilities).

With profit insurance policies are reported at the policy value provided by the insurance company based on the cumulative reversionary bonuses declared and the current terminal bonus.

Repurchase agreements are accounted for as follows:

- Repurchase agreements (repo) - the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.

Fixed interest securities are stated at their clean prices. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### **Presentation currency**

The Scheme's presentational and functional currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

## Notes to the Financial Statements (continued)

## 3. Comparative disclosures for the Fund Account and Statement of Net Assets

## Fund Account

		Defined benefit section 2018 £'000	Defined contribution section 2018 £'000	Total 2018 £'000
<b>Contributions and benefits</b>				
Employer contributions		21,875	20,386	42,261
Employee contributions		-	888	888
<b>Total contributions</b>	4	<b>21,875</b>	<b>21,274</b>	<b>43,149</b>
Transfers in	5	-	246	246
Other income	6	-	49	49
		<b>21,875</b>	<b>21,569</b>	<b>43,444</b>
Benefits paid or payable	7	(6,073)	(4,504)	(10,577)
Payment to and on account of leavers	8	(13,241)	(36,790)	(50,031)
Administration expenses	9	(27)	(114)	(141)
Other payments	10	-	(2)	(2)
		<b>(19,341)</b>	<b>(41,410)</b>	<b>(60,751)</b>
<b>Net additions / (withdrawals) from dealings with Members</b>		<b>2,534</b>	<b>(19,841)</b>	<b>(17,307)</b>
<b>Returns on investments</b>				
Investment income	11	23,381	10	23,391
Change in market value of investments	12	(46,707)	(26,878)	(73,585)
Investment management expenses	13	(1,172)	-	(1,172)
<b>Net returns on investments</b>		<b>(24,498)</b>	<b>(26,868)</b>	<b>(51,366)</b>
<b>Net decrease in the fund during the year</b>		<b>(21,964)</b>	<b>(46,709)</b>	<b>(68,673)</b>
<b>Net assets of the Scheme at start of year</b>		792,919	675,982	1,468,901
<b>Net assets of the Scheme at end of year</b>		<b>770,955</b>	<b>629,273</b>	<b>1,400,228</b>

## Notes to the Financial Statements (continued)

## 3. Comparative disclosures for the Fund Account and Statement of Net Assets (continued)

## Statement of Net Assets (available for benefits)

	Note	Defined benefit section 2018 £'000	Defined contribution section 2018 £'000	Total 2018 £'000
<b>Investment assets:</b>	12			
Pooled investment vehicles	15	754,602	598,806	1,353,408
Insurance policies	16	-	25,108	25,108
AVC investments	17	8,823	-	8,823
Cash and other		1,193	1,928	3,121
		<b>764,618</b>	<b>625,842</b>	<b>1,390,460</b>
<b>Investment liabilities:</b>				
Cash and other		(3,000)	-	(3,000)
Derivatives		-	-	-
		<b>(3,000)</b>	<b>-</b>	<b>(3,000)</b>
<b>Total net investments</b>		<b>761,618</b>	<b>625,842</b>	<b>1,387,460</b>
<b>Current assets</b>	22	<b>9,665</b>	<b>5,186</b>	<b>14,851</b>
<b>Current liabilities</b>	23	<b>(328)</b>	<b>(1,755)</b>	<b>(2,083)</b>
<b>Net assets of the Scheme at end of year</b>		<b>770,955</b>	<b>629,273</b>	<b>1,400,228</b>



## Notes to the Financial Statements (continued)

## 4. Contributions

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b>  <b>Total</b>  <b>£'000</b>
<b>Employer contributions</b>			
Normal	-	18,014	18,014
Deficit funding	22,500	-	22,500
	<b>22,500</b>	<b>18,014</b>	<b>40,514</b>
<b>Employee contributions</b>			
Normal	-	397	397
Additional voluntary contributions	-	235	235
	<b>-</b>	<b>632</b>	<b>632</b>
	<b>22,500</b>	<b>18,646</b>	<b>41,146</b>
<b>2018</b>			
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Employer contributions</b>			
Normal	-	20,386	20,386
Deficit funding	21,875	-	21,875
	<b>21,875</b>	<b>20,386</b>	<b>42,261</b>
<b>Employee contributions</b>			
Normal	-	299	299
Additional voluntary contributions	-	589	589
	<b>-</b>	<b>888</b>	<b>888</b>
	<b>21,875</b>	<b>21,274</b>	<b>43,149</b>

Deficit contributions are being paid in accordance with the Schedule of Contributions to cover the shortfall of the Scheme as determined by the actuarial valuation of the Scheme as at 31 December 2018. £1,666,667 per month was being paid by the Employer into the Scheme for the period 1 April 2014 to 31 March 2018. For the period 1 April 2018 to 31 December 2020, £1,875,000 per month will be paid. For the period 1 January 2020 to 31 July 2022 £3,333,333 per month will be paid by the Employer into the Scheme.

Member normal contributions represent contributions from members not participating in the salary sacrifice arrangement.

Employer normal contributions include notional contributions in respect of Salary Sacrifice members.

## Notes to the Financial Statements (continued)

## 5. Transfers in

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Individual transfers in from other schemes	-	542	542
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Individual transfers in from other schemes	-	246	246

## 6. Other income

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Other income	-	26	26
Claims on life assurance policies	-	1,674	1,674
	-	<b>1,700</b>	<b>1,700</b>
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Other income	-	-	-
Claims on life assurance policies	-	49	49
	-	49	49

## Notes to the Financial Statements (continued)

## 7. Benefits paid or payable

	<b>2019</b>	<b>2019</b>	<b>2019</b>
	<b>Defined</b>	<b>Defined</b>	<b>Total</b>
	<b>benefit</b>	<b>contribution</b>	<b>Total</b>
	<b>section</b>	<b>section</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Payment of pensions	5,191	-	5,191
Commutations and lump sum retirement benefits	2,097	2,827	4,924
Lump sum death benefits	37	2,310	2,347
Taxation where lifetime or annual allowance exceeded	-	-	-
	<u><b>7,325</b></u>	<u><b>5,137</b></u>	<u><b>12,462</b></u>
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Payment of pensions	4,787	-	4,787
Commutations and lump sum retirement benefits	1,019	3,767	4,786
Lump sum death benefits	142	737	879
Taxation where lifetime or annual allowance exceeded	125	-	125
	<u><b>6,073</b></u>	<u><b>4,504</b></u>	<u><b>10,577</b></u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

## Notes to the Financial Statements (continued)

## 8. Payments to and on account of leavers

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Refunds to members leaving service	-	5	5
Pension sharing on divorce	305	-	305
Individual transfers to other schemes	5,479	32,690	38,169
Charges deducted by way of cancellation of member units	-	1,073	1,073
Employer trustee reserve refund	-	1,300	1,300
Purchase of annuities	98	216	314
State Scheme premiums	5	-	5
	<b>5,887</b>	<b>35,284</b>	<b>41,171</b>
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Refunds to members leaving service	-	7	7
Pension sharing on divorce	484	-	484
Individual transfers to other schemes	12,757	35,104	47,861
Charges deducted by way of cancellation of member units	-	1,380	1,380
Employer trustee reserve refund	-	133	133
Purchase of annuities	-	166	166
	<b>13,241</b>	<b>36,790</b>	<b>50,031</b>

## 9. Administration expenses

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Bank charges and other expenses	1	46	47
Trustee Directors fees	31	21	52
PPF levies	-	-	-
Audit fees	-	34	34
	<b>32</b>	<b>101</b>	<b>133</b>
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Bank charges and other expenses	1	-	1
Trustee Directors fees	26	21	47
PPF levies	-	56	56
Audit fees	-	37	37
	<b>27</b>	<b>114</b>	<b>141</b>

The participating employers are required to meet PPF levies, life assurance premiums and other scheme expenses as they fall due

## Notes to the Financial Statements (continued)

## 10. Other payments

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Other payments	-	4	4
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Other payments	-	2	2

## 11. Investment income

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Interest on cash deposits	8	12	20
Income from pooled investment vehicles	6,079	-	6,079
Interest on liquidity funds	75	-	75
Income from derivatives	4	-	4
Repurchase agreements	(839)	-	(839)
Fixed income	1,771	-	1,771
	<b>7,098</b>	<b>12</b>	<b>7,110</b>
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Interest on cash deposits	4	10	14
Income from pooled investment vehicles	23,338	-	23,338
Interest on liquidity funds	39	-	39
	<b>23,381</b>	<b>10</b>	<b>23,391</b>

## Notes to the Financial Statements (continued)

## 12. Reconciliation of investments held at the beginning and end of the year

	Value at 1 January 2019	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2019
	£'000	£'000	£'000	£'000	£'000
<b>Defined Benefit Section</b>					
Pooled investment vehicles	754,602	199,502	(340,870)	71,116	684,350
Derivatives	-	42,065	(17,371)	(7,463)	17,231
Bonds	-	273,713	(40,623)	17,701	250,791
AVC investments	8,823	-	(434)	1,518	9,907
	<b>763,425</b>	<b>515,280</b>	<b>(399,298)</b>	<b>82,872</b>	<b>962,279</b>
Repurchase agreements	-				(105,074)
Cash deposits	38				37
Other – amount due to broker	(1,845)				7,262
	<b>761,618</b>				<b>864,504</b>
<b>Defined Contribution Section</b>					
Insurance policies	25,108	-	(338)	865	25,635
Pooled investment vehicles	598,806	38,158	(55,548)	106,736	688,152
	<b>623,914</b>	<b>38,158</b>	<b>(55,886)</b>	<b>107,601</b>	<b>713,787</b>
Cash deposits	<b>1,928</b>				<b>1,441</b>
	<b>625,842</b>				<b>715,228</b>

The companies managing the pooled investment vehicles of the Defined Benefit Section are registered in the United Kingdom with the exception of Sands Capital Management LLC, Harris Associates and Epoch Investment (all registered in the United States).

	2019 £'000	2018 £'000
<b>Pooled Investment Vehicles Managed Funds</b>		
UBS Global Asset Management Property Fund	35,831	34,322
PIMCO Corporate Bonds	99,486	91,651
Harris Global Equity Fund	68,193	54,684
Epoch Global Equity Fund	67,097	58,050
Sands Capital Growth Fund	71,993	57,347
Insight LDI Portfolio	166,708	317,922
Hayfin Direct Lending II Fund	26,239	24,062
Hayfin Direct Lending III Fund	10,355	-
	<b>545,902</b>	<b>638,038</b>
<b>Unitised Funds</b>		
Standard Life Investment Property Fund	56,510	57,244
Aviva REaLM Multi Sector Unit Trust	58,079	59,320
M&G UK Residential Property Fund	23,859	-
	<b>684,350</b>	<b>754,602</b>

## Notes to the Financial Statements (continued)

## 12. Reconciliation of investments held at the beginning and end of the year (continued)

**Concentration of Investments**

The following investments account for more than 5% of the Scheme's defined benefit assets as at 31 December 2019:

	<b>2019</b>	<b>2018</b>
	%	%
PIMCO Corporate Bonds	11.5	12.0
Harris Global Equity Fund	7.9	7.2
Epoch Global Equity Fund	7.7	7.6
Sands Capital Growth Fund	8.3	7.5
Standard Life Investments Property Fund	6.5	7.5
Insight Global Funds Libor Plus S	-	5.9
Insight LDI Solutions Bonds Plus S	6.4	7.0
Aviva REaLM Multi Sector Unit Trust	6.7	7.8
Insight Liquidity Fund Plus	5.3	6.2
Insight High Grade Abs Fund Class S	6.1	-

**Transaction costs**

Transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. There were no direct transaction costs during the year.

In addition to the direct transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. The amount of indirect costs is not separately provided to the Scheme.

**Defined Contribution Section**

For the Defined Contribution Section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. All Defined Contribution section investments are allocated to members.

The companies operating the pooled investment vehicles of the Defined Contribution Section are all registered in the United Kingdom.

## 13. Investment management expenses

	<b>2019</b>	<b>2019</b>	<b>2019</b>
	<b>Defined</b>	<b>Defined</b>	<b>Total</b>
	<b>benefit</b>	<b>contribution</b>	<b>Total</b>
	<b>section</b>	<b>section</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>	
Management charges	1,726	-	1,726
	<u>1,726</u>	<u>-</u>	<u>1,726</u>
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Management charges	1,172	-	1,172
	<u>1,172</u>	<u>-</u>	<u>1,172</u>

Management charges relate to investment managers who are remunerated through direct deduction from the investments.

## 14. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

## Notes to the Financial Statements (continued)

## 15. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year end comprised:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Defined Benefit Section</b>		
Equity	207,283	170,081
Private equity	36,595	24,062
Cash	52,821	58,126
Hedge funds	213,372	351,447
Property	174,279	150,886
	<u>684,350</u>	<u>754,602</u>
	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Defined Contribution Section</b>		
Equity	171,091	142,696
Bonds	5,365	5,414
Cash	3,115	3,499
Diversified growth	506,243	444,785
Property	2,338	2,412
	<u>688,152</u>	<u>598,806</u>

## 16. Insurance policies

The Scheme held insurance policies at the year end as follows:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
With profits policy – The Equitable Life Assurance Society	<u>25,635</u>	<u>25,108</u>

## 17. AVC investments

The Trustee holds assets invested separately from the Defined Benefit Section investments in the form of individual insurance policies securing additional benefits on a money purchase basis for those members who have paid additional voluntary contributions or waived bonus in return for an employer contribution, or who have transferred benefits from other pension schemes into the Scheme and the benefits are to be provided by the Trustee on a money purchase basis. Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
The Equitable Life Assurance Society	92	92
Fidelity UK Insurance Limited	9,815	8,731
	<u>9,907</u>	<u>8,823</u>



## Notes to the Financial Statements (continued)

## 18. Derivatives

**Objectives and policies**

Under the terms of their Investment Management Agreements, the Trustee has authorised the use of derivatives by its investment managers in the course of implementing the investment strategy.

The main objectives for the use of derivatives and the policies followed during the year are summarised as follows:

**Swaps** – The Trustee’s aim is to match as far as possible the assets held within the LDI portfolio to a portion of the Scheme’s long term liabilities, in particular in relation to their sensitivities to interest rate and inflation movements. The Trustee entered into interest rate and inflation swaps that extend the duration of the assets to better match the long-term liabilities of the Scheme.

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
OTC Swaps	<u>67,356</u>	<u>(50,125)</u>	<u>-</u>	<u>-</u>

A summary of the Scheme’s outstanding derivative contracts at the year end aggregated by key characteristics is set out below:

**(i) Swaps****Inflation Rate Swaps**

<b>Period of Contract</b>	<b>Nature of Swap</b>	<b>Notional Principal £'000</b>	<b>2019 Asset £'000</b>	<b>2019 Liability £'000</b>
0-10 Yrs	Pay Fixed (3.24% to 3.44%) for UKRPI	4,399	-	(119)
11-20 Yrs	Pay Fixed (3.24% to 3.38%) for UKRPI	4,291	-	(378)
21-30 Yrs	Pay Fixed (3.17% to 3.63%) for UKRPI	16,443	-	(2,825)
31-40 Yrs	Pay Fixed (3.17% to 3.70%) for UKRPI	12,784	-	(3,989)
41-50 Yrs	Pay Fixed (2.87% to 3.59%) for UKRPI	18,811	881	(5,063)
51-60 Yrs	Pay Fixed (2.76% to 3.60%) for UKRPI	14,116	136	(10,592)
			<b>1,017</b>	<b>(22,966)</b>
21-30 Yrs	Pay UKRPI for Fixed (3.17% to 3.63%)	3,600	547	-
41-50 Yrs	Pay UKRPI for Fixed (2.87% to 3.59%)	8,604	-	(416)
			<b>547</b>	<b>(416)</b>
<b>Total Inflation Rate Swaps</b>			<b>1,564</b>	<b>(23,382)</b>

## Notes to the Financial Statements (continued)

## 18. Derivatives (continued)

## Objectives and policies (continued)

## (i) Swaps (continued)

## Interest Rate Swaps

Period of Contract	Nature of Swap	Notional Principal £'000	2019 Asset £'000	2019 Liability £'000
11-20 Yrs	Pay Fixed (Zero Coupon) for Floating (3mth LIBOR)	1,234	-	(329)
21-30 Yrs	Pay Fixed (Zero Coupon) for Floating (3mth LIBOR)	436,291	-	(4,185)
31-40 Yrs	Pay Fixed (Zero Coupon) for Floating (3mth LIBOR)	18,111	85	(3,991)
41-50 Yrs	Pay Fixed (Zero Coupon) for Floating (3mth LIBOR)	70,803	2,847	(8,526)
			<b>2,932</b>	<b>(17,031)</b>

Period of Contract	Nature of Swap	Notional Principal £'000	2019 Asset £'000	2019 Liability £'000
0-10 Yrs	Pay Floating (3mth LIBOR) for Fixed (Zero Coupon)	11,070	687	-
11-20 Yrs	Pay Floating (3mth LIBOR) for Fixed (Zero Coupon)	35,859	3,792	(145)
21-30 Yrs	Pay Floating (3mth LIBOR) for Fixed (Zero Coupon)	65,644	11,929	(2,484)
31-40 Yrs	Pay Floating (3mth LIBOR) for Fixed (Zero Coupon)	45,766	17,242	(506)
41-50 Yrs	Pay Floating (3mth LIBOR) for Fixed (Zero Coupon)	167,108	26,876	(4,386)
51-60 Yrs	Pay Floating (3mth LIBOR) for Fixed (Zero Coupon)	46,688	2,334	(2,191)
			<b>62,860</b>	<b>(9,712)</b>

## Total Interest Rate Swaps

	<b>65,792</b>	<b>(26,743)</b>
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	2019 Asset £'000	2019 Liability £'000
<b>In summary:</b>		
Total Interest Rate Swaps	65,792	(26,743)
Total Inflation Rate Swaps	1,564	(23,382)
<b>Net Derivative Asset/(Liability)</b>	<b>67,356</b>	<b>(50,125)</b>

## Notes to the Financial Statements (continued)

**19. Repurchase agreements**

At the year end, within other investments assets and liabilities, amounts payable under repurchase agreements amounted to £120,424,000 (2018: £nil) and amount receivable under repurchase agreements amounted to £15,350,000 (2018: £nil).

**20. Fair value determination**

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the assessment dates.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (ie developed) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

<b>As at 31 December 2019</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Defined Benefit Section</b>				
Pooled investment vehicles	213,842	220,541	249,967	684,350
Bonds	250,791	-	-	250,791
AVC investments	-	-	9,907	9,907
Cash deposits	37	-	-	37
Derivatives	-	-	17,231	17,231
Repurchase agreements	-	-	(105,074)	(105,074)
Other	222	-	7,040	7,262
	<b>464,892</b>	<b>220,541</b>	<b>179,071</b>	<b>864,504</b>
<b>Defined Contribution Section</b>				
Pooled investment vehicles	-	688,152	-	688,152
Insurance policies	-	-	25,635	25,635
Cash deposits	1,441	-	-	1,441
	<b>1,441</b>	<b>688,152</b>	<b>25,635</b>	<b>715,228</b>

## Notes to the Financial Statements (continued)

## 20. Fair value determination (continued)

As at 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Defined Benefit Section</b>				
Pooled investment vehicles	180,055	199,038	375,509	754,602
AVC investments	-	-	8,823	8,823
Cash deposits	38	-	-	38
Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Other	1	-	(1,846)	(1,845)
	180,094	199,038	382,486	761,618
<b>Defined Contribution Section</b>				
Pooled investment vehicles	-	598,806	-	598,806
Insurance policies	-	-	25,108	25,108
Cash deposits	1,928	-	-	1,928
	1,928	598,806	25,108	625,842

## 21. Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**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 of 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 of 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 of 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 their 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.

## Notes to the Financial Statements (continued)

## 21. Investment risk disclosures (continued)

The following table summarises the extent to which the various classes of investments are affected by the aforementioned financial risks. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Global Equity	Credit risk	Market risk			2019 £'000	2018 £'000
		Currency	Interest rate	Other Price		
Harris Global All Cap Equity	○	●	○	●	68,193	54,684
Epoch Global Shareholder Yield	○	●	○	●	67,097	58,050
Sands Global Growth	○	●	○	●	71,993	57,347
<b>Absolute Return</b>						
PIMCO Diversified Income	●	○	○	●	99,486	91,651
Insight Libor Plus	●	○	○	●	-	45,143
Insight Bonds Plus 400	●	○	○	●	55,700	54,168
Insight High Grade Abs	●	○	○	●	58,186	-
<b>Illiquid Alternatives</b>						
UBS Triton Property	○	○	○	●	35,831	34,322
Standard Life Property	○	○	○	●	56,510	57,244
Aviva REaLM Multi Sector Unit Trust	○	○	○	●	58,079	59,320
Hayfin Direct Lending Fund II	●	○	○	●	26,239	24,062
Hayfin Direct Lending Fund III	●	○	○	●	10,356	-
M&G UK Residential Property	●	○	○	●	23,859	-
<b>LDI and Cash</b>						
Insight LDI Funds	●	○	●	○	-	160,485
Insight Liquidity Funds	●	○	○	○	52,859	58,165
Bonds	●	○	●	●	250,791	-
Derivatives	●	○	●	●	17,231	-
Repurchase agreements	●	○	●	●	-105,074	-
<b>Total DB section investments</b>					<b>847,335</b>	<b>754,641</b>

In the above table, the risk noted affects the asset class [●] significantly, [○] partially or [○] hardly / not at all.

Further information on the Trustee's approach to risk management, credit and market risk is set out below.

## Notes to the Financial Statements (continued)

### 21. Investment risk disclosures (continued)

#### Defined Benefit Section

##### Investment Strategy

The primary objective of the Scheme's Defined Benefit investment strategy is to ensure long-term returns which meet the long-term future obligations of the Scheme.

The overall return objective has been determined by the Trustee after an assessment of the liabilities and associated risks of the Scheme and consultation with the Employer and is as follows:

"To implement an investment strategy which targets an expected return over fixed interest gilts of at least 2.0% per annum (net of fees) until 31 December 2032, declining to 0.5% ahead of fixed interest gilts at 31 December 2042, declining to 0.3% ahead of fixed interest gilts after 31 December 2052".

The Trustee has ten investment managers employed to manage the Scheme's assets for its defined benefits in line with the Scheme benchmark. The managers appointed to manage the Scheme's predominately 'return seeking' assets are Natixis Global Asset Management on behalf of Harris Associates LP ("Harris"), Epoch Investment Partners Inc ("Epoch"), Sands Capital Management ("Sands"), UBS Asset Management ("UBS"), Pacific Investment Management Company ("PIMCO"), Aviva Investors Jersey Unit Trusts Management Limited ("Aviva"), Deutsche International Corporate Services (Ireland) Limited ("Hayfin"), Standard Life Investments ("Standard Life") and M&G Investments ("M&G").

The manager appointed to manage the Scheme's predominately 'risk reducing' assets is Insight Investment Management ("Insight"). Over the year to 31 December 2019, the Scheme transitioned its "risk reducing assets" from a pooled solution with Insight to a segregated solution, to provide increase cost efficiencies and flexibility. There was no change made to the interest rate or inflation hedging exposure as part of this transition as this was an implementation change only.

The Scheme does not hold EE Limited shares nor makes loans to EE Ltd or any of its subsidiaries; any holding that the Scheme has (if any) in the parent company is indirect, that is, as a result of investing in pooled funds which may include shares of British Telecommunications plc.

The defined benefit investment managers are remunerated on an 'ad valorem' (percentage of fund) basis with the exception of Insight who are remunerated on a base fee plus performance related fee basis.

The revised investment strategy implemented in 2014 is as follows:

- 25% Global Equities
- 25% Illiquid alternatives
- 25% Fixed-Interest and Index-Linked Bonds
- 25% Absolute Return Bonds and Hedge Fund Assets

The Trustee may review and adopt a higher or lower overall return objective from time to time, after consultation with the sponsoring employer. Factors the Trustee will take into account in its consideration of the overall return objective include the Scheme's funding level, the Trustee's tolerance to risk and the Trustee's assessment of the employers covenant to the Scheme.

## Notes to the Financial Statements (continued)

## 21. Investment risk disclosures (continued)

## Defined Benefit Section (continued)

## Credit risk

A summary of the exposures to credit risk is given in the following table. The notes below explain how risk is managed and mitigated.

	31 December 2019 £'000	31 December 2018 £'000
Funds which invest in bonds/derivatives (direct and indirect risk)	489,632	433,674
Other funds (direct risk only)	357,703	320,967
<b>Total</b>	<b>847,336</b>	<b>754,641</b>

The Scheme is subject to credit risk because the Scheme directly invests in bonds, repurchase agreements and OTC derivatives. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the units it holds in the pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on the debt instruments held by the pooled investment vehicles.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements. At the year end the Scheme held collateral of approximately £15.3m in respect of OTC derivatives.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee relies on advice from their investment consultant pertaining to the operational strength of all existing and new pooled investment managers and on an on-going basis monitors any changes to the regulatory and operating environment of the pooled manager.

Indirect credit risk is mitigated by employing skilled investment managers the Trustee believe to be qualified to manage exposures to different types of counterparty, whether bond holdings or derivative instruments. The Trustee manages the associated credit risk by ensuring that it appoints investment managers who diversify their portfolio to minimise the impact of default by any one issuer.

The Scheme is also subject to credit risk because the Scheme holds cash balances. These cash balances are small and balances held are typically only sufficient to cover the working capital requirements of the Scheme over an agreed time period. Credit risk arising on cash is mitigated in this instance by holding cash within financial institutions which are at least investment grade credit rated.

## Currency risk

The Scheme is subject to indirect currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The Trustee does not set limits to overseas currency exposure.

The Scheme's investments made through segregated vehicles are not subject to currency risk.

## Notes to the Financial Statements (continued)

### 21. Investment risk disclosures (continued)

#### Defined Benefit Section (continued)

##### Interest rate risk

The Scheme is subject to indirect interest rate risk because some of the Scheme's investments are held in leveraged bonds and indirect interest rate swaps held through pooled investment vehicles.

The Scheme is subject to interest rate risk because some of the scheme's investments are held in bonds, interest rate swaps, repurchase agreements, and cash. The Scheme's physical allocation to these assets, in total is 25%.

Under this strategy, if interest rates fall then the value of the LDI portfolio will typically rise to help match some of the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise the LDI portfolio will typically fall in value, as will actuarial liabilities, because of an increase in the discount rate. As at 31 December 2019, the LDI portfolio represented 25.6% of the total investment portfolio (2018: 28.8%).

The exposure to interest rate risk arising from the underlying investments in the Insight Segregated LDI portfolio held by the Scheme was £214.6m (2018: £160.5m).

##### Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities held in pooled vehicles, hedge funds, absolute return strategies and property investments.

The Scheme manages this exposure to overall price movements by diversifying its return seeking assets by geography, asset class, issuer and manager. The Trustee has set a benchmark of 75% of assets in return seeking investments. As at 31 December 2019, these assets held a value of £677.8m (2018: £538.5m).

All investments are subject to idiosyncratic price risks that arise from factors peculiar to the asset class or individual investment in addition to credit risk, currency risk and interest rate risk.

#### Defined Contribution Section

##### The Default Option – “Do it for me”

The Trustee makes available a range of strategies that automatically de-risk member's investments as they approach retirement, these are known as the “Do it for me” range. The Trustee has delegated the investment strategy to their investment advisers, Mercer.

The Trustee has implemented three different strategies, each aimed to be appropriate for a member taking their benefits at retirement as one of three ways:

- 75% Drawdown, 25% Cash (Target Drawdown strategy)
- 75% Annuity purchase, 25% cash (Target Annuity strategy)
- 100% Cash (Target Cash strategy)

The strategies above are implemented via a range of Target Retirement Funds that automatically de-risk members' assets as they approach retirement.

For members who do not wish to take an active role in investment decisions the Trustee has selected the Target Drawdown strategy above as the default option.



## Notes to the Financial Statements (continued)

### 21. Investment risk disclosures (continued)

#### Defined Contribution Section (continued)

##### Investment Strategy

The Trustee believes that assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members.

The Target Drawdown Path is implemented using a range of pooled funds managed by the Trustee's chosen investment managers. The Trustee delegates the selection, retention and realisation of investments within these pooled funds to the chosen investment managers. The investment managers also have discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities. Any investment in derivative instruments (either directly or within the underlying pooled funds) contributes to risk reduction or efficient portfolio management.

The Target Drawdown Path adopts an age based de-risking approach to manage risk throughout a member's lifetime in the Scheme. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that it is appropriate to utilise an automatic de-risking approach to reduce investment risk as the member approaches retirement. The reduction of investment risk in the run up to retirement is expected to reduce the chance of market shocks producing unfavourable outcomes for members at retirement.

If the member is more than eight years away from their expected retirement date contributions will be invested in the Growth Fund. The Growth Fund invests in a diversified range of assets (equities, fixed income securities and non-traditional assets) with the objective of providing growth whilst mitigating inflation erosion and downside risk.

- Eight years before their target retirement date (or Normal Retirement Date if no target has been specified) members will have their holdings transferred into a Target Retirement Fund based on expected date of retirement. The Target Retirement Fund aims to gradually move assets to investments more suitable for targeting cash (25%) and income drawdown (75%) as members approach retirement.
- Within the Target Drawdown Path, units across the underlying pooled funds are bought and sold according to the lifestyle matrix set out in the Investment Policy Implementation Document "IPID" that accompanies the Statement of Investment Principles "SIP". Specific details on the pooled funds held within the target Drawdown Path are also set out in the IPID.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default strategy is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

##### Main Assets

The Scheme's investment platform is provided under contract with Scottish Widows Limited and Mercer Workplace Savings, both of whom are regulated by the Financial Conduct Authority (the "FCA").

The safe custody of the Scheme's assets is delegated to professional custodians, as appointed by the governing bodies of the respective pooled funds.

## Notes to the Financial Statements (continued)

### 21. Investment risk disclosures (continued) Defined Contribution Section (continued) Investment Strategy (continued)

#### **Buying and Selling Investments**

The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used are daily dealt. The investment managers have discretion in the timing of realisation of investments and in considerations relating to liquidity of those investments within parameters stipulated in the relevant appointment documentation. The day to day activities which the investment manager carries out for us are governed by the arrangements between them and Scottish Widows Limited, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

#### **Risks**

In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From the qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

#### **Credit risk**

The Defined Contribution Section (DC section) is subject to direct credit risk in relation to Scottish Widows Limited through its holding in unit linked funds provided by Scottish Widows Limited.

The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Trustee manages and monitors the credit risk arising from its pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment. In the event of default by Scottish Widows Limited the Scheme is protected by the Financial Services Compensation Scheme and may be able to make a claim of 100% of its policy value, although noting that compensation is not guaranteed.

The DC Section is also subject to indirect credit risk arising from the underlying investments held in the white labelled funds, as noted in the table below.

## Notes to the Financial Statements (continued)

## 21. Investment risk disclosures (continued)

## Defined Contribution Section (continued)

**Market risk**

Further, the Scheme's DC section is subject to indirect foreign exchange risk, interest rate and other price risk arising from the underlying financial instruments held in the funds made available to members follows:

<b>Fund</b>	<b>Credit risk</b>	<b>Foreign exchange risk</b>	<b>Interest rate risk</b>	<b>Other price risk</b>
High Growth	√	√	√	√
Growth	√	√	√	√
Moderate Growth	√	√	√	√
Defensive	√	√	√	√
Cash and Money Market	√	-	√	-
Annuity Retirement	√	-	√	-
<i>Target Annuity 2018-2025 Retirement</i>	√	√	√	√
Diversified Retirement	√	√	√	√
<i>Target Drawdown 2018-2026 Retirement</i>	√	√	√	√
Global Equity (60:40)	-	√	-	√
UK Equity	-	-	-	√
Overseas Equity	-	√	-	√
European (ex-UK) Equity	-	√	-	√
US Equity	-	√	-	√
Japanese Equity	-	√	-	√
Asia Pacific (ex Japan) Equity	-	√	-	√
Emerging Markets Equity	-	√	-	√
Diversified Growth	√	√	√	√
Fixed Interest Gilt	√	-	√	-
Index Linked Gilt	√	-	√	-
UK Corporate Bond	√	-	√	-
Property	-	√	√	√
Ethical	-	√	√	√
Shariah	-	√	-	√
Drawdown Retirement	√	√	√	√
Cash Retirement	√	-	√	-
<i>Target Cash 2020 – 2025 Retirement</i>	√	√	√	√

The analysis of these risks set out above is at Scheme level. Member level risk exposures will be dependent on the funds invested in by members.

The Trustee has selected the above funds and has considered the indirect risks in the context of the investment strategy described in the Trustee's Report.

**Compliance with this statement**

The Trustee, Scottish Widows Limited and Mercer each have duties to perform to ensure compliance with this Statement. These are:

Scottish Widows Limited will provide full information in respect of transactions in units in the underlying funds and valuations of the units held by the Scheme from time to time as required by the Trustee.

Mercer will provide the advice needed to allow the investment consultant to review and update this Statement at least every three years (or more frequently if required).

## Notes to the Financial Statements (continued)

## 22. Current assets

	<b>2019</b>	<b>2019</b>	<b>2019</b>
	<b>Defined</b>	<b>Defined</b>	<b>Total</b>
	<b>benefit</b>	<b>contribution</b>	<b>Total</b>
	<b>section</b>	<b>section</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contributions due from employer in respect of:			
Normal	-	1,571	1,571
Employee	-	74	74
Deficit contributions	1,875	-	1,875
Other debtors and prepayments	404	54	458
Cash balances	1,979	1,492	3,471
	<b>4,258</b>	<b>3,191</b>	<b>7,449</b>
Allocated to members		2,928	
Not allocated to members – cash balances		263	
		<b>3,191</b>	
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Contributions due from employer in respect of:			
Normal	-	1,149	1,149
Employee	-	29	29
Deficit contributions	1,875	-	1,875
Other debtors and prepayments	706	67	773
Cash balances	7,084	3,941	11,025
	<b>9,665</b>	<b>5,186</b>	<b>14,851</b>
Allocated to members		3,602	
Not allocated to members – cash balances		1,584	
		<b>5,186</b>	

## Notes to the Financial Statements (continued)

## 23. Current liabilities

	<b>2019</b> <b>Defined</b> <b>benefit</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Defined</b> <b>contribution</b> <b>section</b> <b>£'000</b>	<b>2019</b> <b>Total</b> <b>£'000</b>
Unpaid benefits	83	1,171	1,254
Other creditors	224	-	224
	<u><b>307</b></u>	<u><b>1,171</b></u>	<u><b>1,478</b></u>
Allocated to members		1,171	
Not allocated to members - other creditors		-	
		<u><b>1,171</b></u>	
	<b>2018</b>	<b>2018</b>	<b>2018</b>
Unpaid benefits	105	1,688	1,793
Other creditors	223	67	290
	<u><b>328</b></u>	<u><b>1,755</b></u>	<u><b>2,083</b></u>
Allocated to members		1,688	
Not allocated to members - other creditors		67	
		<u><b>1,755</b></u>	

## 24. Commitment to invest

The Scheme has made a commitment to invest £30 million in M&G Real Estate (Luxembourg) SA, who were appointed as Investment Managers on 27 March 2017. The commitments will be called upon as and when investments are made. As at 31 December 2019 £24,676,900 had been invested.

The Scheme made a commitment to a new fund with existing manager Deutsche International Corporate Services (Ireland) Limited ("Hayfin"). Hayfin were first appointed as Investment Managers 18 January 2017, with the Scheme investing in the Direct Lending Fund (DLF) II. The total commitment to the DLF II was £30m and to date £24.8m has been paid. The Scheme committed £30m on 25 April 2019 to the Direct Lending Fund (DLF) III and £11.8m was paid during 2019.

## Notes to the Financial Statements (continued)

### 25. Related party transactions

#### Defined Benefit Section

Related parties of the EE Pension Scheme are as follows:

- Participating employers
- EE Pension Trustee Limited

A list of participating employers is provided on page 4 of this Report. All transactions between the Scheme and the participating employers are disclosed in the accounts.

All of the Scheme's administration expenses, other than for money purchase investment funds, and those disclosed in note 8 were borne by the Employers directly.

The Trustee is shown on page 2 of this Report.

The Trustee is not aware of any other additional related party transactions that require disclosure in the accounts.

All Trustee Directors, except for JMRC Pensions Limited who is the independent Trustee, and Roger Waymouth, who took a transfer value in 2017, as listed on page 2 of this report are members of the Scheme, either the DB Scheme or the DC Scheme.

The Principal Employer, EE Limited, provides secretarial services to the Trustee and bears these costs and certain other costs of the Scheme itself but the costs borne are not reflected in these financial statements.

During the year the Scheme paid Trustee fees of £31,000 (2018: £26,000). At the year end £6,000 (2018: £7,000) was unpaid.

#### Defined Contribution Section

The Scheme has received contributions in respect of one Trustee Director who is a contributing member of the Scheme. Their contributions have been paid in accordance with the Schedule of Contributions.

The Principal Employer, EE Limited, provides secretarial services to the Trustee and bears these costs and certain other costs of the Scheme itself but the costs borne are not reflected in these financial statements.

All of the above transactions were made in accordance with the Scheme Rules.

During the year the Scheme paid Trustee fees of £21,000 (2018: £21,000).

### 26. Subsequent events

Since the Scheme's year end, there has been a global outbreak of a coronavirus disease (COVID-19) which has caused widespread disruption to financial markets and normal patterns of business activity across the world. The COVID-19 pandemic has affected the value of investment assets and liabilities (across both sections of the Scheme). In view of its evolving nature, it is not possible to predict the extent to which the pandemic will continue to affect the value of investment assets and liabilities in the future.

Since 31 December 2019, the Scheme's DB asset value has fallen by approximately 4% (£34m) to £823.4m as at 31 March 2020.

## Notes to the Financial Statements (continued)

**26. Subsequent events (continued)**

Coronavirus fuelled uncertainty created an abnormal environment for property pricing, as lockdown measures made it difficult to carry out inspections of assets and caused transaction volumes to plummet. Additionally, the material uncertainty surrounding economic recovery and long-term growth meant that standard approaches to valuations were no longer appropriate. In response, a number of UK property funds have moved to suspend dealing to protect existing investors, in line with advice from the Association of Real Estate Funds (AREF). Of the Scheme's assets exposed to UK property, the following funds have been impacted:

- UBS Triton – the fund has deferred redemptions but has not suspended dealing.
- Standard Life Pooled Property Fund – the fund has deferred subscriptions and redemptions
- Aviva – REaLM – the fund has not suspended dealing but redemptions currently have a long notice period

All other investments within the portfolio have had no suspensions imposed. All of the Scheme's UK property managers have had material uncertainty clauses added to their valuations to reflect the uncertain market conditions as at 31 March 2020. The Trustee along with its investment advisor (Aon) will continue to monitor the developments across the entire investment portfolio.

The Schemes administrators have continued to operate as normal since the year end with no impact to pensions payable or members benefits being paid on a timely basis. The Trustees continue to monitor the performance of the administrators against the SLA's in place.

## Appendix

# Statement of Investment Principles

### ***Defined Contribution Section and Money Purchase benefits within the Defined Benefit Section***

Ongoing contributions into the Defined Contribution Section, AVCs, historic bonus sacrifices, and some transfer values brought into the Defined Contribution section of the Scheme are invested in a range, selected by the Trustee, of pooled investment vehicles. The members then choose within the constraints of, and subject to, the Trust Deed and Rules and the restrictions from time to time imposed by the Trustee how the Defined Benefit section assets backing their AVCs are to be invested in these pooled investment vehicles and instruct the Trustee accordingly. These pooled investment vehicles are direct investments as referred to in the following section.

The Trustee's policy is to offer a range of pooled investment vehicles providing different investment risk and reward profiles to meet a range of different risk, return and diversification objectives of the different members of the Defined Benefit section of the Scheme in respect of money purchase investments having regard to:

- the differing ages,
- the differing expectations as to time of retirement, and
- the options available to members as to the way in which their benefits from their money purchase investments are to be taken.

### **1. INVESTMENT OBJECTIVE**

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's objective is therefore to make available a range of investment options for this purpose.

The Trustee undertakes to review the Defined Contribution section's fund choices offered to members and the investment manager arrangements on a regular basis.

### **2. STRATEGY**

The Trustees make available a range of funds for the Defined Contribution section of the Scheme which they believe provide appropriate strategic choices for members' different saving objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they choose to invest.

Members who do not indicate a preference are invested in the default option which includes lifestyling towards a level annuity through the use of Target Retirement Funds.



## Appendix

## Statement of Investment Principles (continued)

***Defined Contribution Section and Money Purchase benefits within the Defined Benefit Section***

Ongoing contributions into the Defined Contribution Section, AVCs, historic bonus sacrifices, and some transfer values brought into the Defined Contribution section of the Scheme are invested in a range of pooled investment vehicles selected by the Trustee.

The members choose within the constraints of, and subject to, the Trust Deed and Rules and the restrictions from time to time imposed by the Trustee, how their assets are invested.

The Trustee's policy is to offer a range of pooled investment vehicles providing different investment risk and reward profiles to meet a range of different objectives of the different members of the Scheme with regard to:

- the differing ages,
- members' attitudes to risk,
- the differing expectations as to time of retirement, and
- the options available to members as to the way in which their benefits from their money purchase investments are to be taken.

**1. Investment Objective**

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's objective is therefore to make available a range of investment options for this purpose.

For members who do not wish to take an active role in investment decisions, the Trustee offers a default option ("Do it for me") which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement.

The Trustee undertakes to review the Defined Contribution Section's fund choices offered to members and the investment manager arrangements on a regular basis.

**2. Strategy**

The Trustee makes available a range of funds and lifestyle strategy options for the Defined Contribution section of the Scheme which they believe provide appropriate strategic choices for members' different saving objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they choose to invest. Further detail on the fund range offered to members is included in the Investment Policy Information Document "IPIID".

Members who do not indicate a preference are invested in the default option which includes lifestyling towards taking their benefits at retirement via income drawdown. Members' assets are de-risked as they approach retirement via the use of Target Retirement Funds. More information on the default strategy is included in Appendix B – Statement of Investment Principles – Default Option.

In addition, alternative Target Retirement Funds are available to members that reflect the alternative ways in which members might take their benefits at retirement (Annuity or Cash).

## Appendix

## Statement of Investment Principles (continued)

**3. Risk**

The Trustee has considered investment risk for the Defined Contribution Section of the Scheme from a number of perspectives. These are:

- i. The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension;
- ii. The risk that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of benefit;
- iii. The risk that the investment vehicles in which monies are invested under-perform the expectation of the Trustee;
- iv. The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.

The Trustee believes that the investment strategy for the Defined Contribution Section of the Scheme is appropriate for meeting the risks outlined above. In particular, for members who do not wish to take an active role in the investment decisions, the Trustee offers a default fund, which includes lifestyling towards taking benefits via income drawdown, which is designed to help them manage all the risks outlined above.

The Trustee pays close regard to the risks which may arise from the lack of diversification of investments. The Trustee believes that the choice of funds in place provides an adequately diversified distribution of assets.

**4. Implementation**

For the Defined Contribution Section of the Scheme the Trustee has contracted with Zurich Assurance Limited ("Zurich") to deliver investment management services through their investment platform. The Defined Contribution Section's investment platform is provided under contract with Zurich and Mercer Workplace Savings, both of whom are regulated by the Financial Conduct Authority (the "FCA").

The investment choices for the Defined Contribution Section comprise primarily of equity, bonds, diversified growth funds and cash.

Historically members have been able to invest in a With Profits fund managed by Equitable Life Assurance Society ("Equitable Life"). This is now closed to new investment however, some members still have a holding in this fund.

**5. Social, Environmental and Ethical Considerations**

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. Due to the arrangement with Zurich to access pooled funds, the Trustee has given the underlying investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Defined Contribution Section's investments.

Similarly, the Scheme's voting rights are exercised by the underlying investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

## Appendix

## Statement of Investment Principles (continued)

**Defined Benefit and Defined Contribution/AVC Section****1. GOVERNANCE**

The Trustee is responsible for the investment of the Scheme's assets. The Full Board of the Trustee takes some decisions itself and delegates others to the F&ISC. When deciding which decisions to take itself and which to delegate, the Full Board of the Trustee has taken into account whether the F&ISC has the appropriate training and access to expert advice in order to take an informed decision.

The Trustee has a clearly defined governance structure which includes an agreed Terms of Reference for the F&ISC and also documents governing the services provided by the investment adviser, custodians and fund managers. The delegatory duties and powers of the F&ISC are as provided for within the F&ISC Terms of Reference as amended from time to time.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs and other monies invested on a money purchase basis. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees will monitor the Defined Contribution section of the Scheme against the Pension Regulators "31 DC quality features" to ensure that the scheme adheres to the best governance practices. Through the services of Mercers' Workplace Savings, the investment related quality features such as clear investment objectives, a suitable default strategy, on-going review of investment options and performance and the transparency of costs are already in place.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Appendix

Statement of Investment Principles (continued)

Fund managers are remunerated on an ad valorem basis, a performance related basis or a mixture of the two. The level of remuneration paid to fund managers is reviewed regularly by the Trustee against market rates to ensure the fund managers' interests are aligned with those of the Scheme. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustee's agreement with each fund manager is, in the case of pooled fund investments, a tri-partite agreement between the Trustee, the manager and the custodian. In the case of segregated investments the Trustee will have separate agreements with the fund manager and a custodian. The custodians are responsible for the safekeeping of the underlying assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee will review this SIP at least every three years and as soon as practicable following a significant change in investment strategy. The Trustee will take investment advice and consult with the Employer over any changes to the SIP.

Dated: June 2017

Signed by the Trustee:

Name :

Seen by Sponsoring Employer:

.....

Name :

Position :